SIEMENS AKTIENGESELLSCHAFT
Form 20-F
December 11, 2006

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As filed with the Securities and Exchange Commission on December 11, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2006.

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________.

OR

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report ________

Commission file number: 1-15174

Siemens Aktiengesellschaft
(Exact name of Registrant as specified in its charter)
Federal Republic of Germany
(Jurisdiction of incorporation or organization)
Wittelsbacherplatz 2
D-80333 Munich
Federal Republic of Germany
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one Common Share, no par value	New York Stock Exchange
Common Shares, no par value*	New York Stock Exchange

* Listed, not for trading or quotation purposes, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The number of outstanding shares of each of the issuer s classes of capital or common stock as of September 30, 2006: 891,086,826 common shares, no par value.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes þ No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No þ

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o Not applicable o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer o Non-accelerated o

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 þ

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

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FORWARD LOOKING STATEMENTS

This Form 20-F 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, seek 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: the factors listed under Item 3 Key Information Risk Factors; 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 throughout this report. 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.

In this Form 20-F, references to we, us, our, Company , Siemens or Siemens AG are to Siemens Aktienge and, unless the context otherwise requires, to its consolidated subsidiaries. In Item 4: Information on the Company Description of Business, we use the terms we and us to refer to a specific Siemens Group. Throughout this annual report, whenever a reference is made to our Company s website, such reference does not incorporate information from the website by reference into this annual report.

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PART I

ITEM 1: IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2: OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3: KEY INFORMATION

Selected Consolidated Financial and Statistical Data

The United States Generally Accepted Accounting Principles (U.S. GAAP) selected financial data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, the Consolidated Financial Statements and the Notes thereto presented elsewhere in this document.

Income Statement Data

	Year ended September 30,				
	2006[(1)]	**2005[(1)]**	**2004[(1)]**	**2003[(1)]**	**2002[(2)]**
	(in millions, except per share data)				
Net sales	87,325	75,445	70,237	69,775	84,016
Income from continuing operations before income taxes and cumulative effect of accounting change	4,371	4,185	4,369	3,320	3,475
Income from continuing operations before cumulative effect of accounting change	3,087	3,058	3,450	2,355	
Income (loss) from discontinued operations, of income taxes	(54)	(810)	(45)	54	
Net income	3,033	2,248	3,405	2,445	2,597
Basic earnings per share					
Income from continuing operations before cumulative effect of accounting change	3.47	3.43	3.87	2.65	
Income (loss) from discontinued operations	(0.07)	(0.91)	(0.05)	0.06	
Net income	3.40	2.52	3.82	2.75	2.92
Diluted earnings per share					
Income from continuing operations before cumulative effect of accounting change	3.31	3.29	3.71	2.61	
Income (loss) from discontinued operations	(0.05)	(0.87)	(0.05)	0.06	
Net income	3.26	2.42	3.66	2.71	2.92

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Balance Sheet Data

	At September 30,				
	2006	**2005**	**2004**	**2003**	**2002**
			(in millions)		
Total assets	90,973	86,117	79,430	77,517(3)	77,890(3)
Long-term debt	13,399	8,436	9,785	11,433	10,243
Shareholders equity	29,306	27,022	26,760	23,620(3)	23,465(3)
Common stock	2,673	2,673	2,673	2,673	2,671

(1) The Company s Mobile Devices business is presented as discontinued operations. The financial information for fiscal 2006, 2005, 2004 and 2003 presents comparable amounts.

(2) Information for fiscal 2002 adjusted to reflect discontinued operations could not be provided without unreasonable effort or expense.

(3) In connection with the investigation launched by German state prosecutors on November 15, 2006, Siemens initiated an internal investigation into certain transactions and payments which led to adjustments to its 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 million in the 2006 *Consolidated Statements of Income* (thereof 17 million refers to fiscal 2005 and 25 million to fiscal 2004). The total adjustments relating to years prior to fiscal 2004 had the effect of decreasing *Shareholders equity* as of October 1, 2003 by 95 million (thereof 39 million refers to fiscal 2003 and 28 million refers to fiscal 2002). For further information see Notes 2, 8 and 32 of the Notes to Consolidated Financial Statements.

Total assets and *Shareholders equity* at September 30, 2003 and 2002 have been adjusted to reflect the effect of this change; however, income statement data for the years ended September 30, 2003 and 2002 have not been adjusted as the impact on net income and earnings per share in each of these years was not material.

The number of shares outstanding at September 30, 2006, 2005, 2004, 2003 and 2002 was 891,086,826, 891,076,457, 891,075,461, 890,865,117 and 890,324,137, respectively.

Dividends

The following table sets forth in euros and in dollars the dividend paid per share for the years ended September 30, 2001, 2002, 2003, 2004, 2005 and the proposed dividend per share for the year ended September 30, 2006. Owners of our shares who are United States residents should be aware that they will be subject to German withholding tax on dividends received. See Item 10: Additional Information Taxation.

	Dividend paid per share	
Year ended September 30,	**Euro**	**Dollar**
2002	1.00	1.08
2003	1.10	1.40
2004	1.25	1.63

2005	1.35	1.65
2006	1.45*	

* Proposed by the Managing Board and the Supervisory Board; to be approved by the shareholders at the shareholders annual meeting on January 25, 2007.

Exchange Rate Information

We publish our Consolidated Financial Statements in euros. As used in this document, euro or means the single unified currency that was introduced in the Federal Republic of Germany on January 1, 1999. U.S. dollar, U.S.$, USD or $ means the lawful currency of the United States of America. The currency translations made in the case of dividends we have paid have been made at the noon buying rate at the date of the Annual Shareholders Meeting at which the dividends were approved. As used in this document, the

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term noon buying rate refers to the rate of exchange for euro, expressed in U.S. dollar per euro, as announced by the Federal Reserve Bank of New York for customs purposes as the rate in The City of New York for cable transfers in foreign currencies.

In order that you may ascertain how the trends in our financial results might have appeared had they been expressed in U.S. dollars, the table below shows the average noon buying rates in The City of New York for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York for U.S. dollar per euro for our fiscal years. The average is computed using the noon buying rate on the last business day of each month during the period indicated.

Fiscal year ended September 30,	Average
2002	0.9208
2003	1.0919
2004	1.2199
2005	1.2727
2006	1.2361

The following table shows the noon buying rates for euro in U.S. dollars for the last six months.

2006	High	Low
June	1.2953	1.2522
July	1.2822	1.2500
August	1.2914	1.2735
September	1.2833	1.2648
October	1.2773	1.2502
November	1.3261	1.2705

On December 1, 2006, the noon buying rate was U.S.$1.3316 per 1.00.

Our shares are traded on the Frankfurt Stock Exchange in euro. Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar equivalent of the euro price of the shares on the Frankfurt Stock Exchange and, as a result, are likely to affect the market price of the American Depositary Shares (ADS) on the New York Stock Exchange. We will declare any cash dividends in euro and exchange rate fluctuations will affect the U.S. dollar amounts received by holders of ADSs on conversion of cash dividends on the shares represented by the ADSs.

Risk Factors

Our business, financial condition or results of operations could suffer material adverse effects due to any of the following risks. We have described below all the risks that we consider material, but those risks are not the only ones we face. Additional risks not known to us or that we currently consider immaterial may also impair our business operations.

Our business is affected by the uncertainties of economic and political conditions: 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

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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. For additional information with respect to our portfolio activities see Item 4: Information on the company Portfolio Activities Dispositions.

We operate in highly competitive markets, which are subject to price pressures and rapid changes: 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.

Our businesses must keep pace with technological changes and develop new products and services to remain competitive: 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.

We may have difficulty in identifying and executing portfolio measures: 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, Industrial Solutions and Services (I&S) and Automation and Drives (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 results and cash flows may be adversely affected by cost overruns or additional payment obligations particularly with respect to our long-term contracts: 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 logistical 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. For additional information, see Item 5: Operating and Financial Review and Prospects Critical Accounting Estimates.

We face operational risks in our value chain processes: 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.

We are dependent upon the ability of third parties to deliver parts, components and services on time: 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.

We may be adversely affected by rising raw material prices: 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.

We are exposed to currency risks and interest rate risks: We are particularly exposed to fluctuations in the exchange rate between the U.S. dollar and the euro, because a high percentage of our business volume is conducted in the U.S. and as exports from Europe. Certain currency risks as well as interest rate risks are hedged on a company-wide basis using derivative financial instruments. Depending on the development of foreign currency exchange rates, our hedging activities can have significant effects on our cash flow, particularly for our treasury activities (Corporate Treasury). Our Groups engage in currency hedging activities which sometimes do not qualify for hedge accounting. In addition, our Corporate Treasury has interest rate hedging activities which also do not qualify for hedge accounting, and are subject to changes in interest rates. Accordingly, exchange rate and interest rate fluctuations may influence our financial results and lead to earnings volatility. A strengthening of the euro particularly against the U.S. dollar may also change our competitive position, as many of our competitors may benefit from having a substantial portion of their costs based in weaker currencies, enabling them to offer their products at lower prices. For more details regarding currency risks, interest rate risks, hedging activities and other market risks, please see Item 11: Quantitative and Qualitative Disclosure About Market Risk.

Our financing activities subject us to various risks including credit and interest rate risk: 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

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unsuccessful, and such losses could have a material adverse effect on our financial condition or results of operations.

Downgrades of our ratings may increase our cost of capital and could negatively affect our businesses: 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.

The funded status of our off-balance sheet pension benefit plans and its financial statement impact is dependent on several factors: The funded status of our pension plans may be affected by an increase or decrease of the projected benefit obligation (PBO) as well as by an increase or decrease in the valuation of plan assets. Pensions are accounted in accordance with actuarial valuations, which rely on statistical and other factors in order to anticipate future events. These factors include key pension plan valuation assumptions like the discount rate, expected rate of return on plan assets, rate of future compensation increases and pension progression. Assumptions may differ from actual developments due to changing market and economic conditions, thereby resulting in an increase or decrease of the PBO. Significant changes in investment performance or a change in the portfolio mix of invested assets can result in corresponding increases and decreases in the valuation of plan assets, particularly equity securities, or in a change of the expected rate of return on plan assets. Also, changes in pension plan assumptions can affect net periodic pension cost. For example, a change in discount rates or in the expected return on plan assets assumption may result in changes in the net periodic pension cost in the following financial year. For additional information, see Item 5: Operating and Financial Review and Prospects Critical Accounting Estimates and Notes to Consolidated Financial Statements.

We are dependent upon hiring and retaining highly qualified management and technical personnel: 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.

We are subject to risks associated with our international operations: 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.

We are subject to environmental and other government regulations: 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. See Item 4: Information on the Company Environmental Matters for a discussion of significant environmental matters. 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

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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.

Changes in tax regulations could result in lower earnings and cash flows: 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.

Prosecutorial investigations are being conducted in Germany and certain other European countries with respect to whether certain transactions and payments arranged by some current or former officials of our Com business Group violated applicable law. Other governmental authorities may also launch investigations. As a result of existing or future governmental investigations, or other alleged violations of law by Siemens or its current or former employees elsewhere, governmental authorities could take action against us or some of our employees, which may have a material adverse effect on the development of future business opportunities, our financial results, the price of our shares and ADSs and our reputation: On November 15, 2006, Munich public prosecutors conducted searches of Company premises and private homes in Munich, Erlangen and in Austria. 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. For additional information, see Item 4: Information on the Company Legal Proceedings. There may be, or could be in the future, investigations in other jurisdictions as a result of these matters. The U.S. Securities and Exchange Commission and the U.S. Department of Justice may launch investigations of possible violations of U.S. laws. Each of these governmental authorities may take action against us or some of our employees. These actions could include criminal and civil fines, penalties, sanctions, injunctions against future conduct, equitable remedies including profit disgorgement, disqualifications from engaging in certain types of business, or other restrictions that could have a material adverse effect on our business, financial condition, share price and reputation. Tax authorities may impose certain remedies, including potential tax penalties. We may also be required to modify our business practices and compliance programs, and a monitor could be appointed to review future business and practices with the goal of ensuring compliance with applicable law. These investigations could harm relationships with existing customers, impair our ability to obtain new customers, business partners and public procurement contracts and affect our business plans, including alliances, joint ventures or other combinations. These investigations or potential investigations could result in the cancellation of certain of our existing contracts, including acquisition and disposition contracts and the commencement of significant third-party litigation. Depending on the development of these investigations, we may be required to accrue significant amounts, among others for penalties, damages or other possible actions that may be taken by various governmental authorities. We are cooperating with the Munich public prosecutor s office in its investigations of these matters. At this point, these investigations are incomplete and, as a result, we cannot predict when they will be completed or what their outcome will be, including the potential effect that their results may have on our business. We cannot predict whether additional governmental authorities in these or other jurisdictions will launch separate investigations. In any event, any developments in these investigations, responding to the requests of governmental authorities and cooperating with their investigations will continue to divert our management s attention and resources, which could harm our business. More generally, we are engaged in a substantial amount of government contracting worldwide. Under applicable laws, determinations that our subsidiaries or we have engaged in illegal acts in a jurisdiction may impair our ability to participate in government contracting, which may have a material adverse effect on our business.

We have concluded that our internal control over financial reporting was not effective as of September 30, 2006. As a result, our ability to report our results of operations accurately and in a timely manner, including our ability to make required filings with government authorities, may be adversely affected. In addition, the trading price of our shares and ADSs may be adversely affected by a related negative market reaction: We have identified a material weakness in our internal control over financial reporting. Our management, including the CEO and CFO, have concluded that our disclosure controls and procedures were not effective as of September 30, 2006 to achieve their intended objectives. Following the guidelines stipulated by the Public

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Company Accounting Oversight Board, we have identified the following material weakness in our internal control over financial reporting: significant evidence of collusion at Com to misappropriate funds and abuse authority among certain members of senior management along with others who have responsibility for oversight of the financial reporting of this business Group. Such collusion has allowed elements of our financial control environment to be circumvented or overridden. For more information, see Item 15: Controls and Procedures. As of the date of this annual report on Form 20-F, the process of designing and implementing remedial measures related to the material weakness identified in fiscal 2006 is ongoing. Although we have identified a material weakness, we have not yet identified all of the areas in which the relevant controls were deficient, and as result have not been in a position to remediate them. If our efforts to remediate this material weakness are not successful, we may be unable to report our results of operations accurately and in a timely manner and make our required filings with government authorities, including the U.S. Securities and Exchange Commission. There is also a risk that there could be accounting errors in our financial reporting in addition to those disclosed in Note 2 of the Notes to Consolidated Financial Statements. Furthermore, our business and operating results and the price of our shares and ADSs may be adversely affected by related negative market reactions. We cannot be certain that in the future additional material weaknesses will not exist or otherwise be discovered.

Our business could suffer as a result of current or future litigation: 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. For additional information with respect to legal proceedings, see Item 4: Information on the Company Legal Proceedings. 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.

ITEM 4: INFORMATION ON THE COMPANY

Overview

Siemens traces its origins to 1847. Beginning with advances in telegraph technology, the Company quickly expanded its product line and geographic scope, and was already a multi-national business by the end of the 19th century. The Company formed a partnership under the name Siemens & Halske in 1847, reorganized as a limited partnership in 1889 and as a stock corporation in 1897. The Company moved its headquarters from Berlin to Munich in 1949, and assumed its current name as Siemens Aktiengesellschaft, a stock corporation under the Federal laws of Germany, in 1966. The address of our principal executive offices is Wittelsbacherplatz 2, D-80333 Munich, Germany; telephone number +49 (89) 636 00.

During fiscal 2006, Siemens employed an average of 472,500 people and operates in approximately 190 countries worldwide. In fiscal 2006, we had net sales of 87.325 billion. Our balanced business portfolio is based on leadership in electronics and electrical engineering. We have combined this expertise with a commitment to original research and development (R&D) to build strong global market positions in industrial automation, power generation and medical diagnostics. We are also a major world competitor in rail transportation systems, automotive electronics, lighting and in equipment for telecommunications and networking. Our businesses operate under a range of regional and economic conditions. In internationally-oriented long-cycle industries, for example, customers have multi-year planning and implementation horizons that tend to be independent of short-term economic trends. Our activities in these areas include power generation, power transmission and distribution, medical solutions and rail systems. In fields with more industry-specific cycles, customers tend to have shorter horizons for their spending decisions and greater sensitivity to current economic conditions. Our activities in these areas include information and communications, automation and drives, and lighting. Some activities, especially information and communications, medical solutions and automotive, are also

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influenced by technological change and the rate of acceptance of new technologies by end users. As a globally operating organization, we also conduct business with customers in Iran, Sudan, Syria, Cuba and North Korea. The U.S. Department of State designates these countries as state sponsors of terrorism and subjects them to export controls. Our activities with customers in these states are insignificant relative to our size (approximately 1% of our sales in fiscal 2006) and do not, in our view, represent either individually or in aggregate, a material investment risk. In the light of current humanitarian conditions in Sudan, Siemens has decided not to accept new orders in the country. However, we may participate in humanitarian efforts of internationally recognized organizations in Sudan.

We actively employ systems and procedures for compliance with applicable export control programs, including those in the United States, the European Union and Germany.

Our Fit4More program, which we initiated in fiscal 2005, has been continued in fiscal 2006. Its goal is to increase profitability and growth. The main areas of the program are: *Performance and Portfolio, Operational Excellence, People Excellence* and *Corporate Responsibility.* The overall objective of the program is to increase profitability, as measured by specific margin targets for our business Groups.

In the remainder of this section, we detail the Fit4More strategy, highlight portfolio optimization activities in recent years and describe the various segments of our business in more detail.

Fit4More program

Performance and Portfolio involves shaping the orientation of our business portfolio toward long-term growth and sustained profitability. We are consistently implementing what has long been a core strategy to invest in fields where we can round out our portfolio with new products and technologies, and tap new business segments and growth markets.

Operational Excellence is executing our Siemens Management System initiative which focuses on Innovation, Customer Focus and Global Competitiveness. Innovation has been a hallmark of Siemens since its inception, and our commitment to innovation remains strong, with increasing R&D expenses in fiscal 2006 compared to fiscal 2005. Customer Focus means meeting a customer s needs rather than simply selling a product or service. We market our products, solutions and services not only through our business Groups but also by taking advantage of cross-selling opportunities. Global Competitiveness relates to our ability to compete and market our products on a worldwide basis. As mentioned above, Siemens is present in approximately 190 countries and benefits from its multicultural mix of managers and employees in these countries. It is our primary goal to secure competitive strength by utilizing and optimizing all parts of our worldwide value chain including procurement, production and hardware, development of software, shared services and back-office functions.

People Excellence means achieving and maintaining a high-performance culture. We are committed to systematically developing top talent, especially emerging leaders and technical, subject matter experts. People Excellence entails fostering outstanding knowledge and unique skills in every individual and developing the capability to work in high-performance teams across organizational boundaries.

Corporate Responsibility focuses our energy and resources on the following areas: Corporate Governance, Business Practices, Sustainability and Corporate Citizenship. Corporate Governance means strict compliance with the rules of financial reporting and transparency, as well as open communication with Siemens shareholders. Our Business Practices provide clear rules for ethical behavior toward customers, business partners, employees, public entities and society at large. Sustainability encompasses the various environmental protection measures Siemens has adopted in compliance with worldwide legislation. Corporate Citizenship comprises our activities in the area of scientific and technology-related education, development of young people, and our social and charitable support for the arts and sciences.

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Portfolio Activities

Since fiscal 2004, we have completed the following significant transactions to optimize our business portfolio for sustainable profitability and growth:

Acquisitions

Med s acquisition of the immunodiagnostics provider Diagnostics Products Corporation (DPC), USA, in the fourth quarter of fiscal 2006;

Acquisition of a number of entities in fiscal 2006, which are also not significant individually: 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 market, both at PG, Electrium, UK, vendor of electrical installation systems at A&D and Bewator, Sweden, a supplier of products and systems for access control solutions at SBT;

Acquisition completed in July 2005 of the Austrian engineering group VA Technologie AG (VA Tech), primarily integrated into I&S and PTD; in May 2006, 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, Austria;

A&D s acquisition in July 2005 of Flender Holding GmbH, Germany (Flender), a supplier of gear systems;

Med s acquisition of CTI Molecular Imaging, Inc., U.S. (CTI) in May 2005 to strengthen Siemens commitment to molecular imaging development;

Acquisition of two entities at Power Generation (PG) and A&D in fiscal 2005, which are not significant individually: Bonus Energy A/ S (Bonus), Denmark, a supplier of wind energy systems, and Robicon Corporation (Robicon), U.S., a manufacturer of medium-voltage converters for AC motors;

I&S acquisition in the fourth quarter of fiscal 2004 of USFilter Corporation (USFilter), which offers water systems and services in the municipal and industrial water treatment and supply market; and

Acquisition of three entities in fiscal 2004, which are not significant individually: Trench Electric Holdings BV (Trench), Netherlands at PTD, BBC Technology Holdings Ltd. (BBC), U.K. at SBS and the Huntsville, Alabama, U.S. business group of an automotive electronics manufacturer at SV.

In June 2006, Med also signed an agreement to acquire the diagnostics division of Bayer AG, Germany for an expected purchase price of approximately 4.2 billion. The transaction, which is subject to regulatory approval and other customary closing conditions, is expected to close in the first half of fiscal 2007.

Dispositions

In August 2006, Siemens sold the majority of its Dematic business, which consisted of the Distribution and Industry Logistics (DI) and Material Handling Products (MHP) divisions, formerly of the Logistics and Assembly Systems Group (L&A) to Trition Managers II Limited, Jersey;

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

In the fourth quarter of fiscal 2004, Siemens divested a 74.9% interest in SBS banking software company KORDOBA Gesellschaft für Bankensoftware mbH & Co. KG (Kordoba); in fiscal 2005, the remaining 25.1% interest in Kordoba was sold.

Also in June 2006, Siemens and Nokia 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

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share of approximately 50% of NSN. The assets and liabilities of carrier-related operations of Siemens are classified on the balance sheet as held for disposal. The transaction is expected to close in the first half of fiscal 2007.

The assets and liabilities of the enterprise networks business, which is part of Com, are also classified on the balance sheet as held for disposal.

Discontinued Operations

In September 2005, we sold our Mobile Device business, which lacked the necessary scale to compete effectively in a consolidating market. These business activities are reported in discontinued operations for both the current and prior periods.

For a detailed discussion of our acquisitions, dispositions and discontinued operations, see Notes to Consolidated Financial Statements.

Economic Value Added (EVA)

A core element of our strategy has been an emphasis on EVA as a measurement of the success of each of our business Groups and of our Company as a whole. Economic value added provides a measure of the return of a business Group over its cost of capital. We believe that our management incentive compensation, which is based on economic value added targets, plays a key role in keeping us focused on our profitability goals.

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Description of Business

Our seven business areas and thirteen* Groups in fiscal 2006 were as follows:

* L&A was dissolved as of October 1, 2005. As of this date, Postal Automation and Airport Logistics were integrated into I&S and Electronics 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.

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Information and Communications
Communications (Com)

	Year ended September 30, 2006
Total sales	13.080 billion
External sales as percentage of Siemens net sales	14.60%
Group profit	283 million

Following an intensive analysis by the Managing Board on Com s strategic reorientation, Siemens in fiscal 2006 announced significant changes that will result in dissolving Com as a Group and reportable segment. In the third quarter of fiscal 2006, Siemens and Nokia Corporation (Nokia), Finland announced an agreement to contribute the carrier networks business 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. We expect to account for the investment using the equity method. Subject to certain conditions, including standard closing conditions and customary regulatory approvals (European Union approval having been received on November 13, 2006), we currently expect the closing of this transfer to take place in the first half of fiscal 2007. The assets and liabilities of our carrier networks business are classified on the balance sheet as held for disposal until the closing. In this context we also plan to dispose of the enterprise networks business. The assets and liabilities of the enterprise networks business were also classified on the balance sheet as held for disposal. Effective with the third quarter of fiscal 2006, the Siemens Home and Office Communications Devices (SHC) division was carved out of Com as a separate business and has been reported retroactively within Other Operations. The division Wireless Modules will be included in A&D, effective with the beginning of fiscal 2007.

In fiscal 2006, our Communications Group consisted of three businesses (devices, enterprise networks and carrier networks) with seven divisions, which develop, manufacture and sell a full-range portfolio, from devices for end users to complex network infrastructure for enterprises and carriers, as well as related services including convergent technologies and products and services for wireless, fixed and enterprise networks.

The devices business consists of *Siemens Home and Office Communication Devices* and *Wireless Modules*:

Our *Siemens Home and Office Communication Devices* division (formerly *Customer Premises Equipment Devices*) offers an entire range of products for end-consumers at home, home offices and small businesses, including cordless telephones based on Digitally Enhanced Cordless Technology, corded and cordless phones based on the Internet Protocol (IP), modems, routers, gateways, Wireless Local Area Network products and set-top boxes.

Our *Wireless Modules* division produces communication modules that enable wireless voice communications. In addition, we offer modules and complete solutions for machine-to-machine data transfer. Our communication modules are based on the GSM, GPRS and EDGE mobile technology standards, and our customers include them in many different types of electronic systems and devices, including personal data assistants, smart phones, vending machines, traffic control systems, burglar alarms, measuring instruments, navigation systems and automotive communication systems.

The enterprise networks business consists of the two divisions *Enterprise Systems* and *Enterprise Solutions and Services*:

Our *Enterprise Systems* division provides IP-based voice and data communication infrastructure products, end-user devices, contact centers, unified communications and collaboration applications for enterprises, government agencies and other organizations. In addition, our collaboration applications can be integrated into business applications to create integrated business communication solutions for customers. For this reason, we have built strategic alliances with several leading IT companies, e.g. a global sales and marketing alliance with Microsoft. Our portfolio is also complemented by third-party data networks products, e.g. those of Cisco Systems Inc. (Cisco) and Huawei Technology Co. Ltd. (Huawei) for which we act as a global reseller.

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Our *Enterprise Solutions and Services* division provides the full range of supporting services for comprehensive enterprise voice and data communication solutions such as product related services (e.g. installation, maintenance and general support) and value added services (e.g. consulting, integration, training and operation-related services including out-tasking and outsourcing). The horizontal and vertical business approaches of the division are reflected by the provision of cross-sector solutions, such as solutions for command and control centers, Customer Relationship Management (CRM) and security on the one hand, and sector-specific solutions for hotel, banking and healthcare on the other hand.

The carrier networks business consists of the *Mobile Networks, Fixed Networks* and *Carrier Services* divisions:

The *Mobile Networks* division provides mobile network operators and enterprises with a complete range of products and solutions for building, expanding and enhancing mobile networks based on a wide range of technological standards, including the second-generation (2G) mobile standard GSM, the mobile data standard GPRS and its enhancement EDGE, the dominant third-generation (3G) mobile technology UMTS, and broadband wireless access technologies such as WiMAX. Our product portfolio includes radio base stations, base station controllers, switching systems for mobile communications networks, intelligent network systems, applications and microwave technology systems. Our products and services address the increasing demand of corporate customers offering mobile enterprise solutions to operators. Additionally, we focus on customized solutions in the areas of multimedia solutions and services for operators.

The *Fixed Networks* division is a leading system provider for public fixed-line communication network infrastructure. For network access, we provide products and solutions that upgrade the portion of a telephone network between a home or a business and the first network switching system (the last mile), equipping it with the means to carry not only voice, but also very high bandwidth data traffic. For network transport, we offer transport solutions for optical networks, which use light waves to transmit communications signals through fiber optic cables. Our transport solutions combine hardware and software designed to deliver higher transmission rates between network elements. In addition, our portfolio includes products for voice switching in traditional networks and for voice and data switching in IP converged networks (IP converged networks allow for the transmission of voice, data and multimedia based on IP), as well as interfaces between such narrowband and broadband networks. For our carrier customers, we also offer residential multimedia solutions, business multimedia solutions and fixed-mobile-convergence solutions. Our portfolio is also complemented by the data routing products of Juniper Networks, Inc. (Juniper) for which we act as a global reseller.

The *Carrier Services* division provides services for fixed and mobile network operators. The portfolio is focused on service solutions designed to reduce carriers costs, help service providers to generate new revenue streams and enable operators to manage the complexity of technology migration and convergence fixed/mobile networks and services. The service portfolio comprises network maintenance (e.g. comprehensive service packages, including a customer interaction center, network care, repair and replacement services and evolution services, which allow networks to keep pace with technological developments) and value added services (e.g. operational out-tasking, consulting, optimization/design, systems integration and education services).

Com operates its own sales force in Germany and uses dedicated personnel in Siemens worldwide network of regional sales units. Our more significant carrier customers include Vodafone, Deutsche Telekom, Singtel, Sistema Telecom and Telecom Italia, while our more significant enterprise customers include DaimlerChrysler, Deutsche Bank, IBM, Allianz and E.ON, as well as research and governmental institutions (including certain departments of the United States federal government). We provide some of our customers with various forms of direct and indirect financing in connection with large infrastructure projects. In fiscal 2006, we observed a continued trend toward consolidation among large carriers.

In fiscal 2006, we derived approximately half of our sales from Europe, with approximately 17% from Germany, and smaller, yet significant amounts from Asia-Pacific and the Americas.

Com has established a number of smaller joint ventures in order to share costs and risks of developing new technologies, to manufacture products under local conditions and to facilitate market entry. In addition, we have entered into strategic alliances in order to help achieve a leading position in the market for real-time

communications. Illustrative examples are our strategic alliances with leading enterprise IT companies, such as IBM, Microsoft and SAP.

Com has been challenged by a changing competitive landscape. In the carrier network business, beside our traditional competitors such as Ericsson, Alcatel, Lucent, Nortel and Nokia, we faced increased competition from Chinese competitors (mainly Huawei, ZTE and UTStarcom). In fiscal 2006, we observed a strong consolidation trend among telecommunications vendors (e.g., Alcatel/ Lucent and Ericsson/ Marconi, as well as the planned NSN joint venture). The enterprise networks business continued to face the traditional competitors such as Avaya, Nortel, Alcatel and Cisco. As a result of the importance of IP and the application businesses, both carrier and enterprise networks continued to face new competitors that formerly focused on software and IT services, such as Microsoft, IBM and SAP. In Wireless Modules, we faced competition mainly from Wavecom and substitution risks from semiconductor companies such as Intel, Infineon and Texas Instruments.

In April 2005, Siemens defined its Fit4More program with the goal to reach certain margin targets and to put the Company on course of sustainable profitable growth. For additional information with respect to our Fit4More program, see Overview. As part of its strategic reorientation, Com incurred substantial severance charges in fiscal 2005 and fiscal 2006. For more information with respect to these charges, see Item 5: Operating and Financial Review and Prospects Segment Information Analysis Operations Information and Communications Communications.

Siemens Business Services (SBS)

	Year ended September 30, 2006
Total sales	5.157 billion
External sales as percentage of Siemens net sales	4.20%
Group profit	(549) million

SBS provides information and communications services to customers primarily in industry, the public sector, financial services, telecommunications, transportation, utilities and media and entertainment. SBS designs, builds and operates both discrete and large scale information and communications systems and provided hardware maintenance and support services.

SBS offers comprehensive information technology and communications solutions from a single source. We create these solutions for customers by drawing on our management consulting resources to redesign customer processes; on our professional services to integrate, upgrade, build and install information technology systems; and on our operational capabilities to run these systems on an ongoing basis.

In fiscal 2006, SBS had three divisions which reflect the types of services SBS offers:

Solution Business offers project-oriented consulting, design and implementation services. These include selecting, adapting and introducing new solutions to support business processes, as well as integration of systems and enterprise applications.

Operation-Related Services provides outsourcing services (full-scale IT operations spanning hosting, call center, network and desktop services) as well as operation of selected business processes (e.g. financial services back-office operations). In fiscal 2005 such later operations were a separate division called Business Process Outsourcing. This division has been included in Operation-Related Services as of October 1, 2005.

Product-Related Services offered infrastructure maintenance, including hardware and software maintenance and infrastructure service solutions. Effective April 1, 2006, the Product-Related Services Division was sold to Fujitsu Siemens Computers (Holding) BV. For further information with respect to the sale of this division, see Item 7: Major Shareholders and Related Party Transactions and Notes to Consolidated Financial Statements.

We provide information technology solutions and services designed to support and optimize the following core processes of our customers:

customer relationship management, to assist businesses in aligning their organizations to better serve the needs and requirements of their customers;

business information management, to improve our customers business processes, including services and solutions for business information, document and product data management;

supply chain management, to facilitate the efficient interplay of all of a business operational processes with those of its suppliers;

enterprise resource management, to optimize a customer s internal management and production processes; and

e-commerce systems and solutions in a range of industries, to allow customers to offer a variety of Internet-based services through design and implementation of software for communications and transactions applications.

Most of SBS consulting and design services involve information technology and communications systems that we also build and operate. At the same time, SBS also designs and builds systems and provides services using the software of several companies with which it has established relationships, such as SAP, Microsoft, Siebel, i2 Technologies, Oracle and Computer Associates. Going forward, SBS will continue its efforts in IT outsourcing activities.

The Group continued in fiscal 2006 to focus its efforts on the manufacturing industry, public sector and financial services companies. Among our larger customers are BBC, Deutsche Bank, National Savings & Investment, RAG AG and Fujitsu Siemens Computers. Siemens selected SBS as exclusive provider to operate its internal IT infrastructure in Europe. According to the contractual agreement, the IT infrastructure of the Groups and regions has been transferred to SBS.

We have our own sales and delivery force. We operate worldwide in more than 40 countries but we have traditionally generated most our sales in Germany, followed by a significant percentage of sales to other European countries. In fiscal 2006, we generated more than 80% of our sales in Europe, with approximately 40% from Germany.

Our most significant competitors vary by region and type of service. A few are global, full-service IT providers such as IBM s Global Services division, EDS, Accenture, CSC and HP Services. One of our competitors that focuses more narrowly on specific regions or customers includes T-Systems, a unit of Deutsche Telekom, in Germany. Those generating most of their revenues with a particular service include Accenture in consulting and transformational outsourcing; Capgemini in systems integration and Affiliated Computer Services, in outsourcing. As a service business, SBS requires strong local presences and the ability to build close customer relationships and provide customized solutions while achieving economies of scale and successfully managing risks in large projects.

The IT services market continues to be highly competitive; further consolidation has to be expected by commoditization of the IT services business, offshoring and new players entering the market.

In April 2005, Siemens defined its Fit4More program with the goal to reach certain margin targets and to put the Company on a course of sustainable profitable growth. For additional information with respect to our Fit4More program, see Overview. SBS is one of the Groups which needed to take considerable actions in order to reach the margin targets assigned to it. As part of its strategic reorientation, SBS divested its Product-Related Services as mentioned above. In fiscal 2006, as in fiscal 2005, SBS incurred substantial severance charges. For more information with respect to these severance charges, see Item 5: Operating and Financial Review and Prospects Segment Information Operations Information and Communications Siemens Business Services. After the close of the fiscal year, also as part of the strategic reorientation and following an intensive analysis by the Managing Board, we announced plans to bundle our worldwide IT solutions, IT services and software activities. The activities of SBS will be pooled into one Group including the four software

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development entities Program and System Engineering (PSE) and Siemens Information Systems Ltd. (SISL), Development Innovation and Projects (DIP) and the Business Innovation Center (BIC). The new Group, called Siemens IT Solutions and Services (SIS), will be reported beginning with the third quarter of the fiscal 2007.

We enter into large scale, and sometimes long-term projects. The large size of some of these projects, as well as the long-term frame contracts with our largest customers, occasionally expose us to technical performance, customer-or country-related risks. Risks associated with long-term outsourcing contracts remain a management priority at SBS. For additional information with respect to our long-term contracts, see Item 3: Key Information Risk Factors.

Automation and Control

Automation and Drives (A&D)

	Year ended September 30, 2006
Total sales	12.848 billion
External sales as percentage of Siemens net sales	12.92%
Group profit	1.572 billion

A&D offers products, solutions and services primarily targeted at three main end-customer segments:

Manufacturing automation serves customers in the factory automation industry. Typical customers for these durable goods are the automotive and machinery industries. *Process automation* serves mainly customers in the process automation industry, e.g. the chemical, pharmaceutical, food and beverage industries. *Electrical instrumentation for buildings* serves customers in the industrial and private building engineering industry (construction markets).

The products, solutions and services that we offer to these customers can be grouped in four technological segments:

Low voltage control and installation technology products include low voltage switchboards, circuit protection and distribution products and command and signaling devices. These products are used in the control cabinets of switchgear and control gear manufacturers and automation providers, who in turn serve producers of mechanical and electrical machinery and companies in the construction industry. We also offer electrical installation products such as circuit protection systems, small distribution board systems, wiring devices, switches and sockets for the distribution of electricity in residential and industrial buildings. Our modern bus systems for communication and monitoring link products and systems together and further link these to building automation systems. The bus systems are used principally in residential buildings and large commercial facilities such as plants and office buildings.

Manufacturing automation products include programmable logic controllers, human machine interfaces for integrated automated systems using a single system platform, and industrial communications systems. Our main customers are the durable goods and capital equipment industries, especially mechanical engineering companies. In addition, we integrate these products into industry-or customer-specific hardware and software solutions and, for the automotive industry, we plan, engineer and sell complete manufacturing automation solutions.

Motion control and drive systems products include motors, drives and computerized numerical controls for machine tools, as well as automation and drive equipment for all types of production machines and material handling equipment. We also sell motors and drives, from low to high voltage, and gears for various applications in different industries and in infrastructure facilities. Applications include rolling mills and ships, engines for all kinds of rail vehicles and ventilation and water and wastewater transportation systems.

Process automation products and services include process instrumentation and analytics for companies in the raw materials and other materials processing and capital equipment industries. We plan, engineer and sell complete solutions that integrate these products for specific applications in the chemical, pharmaceutical, food

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and beverage, and non-metallic minerals industries. We use our computerized process control system as the basis for our batch and process solutions.

In addition, as of October 1, 2005, the Electronic Assembly Systems division, previously allocated to the former Logistics & Assembly Systems Group of Siemens, was allocated to A&D. The division s principal products are surface mount technology (SMT) placement systems that automate the mounting of components onto printed circuit boards. These systems are capable of processing numerous component types and can be tailored to the requirements of individual line configurations by a complete modular platform concept. The principal customers of this division are manufacturers in the electronics field that use SMT, including manufacturers of mobile phones, handheld computers and automotive, industrial and consumer electronics, and, increasingly, electronic manufacturing services providers.

With effect as of October 1, 2006, the Wireless Modules division of Com has been allocated to A&D. For further information regarding the Wireless Modules division, see Information and Communications Communications. Both, the Electronic Assembly Systems and Wireless Modules divisions serve the manufacturing automation customer segment.

We sell our products primarily through our own sales force in Germany and through dedicated personnel in Siemens worldwide network of regional sales units. We also sell a significant proportion of our products to original equipment manufacturers (OEM) and third-party distributors for resale to end users. The majority of our sales to third parties goes to industrial customers in the mechanical and electrical machines industries. A significant portion is also made to distributors, system and software houses and engineering companies.

In fiscal 2006, we derived nearly two-thirds of our sales from Europe, with one-third from Germany, and a smaller but significant amount from the Americas, mainly the U.S., and Asia-Pacific.

In fiscal 2005, we acquired Flender Holding GmbH, a German manufacturer of mechanical and electrical drives. In addition, in fiscal 2005, we acquired Robicon Corporation, a U.S. manufacturer of medium-voltage converters for AC motors. In fiscal 2006, we acquired Electrium Limited, a vendor of electrical installation systems in the UK. For additional information with respect to these acquisitions, see Notes to Consolidated Financial Statements.

Consolidation in our industry is occurring on multiple levels. Suppliers of automation solutions to manufacturing companies have supplemented their activities with drives technology. Suppliers of manufacturing and process control systems are cooperating or combining through acquisitions or cooperative ventures with suppliers of field technology and outsource facility operation and monitoring activities to establish comprehensive automation suppliers. During the past fiscal year, some of our competitors have strengthened their portfolios through acquisitions and formation of joint ventures.

Intense competition and rapid technical progress within our industry place significant pressure on prices. Average product lifetimes in our businesses tend to be short, typically from one to five years after introduction, and are even shorter where software and electronics play an important role. Product lifetimes tend to be longer in motors, gears and electromechanical devices.

Each of our principal competitors ABB, Schneider Electric, Rockwell and Emerson has a broad business portfolio similar to ours. We also compete with specialized companies such as Eaton, Honeywell and Fanuc. Our U.S. competitors traditionally have had strong positions in software technologies, while some Japanese competitors have generally focused on large-scale production and cost cutting. Nevertheless, most of our major competitors have established global bases for their businesses. In addition, competition in the field has become increasingly focused on technological improvements to electronics and software.

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Industrial Solutions and Services (I&S)

	Year ended September 30, 2006
Total sales	8.819 billion
External sales as percentage of Siemens net sales	8.88%
Group profit	289 million

I&S develops solutions and services for industrial and infrastructure facilities from planning and installation through to operation and the whole equipment lifecycle. Our systems and processes are applied for iron and steel production, treatment of potable water and wastewater, as well as for traffic systems, airport logistics and postal automation. We are also involved in the pulp and paper sector, oil and gas, shipbuilding and mining.

During fiscal 2006, we provided our solutions and services through the following seven divisions:

Industrial Plants uses industry-specific expertise to design, engineer and deliver solutions tailored to the needs of customers in various industry sectors, such as pulp & paper, metals, mining, oil & gas, and marine. In recent years, we have focused on offering complete, integrated solutions rather than isolated solutions serving a single function. Effective of October 1, 2006, we have dissolved the Industrial Plants division, transferred its metals-related activities to the new division Metals Technologies as described below, transferred its pulp and paper-related activities to our Industrial Services division and created a new division, called Oil, Gas, Marine Solutions for its remaining activities.

Industrial Services is responsible for our industrial technical services activities, providing a wide range of technical services covering each stage of the lifecycle of industrial plants, infrastructure facilities and utilities. We serve customers in a variety of industries. Under the trade name Siemens Industrial Services, we provide engineering and general contracting services for plant construction and modernization and deliver on-call and logistics services, maintenance services, including predictive maintenance, as well as auxiliary process management services globally on a local basis. Effective October 1, 2006, the Industrial Services division includes the pulp and paper-related activities that were included in the Industrial Plants division in fiscal 2006.

Water Technologies provides water and wastewater treatment products (filters, membranes and resin), integrated solutions (membrane systems, filtration solutions, chemical feed, ion exchange systems, disinfections systems and biological treatment) and outsourcing solutions (contract operations, build-own-operate solutions and customer asset management) and services (carbon and resin regeneration, mobile water treatment and maintenance).

Intelligent Traffic Systems offers automated systems for urban and inter-urban traffic control and management. These systems include information technology for traffic detection, information and guidance and parking space management, in addition to solutions for electronic tolls and tunnel traffic guidance and access control. Our airfield technologies business provides systems and solutions for the accurate monitoring, navigation and control of aircraft ground movement, as well as a variety of lighting systems for the visual guidance of airfield traffic.

Siemens VAI. In fiscal 2005, Siemens completed the acquisition of the Austrian engineering group, VA Technologie AG (VA Tech). The activities of the former metallurgy division of VA Tech (VOEST-ALPINE Industrieanlagenbau GmbH & Co) were transferred to I&S to form the division Siemens VAI. For additional information with respect to the VA Tech acquisition, please see Notes to Consolidated Financial Statements. Effective October 1, 2006, we have created a new division called Metals Technologies consisting of Siemens VAI and the metals-related activities that were included in the Industrial Plants division for fiscal 2006. Metals Technologies provides process technology solutions and services for the mining and metals industries. The four sub divisions (Iron and Steelmaking, Rolling and Processing, Mining and Metal and Mining Services) offer plants and equipment (products), electrics and automation (systems) and services (life cycle management).

Airport Logistics offers systems to track and control cargo in and around airport terminals, as well as a full range of baggage handling functions, from the check-in counter and screening, to baggage reclaim, including services and parts for such systems. We also provide security solutions for the aviation industry, integrating baggage screening and explosives detection technologies. Prior to October 1, 2005, the Airport Logistics division

was part of the former Logistics & Assembly Systems Group, which was disbanded at the beginning of fiscal 2006.

Postal Automation provides equipment for sorting of both standard and large letters (so-called flats), as well as parcels; reading and coding systems; postal information technology; mail security solutions; and postal services such as product-related after-sales services and general contracting. Prior to October 1, 2005, the Postal Automation division was part of the former Logistics & Assembly Systems Group, which was disbanded at the beginning of fiscal 2006.

Our Industrial Plants, Siemens VAI, Airport Logistics and Postal Automation divisions derive their sales revenues primarily from projects awarded on the basis of internationally solicited tenders. These projects tend to be performed under long-term, high-value contracts with a relatively limited number of customers. Our Water Technologies division focuses on industrial and municipal customers. Intelligent Traffic Systems works predominantly with state and municipal customers. Our Industrial Services division provides services to numerous customers across a variety of industries, as well as to other Siemens Groups. Siemens businesses collectively continue to be I&S largest customer.

The large size of the projects performed by our divisions occasionally exposes us to risks related to our technical performance, to a customer or to a country. For additional information with respect to our long-term contracts, see Item 3: Key Information Risk Factors.

We market our services to our customers primarily through our dedicated sales force, supplemented by Siemens worldwide network of regional sales units. In fiscal 2006, we derived nearly half of our total sales revenue from Europe and a significant amount from the Americas, primarily the U.S., as a result of our USFilter and Siemens VAI acquisitions and the transfer of Postal Automation to I&S.

Our competitors vary by business area and region. They range from large, diversified multinationals to small, highly specialized local companies. I&S main competitors internationally include ABB, General Electric, Honeywell, Invensys and Alstom. Our Industrial Services division also competes with a large variety of small locally based suppliers of contracting, maintenance and support services.

Siemens Building Technologies (SBT)

	Year ended September 30, 2006
Total sales	4.796 billion
External sales as percentage of Siemens net sales	5.35%
Group profit	234 million

SBT provides products, systems, solutions and services for monitoring and regulating the temperature, fire safety, ventilation, electricity, lighting and security of commercial and industrial property, tunnels, ships and aircraft.

During fiscal 2006, SBT consisted of the following four divisions:

Security Systems offers electronic security solutions and services for buildings and critical environments (e.g. ports, stadiums), including intruder detection and alarm systems, closed-circuit television video-surveillance, personal identification and building access control systems, as well as managed services such as centralized monitoring and control of each of these individual systems. The division strengthened its position in managed services with the acquisition of a specialized service provider focused on monitoring of telecom mobile base stations.

Fire Safety and Security Products manufactures and sells system components for the global fire safety and security industry and offers systems, solutions and services to the non-residential markets for fire detection and protection, including computerized gas leakage and fire alarms and non-water based fire extinguishing systems, as well as comprehensive computer-based danger management systems which centrally monitor and control each of these individual systems. Our products serve to protect against fire, burglary, unauthorized access and loss of

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assets. The division further enhanced its product portfolio through the acquisition of a leading European Access Control equipment supplier during fiscal 2006.

Building Automation offers systems, solutions and services to the non-residential markets for automating and regulating heating, ventilation and air conditioning (HVAC), electricity and lighting, including computerized building automation systems that integrate and manage all of these functions for an entire building. The division offers maintenance and training services for its systems and also provides energy solutions and services, aiming to improve a building s energy costs, reliability and performance while minimizing impact on the environment. For example, we refurbish buildings to improve their energy efficiency and provide our customers with a guaranteed level of energy cost savings. We also arrange for financing of the refurbishments.

HVAC Products manufactures and sells controls, sensors, detectors, valves and actuators used in systems that regulate heating, ventilation and air conditioning, electricity and lighting in buildings and factories.

Our customers consist of a large, widely-dispersed group of locally-based building owners, operators and tenants, building construction general contractors, mechanical and electrical contractors, HVAC systems OEMs, wholesalers, specialized system builders and installers.

SBT has a decentralized business organization that combines a small central headquarters, design and manufacturing at sites in six countries in Europe, North America and Asia and our own branch network. For some markets, we also distribute our products and systems through a network of independent field offices and distributors. Our services businesses and sales network have significant local presences.

The large size of the projects performed by our divisions occasionally exposes us to risks related to our technical performance, to a customer or to a country. For additional information with respect to our long-term contracts, see Item 3: Key Information Risk Factors.

We sell our products and systems throughout the world, and in fiscal 2006, we derived nearly 60% of sales from Europe, more than on-third from the Americas, primarily the U.S., and the remainder primarily from Asia-Pacific.

The main global competitors for Fire Safety & Security are Tyco, UTC and Honeywell. The fire safety products market consolidated considerably in recent years, creating heightened competition between major players. In addition, competitors continuously shift their production to low-cost countries. Due to the resulting comparative lower production costs, we continue to experience increased price pressure in the products market, as well as in fire safety solutions. Our main competitors for HVAC products are Honeywell, Danfoss, Johnson Controls and Schneider Electric. In the HVAC market, we also see consolidation (including significant acquisitions by Honeywell, Schneider Electric, Danfoss and Daikin) and increased price competition for the same reasons as in the fire safety solutions market. In the building automation market, Johnson Controls and Honeywell are our largest competitors. We also face competition from niche competitors offering web-based solutions and from new entrants, such as utility companies and consulting firms, exploiting an increased demand for energy cost management. Consolidation also is continuing in the building automation market and vertical integration of mechanical equipment and controls is an important industry trend, as indicated by the acquisition of York International by Johnson Controls in fiscal 2006.

Power

Power Generation (PG)

	Year ended September 30, 2006
Total sales	10.086 billion
External sales as percentage of Siemens net sales	11.53%
Group profit	782 million

PG provides customers worldwide with a full range of equipment necessary for the efficient conversion of energy into electricity and heat. We also customize gas and steam turbines in the smaller output range, which can

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be used as drives for compressors or large pumps, to meet specific project needs. We offer 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.

PG consists of four businesses, each with a clear market focus on specific customer groups and technologies: Fossil Power Generation; Industrial Applications; Instrumentation and Control; and Wind Power.

A power plant s function is the efficient conversion of primary energy, such as coal or natural gas, into electricity. In a fossil fuel plant, the power generation process begins with working media such as water, steam or compressed air, which are initially transferred to high pressure states by heating in boilers or combustion sections of gas turbines. Thereafter, steam and gas turbines convert this energy into mechanical energy, which in turn is converted into electricity by generators. In so-called combined cycle plants, a combination of gas and steam turbines is used to reach highly efficient conversion rates of nearly 60%. At the end of the process, electricity is fed into transmission grids from the plant site.

Fossil Power Generation includes power plants and systems engineering, as well as components and equipment engineering and manufacturing, such as fossil fuel-fired power plants and co-generation heat and power plants. Our fossil fuel power generation business concentrates on turbo generators, gas and steam turbines in the larger power range, with an emphasis on combined-cycle gas and steam power plants. We also perform power plant service, such as maintenance, rehabilitation and operations.

Industrial Applications includes steam and gas turbines in the small and medium power ranges, as well as turbo generators, turbo compressors and compressor solutions for the oil and gas industry, and offers complete engineering services for power plants. Our activities encompass design, engineering, supply and service.

Instrumentation and Control designs, installs and commissions instrumentation and control systems and related equipment for use in power generation, including information technology solutions providing management applications from the plant to the enterprise level. We also provide a wide variety of related services.

Wind Power is a new business created in fiscal 2005, following our acquisition of Bonus, a leading Denmark-based supplier of wind turbines.

Additional areas of PG s activity include the development and production of systems based on emerging technologies such as fuel cells. We also have minority stakes in joint ventures in the areas of nuclear and hydropower generation, which we account for under the equity method.

Although we aim to expand primarily through internal growth, we will continue to make acquisitions and form alliances where appropriate to increase market penetration, share costs or technologies and adapt to market changes. In fiscal 2006, we acquired Wheelabrator Air Pollution Control, a U.S. manufacturer of emission control technologies; we signed a contract to acquire Kühnle Kopp & Kausch, a German manufacturer of small steam turbines and turbocompressors and completed this transaction in the first quarter of fiscal 2007; we acquired the coal gasification business of Swiss Sustec-Group; and we increased our interest in Power Machines, a leading supplier of power plant equipment in Russia.

PG s principal customers are large power utilities and independent power producers, as well as construction engineering firms and developers. Because certain areas of our business, such as power plant construction, involve working on medium- or longer-term projects for customers who may not require our services again in the short term, our most significant customers may vary significantly from year to year. In fiscal 2006, Florida Power & Light Company in the United States, Union Fenosa Generacion S.A. in Spain, CS Energy in Australia and Knapsack Power GmbH & Co. KG in Germany were among our largest customers. We also generate an increasing portion of sales from industrial customers, who represent an important market for smaller power plants, turbines and compressor solutions.

Our business activities vary widely in size from component delivery and comparatively small projects to turnkey contracts for new power plant construction with contract values of more than half a billion euros each. The large size of some of our projects occasionally exposes us to risks related to technical performance, a

customer or a country. For additional information with respect to our long-term contracts, see Item 3: Key Information Risk Factors.

In fiscal 2006, we derived more than one-third of our sales from Europe. The remainder of our sales is geographically well balanced.

Our sales efforts are conducted primarily by our own dedicated sales organizations in Europe, the U.S. and Asia, supported by Siemens worldwide network of regional sales units.

Today s worldwide market for new power plants is near the level experienced in the early 2000s. The development continues to be driven primarily by the strong economic development in China, which again was the strongest single market for worldwide power equipment orders in fiscal 2006. Other than China, the Near and Middle East has become an important market mainly for gas-fired power plants. The sustained and significant increase in oil and gas prices in recent years and uncertainty relating to fuel markets may result in reduced demand for gas turbines and increased demand for steam turbines.

Our industry is one in which a relatively small number of companies, some with very strong positions in their domestic markets, play a key role. Our principal competitors vary by business. In fossil power generation, our main competitors are General Electric, Alstom Power, Mitsubishi Heavy Industries, as well as Hitachi and Toshiba. Within industrial applications, we face competition from General Electric, Solar, MAN Turbo and Dresser Rand. In instrumentation and controls, where the market is more fragmented, ABB is our main competitor. Main competitors in wind power are Vestas and General Electric.

Power Transmission and Distribution (PTD)

	Year ended September 30, 2006
Total sales	6.509 billion
External sales as percentage of Siemens net sales	6.90%
Group profit	390 million

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.

At the first step of the power transmission and distribution process, power generated by a power plant is transformed to a high voltage that can be transported efficiently over long distances along overhead lines or underground cables. This step occurs at or near the site of the power plant, and requires transformation, control, transmission, switching and protection systems. At the second stage of the process, the power passes through one or more substations, which use distribution switchgear to control the amounts delivered and circuit breakers and surge arresters to protect against hazards in transmitting the power. At this stage, transformers step-down the voltage to a medium level at which it can be safely distributed in populated areas. In the final stage of the process, distribution transformers step-down the voltage again to a level usable by end-users and metering systems measure and record the locations and amounts of power transmitted.

We provide our customers with: turn-key transmission systems and distribution substations; discrete products and equipment for integration by our customers into larger systems; information technology systems and consulting services relating to the design and construction of power transmission and distribution networks. We offer the following solutions, products and services, presented roughly in the order in which they are used in a power transmission and distribution network. Our internal divisions are organized around the following products:

power systems control equipment and information technology systems, including computerized power management systems used to operate power transmission networks, determine customer needs and regulate the flow of power from power plants to the distribution network (offered through our Energy Automation division);

transformers including both the power transformers used at the beginning of the transmission process to step-up the voltage of the power generated by power plants to a voltage that can be carried efficiently on the power network, and the distribution transformers and their components used at the end of the distribution process to step-down power from high voltage to lower voltage levels for the end-user;

high voltage products and ready-to-use systems, in both alternating and direct current, used in the physical transmission of power from power plants to the distribution network before the voltage is stepped-down for distribution in populated areas, including ready-to-operate indoor and outdoor high voltage substations and the switchgear and protection systems required to control the flow of power and prevent damage to the power transmission network;

protection and substation control systems including equipment and systems used at power distribution network substations, such as relays and computerized protection and control equipment (offered through our Energy Automation division); and

medium voltage equipment including circuit breakers and distribution switchgear systems and components that regulate the flow of power on the distribution network before it is stepped-down to a low voltage level for the end-user.

In addition to our equipment and systems, we offer a growing range of services and integrated solutions for various stages in the power transmission and distribution process. These include: technical support and maintenance services and, to an increasing extent, outsourcing projects and operations; consulting relating to the planning, design and optimization of power transmission and distribution networks; information technology services and solutions to support customer management and energy trading; training programs; and metering services for electricity, gas and heat. We also provide analytical and consulting services, as well as equipment and systems, in the power quality field that are designed to improve the availability and reliability of power transmitted by analyzing and reducing the causes of power fluctuations and failures. Power quality systems and services have become increasingly important with the growing use of sensitive computerized, electronic and other equipment requiring continuous power with very little fluctuation in voltage or frequency. Our PTD Services division aims specifically at responding to our customers increasing demands for these services.

In July 2005, Siemens completed the acquisition of VA Tech. The activities of the former Transmission and Distribution division of VA Tech have been integrated into PTD. For additional information with respect to the VA Tech acquisition, see Notes to Consolidated Financial Statements.

Our power transmission and distribution customers are primarily power utilities and independent power distributors. Due to ongoing deregulation in the power industry, our customer base continues to diversify from one formerly composed almost exclusively of power utilities responsible for all stages in power transmission and distribution to one that includes an increasing number of independent system operators and power distributors supplying services at different points of the power transmission and distribution network. We have further increased our sales to industrial customers, providing them with equipment and systems for power networks associated with manufacturing facilities. We distribute our systems and components through our sales force in Germany and through dedicated personnel in the regional Siemens sales units worldwide. In addition, the VA Tech sales personnel has been integrated into our sales force.

We generate our sales from project business, as well as from sales of systems, components and services. In fiscal 2006, we received a total of approximately 0.6 billion in orders from the Qatar General Electricity & Water Corporation. Aside from those contracts, a relatively small portion of our project business involves construction of large power networks and other projects with values of more than 50 million. In fiscal 2006, as in prior years, most of our business was generated from smaller projects and sales of systems and components to a variety of smaller customers.

Our sales are evenly distributed throughout the world with large portions in Europe, Asia and the Americas. While regions in the developing world represent growth markets for power transmission and distribution products and systems, our activities there can also expose us to risks associated with economic, financial and political disruptions that could result in lower demand or affect our customers abilities to pay.

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Competition in our markets comes primarily from a small group of large, multinational companies offering a wide variety of products, systems and services, although a few notable specialists maintain strong positions in certain niches. Globally, our most significant competitors include ABB, the Areva Group and General Electric, as well as certain Japanese competitors. In some of our markets, increasing international competition is emerging from low-cost countries such as China and India. We are party to several joint ventures in China, our largest single market.

The large size of some of our projects occasionally exposes us to risks related to our technical performance, to a customer or to a country. For additional information with respect to our long-term contracts, see Item 3: Key Information Risk Factors.

Transportation

Transportation Systems (TS)

	Year ended September 30, 2006
Total sales	4.502 billion
External sales as percentage of Siemens net sales	5.08%
Group profit	80 million

We are a leader in the global rail industry, offering a full range of products and services for railway transportation. We offer our customers innovative solutions and systems in such areas as modular vehicle concepts for mass transit and mainline systems; technology for driverless metros and computer-controlled electronic switches; optical sensor systems; and global positioning system (GPS)-based service and diagnostic concepts, among others. We combine rolling stock with automation and power product offerings in our turnkey systems business, and combined service and maintenance activities in our integrated services unit. Rolling stock refers to all major components of rail vehicles, including locomotives, railway cars, subway cars and streetcars.

We develop, manufacture and sell a full range of rolling stock in three product-focused divisions:

Mass Transit Our products include subway and suburban rapid transit trains, subway cars, as well as their subsystems and components and streetcars, light rail vehicles and their components.

Locomotive Our products include electric and diesel-electrical locomotives for passenger or freight rail. In addition to our manufacturing operations, we also refurbish and maintain locomotives and locomotive pools and provide locomotive leasing services tailored to meet the requirements of deregulated local rail operators.

Trains Our products comprise rail vehicles with traction equipment integrated into the running gear and distributed over the entire train, including high speed trains, tilting trains, regional and rapid transit units and passenger coaches, as well as subsystems and components.

In our automation and power business, we conduct our operations in two divisions:

Rail Automation For passenger and freight railway operations, we develop, manufacture and sell central control systems, signaling systems and equipment, interlockings and automated train control systems that regulate a train s speed through automatic application of its brakes when it exceeds speed limits or fails to respond to a signal. We sell entire systems and networks, as well as individual products for integration into existing signaling systems. For mass transit, we develop, manufacture and sell operation control centers for the operation of signals and switches in rail yards and between destinations, and signaling and vehicle control systems (including automated, driverless systems).

Electrification For high speed, main line and mass transit, we supply products and systems for contact line and rail power supply.

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In our *Turnkey Systems* division, we aim to optimize the design and construction of entire railway systems. We cooperate closely with the other TS businesses, integrating their products and services to offer turnkey projects from a single source. We also assist our customers with arranging financing in cooperation with SFS.

Effective October 1, 2005, the Integrated Service division was allocated to the other divisions of TS. Our divisions now take direct responsibility for our service activities, which provide corrective and preventive maintenance services, replacement and spare parts for each of the division s own products.

Our primary customers are transport authorities and national and private rail companies worldwide. Deutsche Bahn is our largest customer. We distribute our products through our own sales force in Germany and through dedicated personnel in the local Siemens companies worldwide.

Germany and other European countries have traditionally been our most important regional markets. We believe the most important regional growth markets are in the Asia-Pacific region. Demand in the German market for railway transportation products has continued to decline in recent years, as a result of reduced government funding of, and low investment in, the German rail transportation systems, and we expect that trend to continue for the foreseeable future. In fiscal 2006, we derived more than two-third of our sales from Europe, with less than one quarter in Germany, and a smaller but significant amount from Asia-Pacific and the Americas.

The world markets for products and services in the railway transportation industry continue to be in flux. Despite the trend toward privatizing state-owned railways and liberalization of the railways markets, national authorities continue to have influence in areas such as security and deregulation, or as general watchdog authorities over transport or railway facilities. In many countries, governments impose local content requirements, the fulfillment of which is often a basic precondition for market entry. The number of rail operators continues to increase, and both new and traditional operators are focusing not only on quality but also on price and low life-cycle costs that drive their own profitability. Price pressure is further influenced by budget constraints faced by many state operators, requiring innovative financing solutions. In fiscal 2006, our industry continued to face increasing prices for some key components because there is only a limited number of suppliers. Our customers show a growing trend towards the outsourcing of servicing and maintenance of systems and equipment.

The large size of our projects occasionally exposes us to risks associated with technical performance, a customer or a country. In the past, we have experienced losses in connection with such risks. For additional information with respect to our long-term contracts, Item 3: Key Information Risk Factors.

We compete in our industry, on a global scale, with a relatively small number of large companies and with numerous small to midsized competitors who are either active on a regional level or specialize within narrow product spectrums. Our principal competitors are Alstom and Bombardier.

Siemens VDO Automotive (SV)

	Year ended September 30, 2006
Total sales	10.017 billion
External sales as percentage of Siemens net sales	11.45%
Group profit	669 million

SV designs, manufactures and sells integrated electrical, electronic and electromechanical systems and modules and individual components used in automotive applications. Our product range includes components and systems used in automobile powertrains, body electronic systems, safety and chassis systems, electric motor drives, information and cockpit systems, and driver information, communication and multimedia systems.

In fiscal 2006, we offered our systems and products in the following four divisions:

Powertrain, including components, modules and systems for use in diesel and gasoline fuel injection handling, drive train transmission management and air intake systems, fuel pumps and supply units, as well as engine actuators and emissions controls and sensors;

Chassis & Carbody, including active and passive electronic safety systems such as crash and occupant sensors for controlling airbags and seatbelts and for monitoring air pressure in tires; chassis electronics used in steering and braking; electric motor drives for use in antilock brakes, heating, ventilation and engine cooling systems and power windows and sunroofs; drive systems for electric and hybrid vehicles; access control and security systems with electric door and seat controls and radio receivers within the vehicle; intelligent switching units and climate control units;

Interior & Infotainment, including complete cockpit systems, driver s workplace systems in commercial vehicles, instrument clusters, tachographs, human-machine interface displays, heads-up displays for passenger and commercial vehicles; car audio, navigation and telematics and complex multimedia systems; and

Service & Special Solutions, which offers spare parts and accessories for passenger and commercial vehicles, fleet management systems and hardware and software products for car audio, navigation, and telematics.

As of October 1, 2006, we have put a new organizational structure into place. In fiscal 2007, the Group s business is being carried out by the four divisions Powertrain, Interior Electronics and Infotainment, Safety and Chassis, and Commercial Vehicles.

Our original equipment and service business in the field of commercial vehicles will be carried out by the new division Commercial Vehicles. The division Safety & Chassis develops and produces restraint systems, safety electronics and chassis products such as the electronic wedge break and electrical steering. The division Interior Electronics and Infotainment bundles our businesses involving cockpits and control instruments, the instrumentation of cars, high-end multimedia systems and radio navigation systems. The division Powertrain remains unchanged.

Most of our customers are large automobile manufacturers, including four of the world s five largest automobile manufacturers. We also sell components to suppliers of complete automotive systems and modules. Our car manufacturer customers frequently contract a supplier to provide a system or set of components for the production run of a particular car model or engine line. In fiscal 2006, our ten largest customers together accounted for more than 80% of our total sales.

As in past years, base materials and components accounted for about half of the total cost of our products in fiscal 2006. We rely on a few suppliers to provide us with most of our semiconductors, other electronic components and some other base materials and components. These suppliers include Infineon, Philips and ST Microelectronics, for semiconductors; Tyco, for wire housings and connectors; and ALCOA for drives.

We have our own independent sales force, which is active worldwide. In fiscal 2006, we generated nearly two-third of our sales in Europe, with nearly one-third in Germany and nearly one-third of our sales in the Americas, primarily the U.S. In fiscal 2006, we continued our sales growth in Asia and other emerging markets.

For the last several years, automobile manufacturers and their suppliers have been going through a period of significant change and consolidation, and we expect this trend to continue. Manufacturers, in an effort to achieve cost efficiencies and ease of production, are using more pre-assembled systems and modules instead of individual components. Systems and modules integrate all of the components needed for major automotive subsystems, such as the cockpit or vehicle safety systems. The trend toward greater use of modules and systems has increased pressure on suppliers of individual components and smaller companies to combine or form alliances, resulting especially in growing convergence of electronics and mechanical component suppliers and making the industry more capital intensive.

In fiscal 2006, the worldwide mass market was again characterized by low growth rates. Automobile production levels remained nearly constant in the Americas and Western Europe. In the Asia-Pacific region, growth continued at a lesser rate, influenced particularly by Chinese demand. The truck market is still growing. Globalization and the opening of markets to competition continue to put downward pressure on prices. Customers that incorporate our products into their own equipment make ever-greater demands on both our performance and

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the quality of our products. In the current market environment, many automobile manufacturers extract price and other concessions from their suppliers, including SV.

We are a first-tier supplier to automobile manufacturers in North America, South America and Asia. Our most significant competitors are generalists with a broad product range, systems integration capabilities and global presence. These include Bosch, Toyota s Denso and the independent, former in-house suppliers Visteon and Delphi, each of which is significantly larger than we are. Moreover, in Europe and Asia, Denso, Visteon and Delphi continue to be aggressive competitors and attempt to gain market share outside their home countries. We face increased competition from consumer electronics and IT firms that are increasingly active in the area of automotive electronics and from certain Japanese firms. Competition from low-cost suppliers from Asia and Eastern Europe is increasing in commodity products, such as electrical motors.

Medical

Medical Solutions (Med)

	Year ended September 30, 2006
Total sales	8.227 billion
External sales as percentage of Siemens net sales	9.35%
Group profit	1.061 billion

Med develops, manufactures and markets diagnostic and therapeutic systems and devices, as well as information technology systems for clinical and administrative purposes. We provide technical maintenance, professional and consulting services. We also work with Siemens Financial Services to provide financing and related services to our customers. We are one of the leading companies in our field.

Our offerings include:

medical imaging systems, representing a full range of systems including x-ray, computed tomography, magnetic resonance, molecular imaging and ultrasound, as well as related computer-based workstations enabling the health care professional to retrieve and process relevant information. Our imaging systems are used to generate morphological and functional images of, and related information concerning, the human body, such as internal organs. This information is used both for diagnostic purposes and in preparation for potential treatment, including interventional and minimally-invasive procedures;

information technology systems, which are used to digitally store, retrieve and transmit medical images and other clinical and administrative information, facilitating efficient workflows in health care environments;

oncology care systems, including linear accelerators, which are used for cancer treatment;

hearing aids and related products and supplies;

electromedical systems, which are primarily used in critical care situations and during surgery for the purpose of patient transport, monitoring vital functions via body sensors, supporting breathing and administering anesthetic agents. Our product portfolio also includes respiratory machines designed for systems for intensive neonatal care and home care. We provide such electromedical systems primarily through our joint venture Dräger Medical of Lübeck, Germany, in which we hold a 35% share.

In addition, through two acquisitions announced in fiscal 2006, we have entered the in-vitro diagnostics market. In-vitro diagnostics are based on an analysis of tissue samples or bodily fluids such as blood (in contrast to in-vivo diagnostics, such as magnetic resonance imaging, which are based on imaging procedures designed to generate morphological and functional images of, and related information concerning, the human body, such as internal organs). At the end of July 2006, we completed the acquisition of Diagnostic Products Corporation (DPC) a global leader in immunodiagnostics, for approximately U.S.$1.9 billion (approximately 1.5 billion). DPC s diagnostic tests supply information vital to the detection and management of disease, including cancer,

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cardiovascular disease and thyroid disorders. Moreover, in June 2006, we announced that we had agreed to acquire the Diagnostics Division of Bayer AG for an expected purchase price of approximately 4.2 billion, subject to satisfaction of certain conditions, including regulatory approvals and other customary closing conditions. We currently expect that the closing will take place in the first quarter of fiscal 2007. Through the acquisition of Bayer s Diagnostics Division we will strengthen DPC s position in immunodiagnostics and enter molecular gene analysis also known as Nucleic Acid Testing. In addition, Bayer Diagnostics holds strong positions in other segments of the in-vitro diagnostics market, e.g. clinical chemistry. For additional information on these acquisitions, see Notes to Consolidated Financial Statements.

Our customers include health care providers such as hospital groups and individual hospitals, group and individual medical practices, reference and physician office laboratories and outpatient clinics. We typically sell the majority of our product spectrum through direct sales persons who are located in the individual countries where our products are sold and supported by product specialists. In addition, in some countries we sell primarily low-end products (such as low-end ultrasound and low-end x-ray) through dealers. A small portion of our sales involve delivery of certain of our products and components to competitors on an OEM basis. Our products are serviced primarily through our own dedicated personnel.

We have a strong worldwide presence. The U.S. is our largest single geographic market, representing approximately 45% of our total sales in fiscal 2006. In addition, we derived nearly one-third of our sales from Europe and a smaller but significant amount in Asia-Pacific in fiscal 2006.

We have research and development and OEM cooperation agreements with various companies, including with Bruker, in the field of magnetic resonance imaging; Toshiba, in the field of ultrasound and magnetic resonance imaging; and Matsushita, for low- and mid-range ultrasound systems. We also have joint ventures with Philips and Thales, to manufacture flat panel detectors for medical imaging; and with Mochida Pharmaceutical Co. Ltd., in the field of ultrasound in Japan. In addition, in fiscal 2005, we acquired CTI, with whom we had a joint venture to develop and manufacture Positron Emission Tomography systems which are scanning systems capable of showing the chemical functioning of an organ or tissue. For additional information with respect to this acquisition, see Notes to Consolidated Financial Statements.

Our principal competitors in medical imaging are General Electric, Philips, Toshiba, Hitachi and Hologic. Other competitors include McKesson and Cerner, for information technology systems; Phonak, GN Resound (a subsidiary of Great Nordic), Starkey, Widex and William Demant, for hearing aids; and Elekta and Varian Medical, for oncology care systems. By entering the in-vitro diagnostics business through DPC and Bayer Diagnostics, we now also face new competitors such as Roche, Abbott, Beckman Coulter and Dade Behring. The trend toward consolidation in our industry continues. In October 2006 Phonak announced that it entered into a share purchase agreement with Great Nordic to buy GN Resound. Competition among the leading companies in our field is strong, including with respect to price.

Lighting

Osram

	Year ended September 30, 2006
Total sales	4.563 billion
External sales as percentage of Siemens net sales	5.14%
Group profit	481 million

Our Lighting Group, Osram, offers a full spectrum of lighting products for a variety of applications. Osram designs, manufactures or sells the following types of lighting products and related materials, components and equipment through the following divisions:

General Lighting: incandescent, halogen, compact fluorescent, fluorescent and high-intensity discharge lamps for household and commercial applications, and public buildings, spaces and streets;

Automotive Lighting: halogen, incandescent and xenon discharge lamps for use in motor vehicle headlights, brake lights, turn signals and instrument panels, and, through an equal joint venture with Valeo, completed head- and tail-light assemblies for distribution in North America;

Display/ Optic: special purpose halogen and high-intensity discharge lamps for lighting airport runways, film studios, microchip manufacturing plants, video and overhead projectors and medical and other applications requiring very intense lighting;

Opto-Semiconductors/ LED systems: light emitting diodes (LED), organic light emitting diodes (OLED), high power laser diodes and other semiconductor devices and LED systems that generate visible light and ultraviolet and infrared radiation for use in interior and exterior automotive lighting and other applications, electronic equipment displays, traffic and signal lighting, signs and decorative lighting and infrared transmitters and sensors for industrial and consumer electronics;

Ballasts and Luminaires: electronic ballasts for optimized operation of compact fluorescent, fluorescent, high-intensity discharge low-voltage halogen lamps and LED modules, as well as consumer fixtures and, increasingly, lighting control systems; and

Precision Materials and Components: glass for bulbs, phosphor powders for fluorescent lamps, computer monitors and television screens, tungsten and other metals for filaments in incandescent lamps and heavy duty tools and electronic components and materials for lamps and applications in the automotive industry, as well as equipment used in the production of lighting products.

We market our products worldwide and have manufacturing locations throughout North and South America, Western and Eastern Europe and Asia, allowing us to stay close to our major customer regions and keep shipping charges low. We produce most of our own key precision materials and components to ensure that we have access to raw materials in the necessary amounts, prices and levels of quality. We also sell precision materials and components we manufacture to third parties.

In the coming years, we expect the importance of electronics to continue to increase across all areas of the lighting industry, and we expect that Osram s sales accounted for by electronic ballasts, electronically-driven lighting systems and opto-semiconductors will continue to increase.

Our customers include primarily wholesalers, retailers and manufacturers of lighting fixtures, lamp components and automotive systems. We distribute our products through Osram s own network of subsidiaries, sales offices and local independent agents in approximately 150 countries. The importance of the Internet as a sales channel is also steadily increasing. Osram has successfully implemented business-to-business extranet services in several countries and we continue to process over one third of our sales electronically.

In recent years, the world market for lighting products has grown at moderate rates, with relatively higher growth in Asia-Pacific and Eastern Europe. In fiscal 2006, we generated 44% of our total sales in the Americas, primarily in the U.S., more than one-third of our total sales in Europe and a smaller but significant amount in Asia-Pacific. In North America, we market most of our lighting products under the brand name Sylvania.

As a result of acquisitions and consolidations over the last decades, Osram, Philips and General Electric are today the key players in the worldwide lighting market. Osram holds a number one or number two position worldwide in most of its product markets, such as lamps, electronic ballasts, automotive lamps and opto-semiconductors, competing principally with Philips and General Electric as well as Nichia in the field of opto-semiconductors. Through joint ventures with Mitsubishi and Toshiba, we are the largest foreign manufacturer of lighting products in Japan, where Matsushita and Toshiba also hold strong market positions.

Price competition is intense in some areas of both the traditional and innovative lighting product markets, due to competition among Philips, Osram, General Electric, and the Japanese LED manufacturer Nichia, as well as rising competition from new entrants, including a growing number of Chinese manufacturers. Price competition continues to intensify in the more advanced halogen and compact fluorescent lamp types due to an increasing presence of Chinese manufacturers.

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We continue to work on reducing the use of hazardous materials (e.g. mercury or lead) or to substitute for these in our products and processes, and sustainable products play a major role in our innovation strategy. Examples are our energy-saving lamps and lighting systems and our market introduction of mercury-free Xenon lamps for motor vehicle headlamps.

Financing and Real Estate

Siemens Financial Services (SFS)

	Year ended September 30, 2006
Total assets	10.522 billion
Total assets as percentage of Siemens assets	11.57%
Income before income taxes	307 million

SFS provides a variety of financial services and products both to third parties and, on arm s-length terms, to other Siemens business Groups and their customers. SFS is organized in six business divisions, which can be classified as either capital businesses (consisting of the Equipment & Sales Financing division and the Equity division) or fee businesses (consisting of the Project & Export Finance, Investment Management, Insurance, and Treasury & Financing Services divisions). The capital businesses offer vendor programs to external manufacturers and support Siemens sales with leasing programs. The capital businesses also provide receivable financing to Siemens groups and external parties and makes equity investments in infrastructure projects where Siemens is a principal supplier. The fee businesses support and advise Siemens concerning financial risk management and investment management and provide an important contribution to Siemens by arranging financing for Siemens projects. The fee businesses are primarily captive with some external business.

Due to expansion of the leasing business, our total assets increased to 10.522 billion at September 30, 2006 from 10.148 billion at September 30, 2005. Our principal assets at September 30, 2006 were lease receivables and equipment leased under operating leases (together accounting for 62% of our assets) and purchased trade receivables (accounting for 31% of our assets) attributable to our Equipment and Sales Financing division. The main sources of our earnings are interest income, dividends and fee income, with the latter stemming primarily from our internal advisory businesses. SFS acts according to banking industry standards in the international financial markets in its transactions with both Siemens and third parties.

Equipment and Sales Financing. This is our largest division and it encompasses our mid-market finance and credit portfolio management business activities.

Midmarket Finance our principal product is equipment lease financing, where we typically purchase equipment supplied by various Siemens Groups or third-party manufacturers and lease it to the customer for a specified term, generally with an option for the customer to purchase the equipment or renew the lease at the end of the term. Capital leases account for the largest portion of our leasing business (78% of the total book value of our leased assets at September 30, 2006). We also offer our clients services complementary to our leasing business, including services relating to the management of their leased equipment base and product upgrade services. Other products include asset-based lending, underwriting and syndication for larger credits.

Credit Portfolio Management we purchase, without recourse, receivables from other Siemens Groups, as well as from third parties. The selling companies remain responsible for collection and documentation. Our portfolio consists primarily of trade receivables. Centralizing a portion of the Siemens Groups receivables risk allows Siemens to more effectively manage its overall receivables exposure.

Midmarket Finance finances both Siemens and third-party equipment. The associated Siemens products are delivered primarily by Med, Com and A&D. Midmarket Finance also increased its external business with its small ticket leasing products, which involve leases of relatively small amounts and with a high level of automation and standardized procedures for such third-party products as computers and office equipment.

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Equity. This division structures financing for infrastructure projects for which Siemens provides capital goods and participates in those projects as an equity investor. At September 30, 2006, the equity investment in these projects amounted to approximately 3% of the total assets of SFS and 0.4% of the total assets of Siemens. In recent years, the Equity division has expanded its strategic focus from power to healthcare and airports.

Project and Export Financing. This division advises other Siemens Groups on project and sales financing transactions. We have a global network of established contacts with multi-lateral financial institutions, such as the World Bank and the Asian Development Bank, as well as with national development and export banks and export credit agencies, such as Hermes in Germany and Export-Import Bank in the United States. By offering our services to other Siemens Groups, we ensure that they benefit from our in-house know-how and market presence. We also provide advice, management and documentation services in connection with guarantees issued by Siemens, related principally to certain long-term contracts of the Operating Groups.

Treasury and Financing Services. This division provides services to Siemens Corporate Treasury, including cash management and payment (including inter-company payments) and capital-market financing. In addition, we pool and manage interest rate and currency risk exposure of the Operating Groups and, in the name and for the account of Siemens Corporate Treasury, enter into derivative financial instruments with third-party financial institutions to offset pooled exposures. Derivative activities in the name of Siemens Corporate Treasury are described under Item 11: Quantitative and Qualitative Disclosure About Market Risk. We also offer consulting services with respect to treasury activities to third-party customers.

Investment Management. This division manages pension assets for Siemens and third parties and mutual funds for employees in Germany and Austria. We also offer pension advisory services to Siemens and third parties.

Insurance. This division acts as a broker and provides Siemens Groups with liability, property, marine and project insurance brokerage coverage via third-party insurers. We provide these services not only to Siemens business Groups, but also to external customers. We also act as an insurance agent in offering private insurance policies to Siemens employees. With these employee related activities, Insurance also acts as agent for fund and mortgage based products.

SFS main sources of risk are our external customers credit risk and the risk associated with SFS equity portfolio. Interest rate and currency exposures are typically matched. The funding for SFS is provided by Siemens Corporate Treasury.

Our competition mainly includes captive leasing and finance companies from both inside and outside the electronics industry, including those of General Electric, CIT Group and Societe Generale. In fiscal 2006, competition from these international players increased. Our competition also includes pure leasing companies and leasing and finance operations related to banks or investment banks and investment management companies.

Siemens Real Estate (SRE)

	Year ended September 30, 2006
Total sales	1.705 billion
External sales as percentage of Siemens net sales	0.29%
Income before income taxes	122 million

SRE offers the operating Groups of Siemens a range of services encompassing real estate development, real estate disposal and asset management, as well as lease and services management. The overall goal of our activities is to manage Siemens real estate needs in a professional and cost effective way.

Real Estate Management is responsible for the active management of Siemens real estate portfolio. First, it formulates the general strategy for our real estate business and contributes support in real estate decision-making by providing portfolio analysis, economic analysis, development of financing alternatives, market research, risk analysis and valuation and similar services, including preparing recommendations for divestitures, as well as rental rates. Second, it provides pure property management and leasing services to Siemens Groups and, to a

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limited extent, to third-party lessees. These services include billing and collecting lease payments and related charges such as utilities and providing other general services of a landlord. Third, it arranges facilities services to Siemens Groups and external tenants on an arm s-length contract basis. The services we arrange include cleaning, maintenance, security, catering and a variety of other services. We generally subcontract these services with third-party suppliers, thereby leveraging the purchasing power of the entire Siemens group.

Development, Projects & Sales is responsible for the sale of land, office and commercial real estate that is surplus to the operational needs of the Siemens group and for internal construction projects. It also acts as a developer of Siemens-owned properties.

The book value of Siemens worldwide land and buildings, at September 30, 2006, amounted to approximately 4.933 billion, of which approximately more than half was managed by SRE. The following table sets forth the key balance sheet and statistical data for SRE:

SRE Balance Sheet and Statistical Data

	At September 30,	
	2006	**2005**
	(and square meters in millions)	
Total assets (in euros)	3,234	3,496
Real estate assets under management (in euros)	2,733	2,912
Total site area (in square meters)	19.5	19.1
Total building area (in square meters)	9.9	9.9

Over the past few years, operational adjustments by some Siemens Groups resulted in the consolidation of Siemens locations and the divestment by SRE of surplus property. However, while we will continue to divest surplus property over the next few years, we expect that we will not be able to dispose of properties as quickly or to the same extent as we have previously.

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Employees and Labor Relations

The following tables show the division of our employees by business Group and geographic region at September 30 for each of the years shown:

Employees by Business Group(1)

	At September 30,		
	2006	2005	2004
	(in thousands)		
Communications(2)	51	51	50
Siemens Business Services	34	39	36
Automation and Drives(3)	71	63	54
Industrial Solutions and Services(3)	36	36	33
Siemens Building Technologies	29	28	28
Power Generation	36	34	31
Power Transmission and Distribution	28	26	19
Transportation Systems	19	18	18
Siemens VDO Automotive	53	51	48
Medical Solutions	36	33	32
Osram	40	38	37
Siemens Financial Services	2	2	2
Siemens Real Estate	2	2	2
Other(4)	38	40	34
Total	475	461	424

(1) Continuing Operations.

(2) Com s division Siemens Home and Office Communication Devices was reclassified to Other Operations in the third quarter of fiscal 2006. Prior year information was reclassified for comparability purposes.

(3) 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.

(4) Includes employees in corporate functions and services and business units not allocated to any business Group.

Employees by Geographic Region*

	At September 30,		
	2006	2005	2004
	(in thousands)		
Germany	161	165	161

Europe (other than Germany)	127	125	109
The Americas	104	101	95
Asia-Pacific	70	58	50
Africa, Middle East, CIS	13	12	9
Total	475	461	424

* Continuing operations.

A significant percentage of our manufacturing employees, especially in Germany, are covered by collective bargaining agreements determining working hours and other conditions of employment, and are represented by works councils. Works councils have numerous rights to notification and of codetermination in personnel, social and economic matters. Under the German Works Constitution Act (*Betriebsverfassungsgesetz*), works councils are required to be notified in advance of any proposed employee termination, they must confirm hiring and

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relocations and similar matters, and they have a right to codetermine social matters such as work schedules and rules of conduct. Management considers its relations with the works councils to be good.

During the last three years, we have not experienced any major labor disputes resulting in work stoppages.

Environmental Matters

In each of the jurisdictions in which we operate, Siemens is subject to national and local environmental and health and safety laws and regulations that affect our operations, facilities, products, and, in particular, our former nuclear power generation business. These laws and regulations impose limitations on the discharge of pollutants into the air, soil and water, establish standards for the treatment, storage and disposal of solid and hazardous waste and might sometimes require us to clean up a site at significant cost. Because of our commitments to protecting the environment and conservation and because we recognize that leadership in environmental protection is an important competitive factor in the marketplace, we have incurred significant costs to comply with these laws and regulations and we expect to continue to incur significant compliance costs in the future.

In 1994, we closed a site in Hanau, Germany, that we had used for the production of uranium and mixed-oxide fuel elements. A smaller related site in Karlstein, where we operated a nuclear research and service center, was closed in 1989. We are in the process of cleaning up both facilities in accordance with the German Atomic Energy Act. We have developed a plan to decommission the facilities that involves 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 radioactive waste. This process will be supported by ongoing engineering studies and radioactive sampling under the supervision of German federal and state authorities. The German Atomic Energy Act requires that radioactive waste be transported to a government-developed storage facility, which, in our case, we do not expect to be available until 2030. We expect that the process of decontamination, disassembly and sorting of radioactive waste will continue until 2010. We will be responsible for storing the material until the government-developed storage facility is available. With respect to the Hanau facility, the process of setting up intermediate storage for radioactive waste has neared completion; on September 21, 2006 we 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 this project will depend, in part, on where the government-developed storage facility is located and when it becomes available. We have an accrual of 501 million at September 30, 2006, with respect to this matter. This accrual is based on a number of significant estimates and assumptions as to the ultimate costs of this project. We believe this amount to be adequate to cover the present value of the costs associated with this project, based on current estimates. For additional information, see Notes to Consolidated Financial Statements.

Two Directives of the European Parliament and of the Council on Waste Electrical and Electronic Equipment (2002/96/ EC WEEE) and on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (2002/95/ EC RoHS) have an impact on some of our products. The WEEE-Directive regulates the collection, financing of the collection, reuse and recycling of waste from many electrical and electronic products, and the RoHS-Directive bans the use in electrical and electronic equipment of certain hazardous substances, such as lead, cadmium, mercury, hexavalent chromium, brominated biphenyls and diphenylethers. We are complying with the required collection schemes and financing of the collection of waste electrical and electronic equipment from end users, insofar as the WEEE-Directive has been implemented into the national legislation of the EU Member States. In certain EU Member States, including Italy and the United Kingdom, the WEEE-Directive has not yet been implemented. We are presently unable to completely estimate the potential costs of complying with these new requirements due to insufficient experience with the collection of waste electrical and electronic equipment. However, we do not expect this uncertainty to have a material adverse affect on our results of operations or financial condition.

The bans imposed pursuant to the RoHS-Directive entered into force on July 1, 2006. Siemens has identified its products which are affected by the restrictions and has implemented a timely transition from lead to lead-free soldering technology. With regard to the other substances, we enter into contractual agreements with our suppliers to help ensure that the delivered components and products are compliant with the requirements of the RoHS-Directive. For certain applications and components, exemptions were granted by the European Commission. Restrictions on the use of certain substances comparable to those of the RoHS-Directive are under discussion in several other states, such as the U.S., Australia, Argentina, China and South Korea.

The EU-Directive (2004/35/ CE) addressing the prevention and remediation of environmental damage has to be transposed into national law by April 30, 2007. A significant number of our production sites are affected by this directive. The directive requires remediation measures for damage to protected species and natural habitats, which go beyond current legal requirements. However, the directive will only apply for damages caused by emissions made after 2007. We believe that in 2007, there will continue to be adequate insurance coverage or other financial security instruments available to cover the increased risks.

It is our policy to comply with environmental requirements and to provide workplaces for employees that are safe, environmentally sound, and that do not adversely affect the health or environment of their communities. We have obtained all material environmental permits required for our operations and all material environmental authorizations required for our products. Although we believe that we are in substantial compliance with all environmental and health and safety laws and regulations, there is a risk that we may incur expenditures significantly in excess of our expectations to cover environmental liabilities, to maintain compliance with current or future environmental and health and safety laws and regulations and/or to undertake any necessary remediation.

Property

Siemens and its consolidated subsidiaries have, as of September 30, 2006, approximately 242 production and manufacturing facilities (more than 50% production space ratio) throughout the world. Approximately 94 of these are located in Europe, with approximately 45 in Germany, and approximately 115 are located in the Americas, with approximately 89 in the United States. We also have 32 facilities in Asia. Siemens also owns or leases other properties including office buildings, warehouses, research and development facilities and sales offices in approximately 190 countries.

Siemens principal executive offices are located in Munich, Germany.

None of our properties in Germany is subject to mortgages or other security interests granted to secure indebtedness to financial institutions. We have granted security interests in other jurisdictions.

We believe that our current facilities are in good condition and adequate to meet the requirements of our present and foreseeable future operations.

Intellectual Property

Siemens as a whole has several thousand patents and licenses, and research and development is a priority on a Siemens-wide and business Group basis. For a discussion of the main focus of our current research and development efforts of each business Group, see Item 5: Operating and Financial Review and Prospects Business Overview Research and Development. Siemens also has many thousand trademark registrations worldwide. However, neither the Company, nor any of our business Groups, are dependent on any single patent, license or trademark or any group of related patents, licenses or trademarks.

Legal Proceedings

We have requested arbitration against the Republic of Argentina before the International Center for Settlement of Investment Disputes (ICSID) of the World Bank. We claim that Argentina unlawfully terminated our contract for the development and operation of a system for the production of identity cards, border control, collection of data and voters registers and thereby violated the Bilateral Investment Protection Treaty between Argentina and Germany (BIT). We are seeking damages for expropriation and violation of the BIT of approximately $500 million. Argentina has disputed jurisdiction of the ICSID arbitration tribunal and has argued in favor of jurisdiction of the Argentine administrative courts. The arbitration tribunal rendered a decision on August 4, 2004, finding that it has jurisdiction over Siemens claims and that Siemens is entitled to present its claims. A hearing on the merits of the case took place before the ICSID arbitration tribunal in Washington in October 2005. A decision on the merits is expected by the end of December 2006.

Italian and German prosecutors have been investigating allegations that former Siemens employees provided improper benefits to former employees of Enel in connection with Enel contracts. We are cooperating with the authorities. German prosecutors brought charges against two of the investigated former employees in March 2006. Furthermore, the prosecutors have asked the courts to confiscate the proceeds Siemens has obtained for performing the Enel contracts. In Italy, Siemens has entered into a so-called patteggiamento (plea bargaining agreement without the admission of any guilt or responsibility) with the Italian prosecutors. Siemens agreed to pay a 0.5 million fine and to give up 6.121 million of profit relating to the Enel contracts. Siemens also accepted a one-year ban prohibiting it from entering into contracts with the Italian public administration. This part of the patteggiamento was discharged through the one-year ban imposed on Siemens by preliminary injunction that expired on May 14, 2005. The patteggiamento was endorsed by the Court of Milan on July 25, 2006 and entered into force on November 11, 2006.

In May 2004, the European Commission launched an investigation into possible anti-trust violations involving the major European and Japanese producers of high-voltage gas-insulated switchgear, including Siemens AG and VA Tech, which Siemens acquired in July 2005. Gas-insulated switchgear is electrical equipment used as a major component for turnkey power substations. We have cooperated with the European Commission in the investigation. The decision of the European Commission has not been announced yet. On December 22, 2005, the Hungarian antitrust authority announced an administrative order imposing a fine of 320,000 on Siemens AG and 640,000 on VA Tech. We have filed an appeal against that decision. The final decision on the appeal has not been announced. Furthermore, authorities in Australia, Brazil, New Zealand and the Czech Republic are conducting investigations into the same possible antitrust violations.

As previously reported, German prosecutors are conducting an investigation against certain Siemens employees regarding allegations that they participated in fraud and in providing improper benefits related to the awarding of an EU contract for the refurbishment of a power plant in Serbia. The investigation is still ongoing.

A Mexican governmental control authority has barred Siemens Mexico from bidding on public contracts for a period of three years and nine months beginning November 30, 2005. This proceeding arose from allegations that Siemens Mexico did not disclose alleged minor tax discrepancies when it was signing a public contract in 2002. Upon appeal by Siemens Mexico, the execution of the debarment was stayed on December 13, 2005 and subsequently reduced to a period of four months. Upon further appeal, the execution of the reduced debarment was stayed by the competent Mexican court on April 19, 2006. The final decision on the appeal has not been announced so far.

On January 19, 2006, the U.S. Attorney for the Northern District of Illinois charged Siemens Medical Solutions US (SMS) with committing mail and wire fraud in connection with a bid on a public contract for radiological equipment in the year 2000. The charges are based on alleged non-compliance with certain bidding terms and alleged misconduct during a trial related to the fulfillment of such terms. The bidding terms of the public contract were later ruled unconstitutional. SMS, which has cooperated with the district attorney s investigation, considers the allegations to be unjustified and intends to oppose them in court. The court proceedings are scheduled for March 2007.

On February 24, 2006, Siemens received a subpoena from the U.S. Securities and Exchange Commission (SEC) requiring the production of certain documents relating to the Oil-for-Food Programme and to certain other matters. Siemens is cooperating with the SEC. Furthermore, a French investigating magistrate has started a preliminary investigation regarding the participation of French companies among others Siemens France S.A.S. in the Oil-for-Food Programme. German prosecutors also have started an investigation in this matter.

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 AG and its subsidiaries have been named as defendants in various other legal actions and proceedings arising in connection with their activities as a global diversified group. Some of these pending proceedings have been previously disclosed. 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 it considers it 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 these 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.

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ITEM 4A: UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Introduction

This Form 20-F 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, 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: the factors listed above under Item 3: Key Information Risk Factors; 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 throughout this report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the relevant forward-looking statement as expected, anticipated, intended, planned, believed, sought, estimated or projected. Siemens does not intend or assume any obligation to update or revise these forward-looking statements in light of developments which differ from those anticipated.

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The following discussion of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and the related Notes prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) as of, and for the years ended, September 30, 2006, 2005 and 2004.

The comparability of our Consolidated Financial Statements between different periods is affected by currency translation effects resulting from our international operations. In fiscal 2006, 2005 and 2004, foreign currency translation effects impacted our results arising from the comparison of the euro, in which our Consolidated Financial Statements are denominated, to other currencies, most notably the U.S. dollar and to a lesser extent the British pound. All of our business Groups are subject to foreign currency translation effects; however, some are particularly affected since they generate a significant portion of their operations through subsidiaries whose results are subject to foreign currency translation effects, particularly in the U.S. In this report, we present, on a worldwide basis and for our business Groups, the percentage change in orders and sales as adjusted for currency translation effects and portfolio effects (i.e., the effects of acquisitions and dispositions). These adjusted percentage change numbers may be considered non-GAAP financial measures under SEC rules. We believe that meaningful analysis of trends in orders and sales from one year to the next requires an understanding of these factors and accordingly our management considers these factors in its management of our business. For this reason, we believe that investors may find it useful to have portfolio effects and currency translation effects quantified and to consider the percentage change in orders and sales as adjusted for these effects. Percentage changes in orders and sales as adjusted for currency translation effects and portfolio effects should not be viewed in isolation as an alternative to the corresponding unadjusted percentage changes in orders and sales. For significant quantitative effects of currency translation on sales of our business Groups, see Fiscal 2006 Compared to Fiscal 2005 Segment Information Analysis Operations and Fiscal 2005 Compared to Fiscal 2004 Segment Information Analysis Operations. For additional information on foreign currency translation, see Item 11: Quantitative and Qualitative Disclosure About Market Risk Foreign Currency Exchange Rate Risk and Notes to Consolidated Financial Statements. In addition, the effect of acquisitions and dispositions on our consolidated revenues and expenses also affects the comparability of our Consolidated Financial Statements between different periods.

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Business overview and Economic Environment

Fiscal 2006 Highlights

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 in fiscal 2006 was 3.033 billion and basic earnings per share were 3.40, both 35% higher compared to fiscal 2006. In fiscal 2006 diluted earnings per share rose to 3.26. Income from continuing operations was 3.087 billion in fiscal 2006 and basic and diluted earnings per share from continuing operations were 3.47 and 3.31, respectively. For fiscal 2005 compared to fiscal 2004, net income and basic earnings per share were down 34% to 2.248 billion and 2.52 respectively and diluted earnings per share declined to 2.42 from 3.66. In fiscal 2005, income from continuing operations was 3.058 billion and basic and diluted earning per share from continuing operations were 3.43 and 3.29, respectively. In fiscal 2004, income from continuing operations was 3.450 billion, including a pre-tax gain of 590 million and a reversal of 246 million in deferred tax liabilities related to the sale of shares of Infineon Technologies AG (Infineon), partly offset by a goodwill impairment of 433 million. Basic and diluted earning per share from continuing operations for fiscal 2004 were 3.87 and 3.71 respectively.

In fiscal 2006, 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. For fiscal 2005 compared to fiscal 2004 sales were up 7% to 75.445 billion and orders increased 11% to 83.791 billion. While sales rose across the board except at TS, orders in fiscal 2005 were higher at every Group in Operations compared to fiscal 2004. Excluding currency translation effects and the net effect of acquisitions and dispositions, sales were up 3% and orders grew 7%, respectively, in fiscal 2005 compared to fiscal 2004.

Net cash provided by operating and investing activities was 367 million in fiscal 2006, 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. In fiscal 2004, net cash provided by operating and investing activities was 3.262 billion. On a continuing basis, net cash provided by operating and investing activities was 3.015 billion in fiscal 2004.

Siemens Managing and Supervisory Boards have proposed a dividend of 1.45 per share for fiscal 2006. For fiscal 2005 and 2004 dividends per share were 1.35 and 1.25, respectively.

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

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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. Over the past three years we continuously increased R&D. In fiscal 2006, Com was permanently 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.

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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.

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

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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 Compared to Fiscal 2005

Consolidated Operations Of Siemens

Results of Siemens

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

	2006	**2005**
	(in millions)	
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.

	2006	**2005**
	(in millions)	
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% from 28.2% a year earlier. While the change year-over-year included moderate decreases in gross profit margin at a

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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.

	2006	2005
	(in millions)	
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.

	2006	2005
	(in millions)	
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	
	2006	2005	Actual	Adjusted*
	(in millions)			
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.

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Siemens Business Services (SBS)

	Year ended September 30,		% Change	
	2006	2005	Actual	Adjusted*
	(in millions)			
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 Item 7: Major Shareholders and Related Party Transactions and 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	
	2006	2005	Actual	Adjusted*
	(in millions)			
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.

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Industrial Solutions and Services (I&S)

	Year ended September 30,		% Change	
	2006	2005	Actual	Adjusted*
	(in millions)			
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	
	2006	2005	Actual	Adjusted*
	(in millions)			
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	

	2006	2005	Actual	Adjusted*
	(in millions)			
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

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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	
	2006	2005	Actual	Adjusted*
	(in millions)			
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	
	2006	2005	Actual	Adjusted*
	(in millions)			
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.

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Siemens VDO Automotive (SV)

	Year ended September 30,		% Change	
	2006	2005	Actual	Adjusted*
	(in millions)			
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	
	2006	2005	Actual	Adjusted*
	(in millions)			
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.

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Lighting
Osram

	Year ended September 30,		% Change	
	2006	2005	Actual	Adjusted*
	(in millions)			
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.

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Financing and Real Estate

Siemens Financial Services (SFS)

	Year ended September 30,		
	2006	2005	% Change
	(in millions)		
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,		
	2006	2005	% Change
	(in millions)		
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.

Economic Value Added

Siemens ties a portion of its executive incentive compensation to achieving economic value added (EVA) targets. EVA measures the profitability 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 additional cost of capital used to run a business (using Net capital employed for the operations Groups and risk-adjusted equity for the Financing and Real Estate businesses as a base). 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 EVA development year-over-year, a business is defined as value-creating or value-destroying. Other companies that use EVA may define and calculate EVA differently.

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Fiscal 2005 Compared to Fiscal 2004
Consolidated Operations Of Siemens
Results of Siemens

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

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

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

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

	2005	2004
	(in millions)	
Gross profit on sales	21,299	20,128
as percentage of sales	*28.2%*	*28.7%*

Gross profit as a percentage of sales in fiscal 2005 was 28.2% compared to 28.7% in the prior year. Despite this overall margin decline, the majority of the Groups in Operations increased their gross profit in fiscal 2005, led by TS, A&D and I&S. Gross profit at TS in the prior year included significantly higher charges in the Group s rolling stock business. A&D improved gross profit with strong growth at the Industrial Automation and Motion Control divisions, as well as through higher revenues. I&S higher gross profit was mainly due to a full-year contribution of the Group s water systems business. Negative operating results and charges for severance and capacity adjustments led to a significant gross profit decline at SBS.

	2005	2004
	(in millions)	
Research and development expenses	(4,511)	(4,133)
as percentage of sales	*6.0%*	*5.9%*
Marketing, selling and general administrative expenses	(13,684)	(12,828)
as percentage of sales	*18.1%*	*18.3%*

Other operating income (expense), net	(9)	(172)
Income from investments in other companies, net	584	1,031
Income from financial assets and marketable securities, net	297	69
Interest income (expense) of Operations, net	(32)	20
Other interest income, net	241	254

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R&D expenses increased 378 million in fiscal 2005, to 4.511 billion up from 4.133 billion in fiscal 2004. R&D spending as a percentage of sales rose to 6.0% compared to 5.9% in fiscal 2004. For additional information about R&D at our Groups, see Business Overview Research and Development and Notes to Consolidated Financial Statements.

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

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

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

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

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

For the fiscal year ended September 30, 2005, Siemens reported income from continuing operations of 3.058 billion compared to 3.450 billion due to the factors mentioned above. Based on income from continuing operations, basic and diluted earnings per share were 3.43 and 3.29, respectively, compared to 3.87 and 3.71 a year earlier. Discontinued operations in fiscal 2005 were a negative 810 million due to operating losses, asset impairments, and a loss on the sale of Com s Mobile Devices business. For additional information with respect to discontinued operations, see Notes to Consolidated Financial Statements. Net income, which includes discontinued operations, was 2.248 billion. Net income of 3.405 billion a year earlier also includes the factors mentioned above. Basic and diluted earnings per share were 2.52 and 2.42, respectively, compared to 3.82 and 3.66 a year earlier.

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Segment Information Analysis
Operations
Information and Communications
Communications (Com)

	Year ended September 30,		% Change	
	2005	2004	Actual	Adjusted*
	(in millions)			
Group profit	421	642	(34)%	
Group profit margin	3.5%	5.5%		
Sales	12,201	11,770	4%	3%
New orders	12,869	12,048	7%	6%

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

To provide a meaningful comparison with all periods presented, the results for Com have been recast on a retroactive basis for the carved out SHC business, which was reclassified to Other Operations in fiscal 2006.

Fiscal 2005 orders at Com rose 7%, to 12.869 billion, and sales increased 4%, to 12.201 billion. The wireless infrastructure market continued to grow, and the Mobile Networks division accounted for much of Com s growth for the year while also making a strong earnings contribution. In fiscal 2005 Group profit for Com overall was 421 million for the year, down from 642 million a year earlier. Group profit for the fiscal 2005 included significant severance charges. The charges were more than offset by a gain of 208 million on the sale of a portion of Com s shares in Juniper. Com s enterprise business profitability declined compared to the prior-year, in part due to margin pressure associated with demand shifts in the corporate market toward wireless and web-based solutions. The earnings development of Fixed Networks was affected by severance charges and the division recorded a significant loss. As part of its strategic reorientation, in fiscal 2005, Com acquired a wireless local area network (WLAN) company and a software company specializing in Internet protocol video aimed at the home entertainment market.

Siemens Business Services (SBS)

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

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

SBS posted a loss of 690 million in fiscal 2005, due primarily to a goodwill impairment of 262 million in its Operation-Related Services division, severance and capacity adjustment charges totaling 228 million and a decline in profitability resulting from overcapacity and continuing pricing pressure. For information with respect to the goodwill impairment, see Notes to Consolidated Financial Statements. Group profit in fiscal 2004 year included a 93 million gain from the sale of 74.9% of Kordoba. SBS realized a gain of 26 million on the sale of its remaining interest in Kordoba in fiscal 2005. Sales and order growth was influenced by outsourcing contracts, partly involving acquisitions. Sales were 5.373 billion, up 14% year-over-year, with approximately half the growth coming from internal business, partly as a result of Siemens announced plans to concentrate the operation of its IT infrastructure at SBS. Orders were 6.531 billion, an increase of 4% compared to the prior year. In fiscal 2005, as part of its strategic reorientation, SBS divested part of its Product-Related Services activities in Germany, and announced plans to outsource ordinary PC maintenance services worldwide.

Automation and Control

Automation and Drives (A&D)

	Year ended September 30,		% Change	
	2005	2004	Actual	Adjusted*
	(in millions)			
Group profit	1,253	1,151	9%	
Group profit margin	12.1%	12.3%		
Sales	10,366	9,372	11%	7%
New orders	10,674	9,593	11%	8%

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

To provide a meaningful comparison with all periods presented the Electronic Assembly Systems division, which was part of the dissolved L&A Group, is included in A&D on a retroactive basis.

A&D continued to perform at a high level in the growing world market for factory automation solutions, delivering double-digit growth in sales and orders in fiscal 2005. Group profit rose 9% to 1.253 billion, primarily due to strong profit growth at the Industrial Automation and Motion Control divisions. Electronic Assembly Systems which was also profitable in fiscal 2004 improved Group Profit year-over year. A&D also significantly expanded its business base, making two of Siemens larger acquisitions of the fiscal year. The Group acquired Flender, a leading industrial gear maker, in order to strengthen its ability to offer complete drive systems. A&D also acquired Robicon, a leading manufacturer of motor voltage converters, to complement its existing technology and gain access to new customers in strategic industrial sectors in Europe, Asia and the Americas. Including these acquisitions, fiscal 2005 sales and orders for A&D climbed 11% year-over-year, to 10.366 billion, and 10.674 billion, respectively. Within these totals, A&D expanded in all regions, particularly in Asia-Pacific and the Americas.

Industrial Solutions and Services (I&S)

	Year ended September 30,		% Change	
	2005	2004	Actual	Adjusted*
	(in millions)			
Group profit	167	62	169%	
Group profit margin	2.6%	1.2%		
Sales	6,307	5,166	22%	7%
New orders	7,189	5,542	30%	19%

* Excluding currency translation effects of (1)% on sales and orders, and portfolio effects of 16% and 12% on sales and orders, respectively.

The Airport Logistics and Postal Automation divisions which were part of the dissolved L&A Group are included in I&S for all periods presented.

I&S contributed Group profit of 167 million in fiscal 2005, up 169% from 62 million a year earlier. Profit growth was due to a full-year contribution from the Group s water systems business, acquired in the fourth quarter of fiscal

2004 as well as Group-wide earnings improvements especially in the Airport Logistics and Postal Automation divisions, which posted losses, including charges related to excess capacity and project cost overruns in fiscal 2004. Sales climbed 22% for the year, to 6.307 billion, including the water systems business and revenues from I&S portion of the VA Tech acquisition. These acquisitions also contributed strongly to the year s 30% growth in orders, which reached 7.189 billion. Order growth too benefited from a major order in the Postal Automation division. On a regional basis, I&S offset weak revenues in Germany with faster growth internationally, particularly in Asia-Pacific, where rapidly industrializing economies require infrastructure engineering

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expertise. Demand continued to rise for systems and services that address the purification, distribution and efficient use of water for both civic and industrial applications.

Siemens Building Technologies (SBT)

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

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

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

Power

Power Generation (PG)

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

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

Fiscal 2005 orders climbed 19% at PG, to 10.964 billion for the year, fueled by PG s integration of Bonus, a wind power business acquired in the first quarter, and large fossil power plant contracts in the Middle East, Europe, Germany and the Commonwealth of Independent States (C.I.S.). The Group s 7% increase in sales, to 8.061 billion, also benefited from the Bonus acquisition. The wind power sector is growing at double-digit rates, primarily from demand in developed nations. Sales growth was complemented by the industrial applications business. PG delivered 951 million in Group profit in fiscal 2005, close to the level a year earlier. Cancellation gains were 58 million compared to 47 million a year earlier. In fiscal 2005 Group profit contributions from joint ventures were higher than in the prior year, including continued earnings from PG s joint venture Framatome in Europe which has been renamed to Areva NP in fiscal 2006 and first-time contributions from PG s joint ventures in China. The Group s earnings margin was negatively impacted by ongoing changes in sales mix, including faster growth in PG s industrial business relative to its fossil power generation business.

Power Transmission and Distribution (PTD)

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

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

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

Transportation

Transportation Systems (TS)

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

* Excluding currency translation effects.

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

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Siemens VDO Automotive (SV)

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

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

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

Medical

Medical Solutions (Med)

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

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

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

Lighting

Osram

	Year ended September 30,		% Change

	2005	2004	Actual	Adjusted*
	(in millions)			
Group profit	465	445	4%	
Group profit margin	10.8%	10.5%		
Sales	4,300	4,240	1%	3%
New orders	4,300	4,240	1%	3%

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

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

Other Operations

Other Operations consist of centrally held operating businesses not related to a Group. These businesses include equity investments, joint ventures, and retroactively the Dematic business, carved out of the former L&A Group, as well as the SHC business, carved out of Com. In fiscal 2005, the Dematic business contributed approximately 1 billion in sales, an 11% decrease compared to the prior year. Group profit from Other Operations was 76 million compared to 315 million in the prior year, which included a negative 43 million from the Dematic businesses. In the current period, these activities impacted results through asset impairments of 98 million, project charges and higher operating losses. In addition, earnings from SHC and joint ventures were also lower year-over-year.

Corporate items, pensions and eliminations

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

Financing and Real Estate

Siemens Financial Services (SFS)

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

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

Siemens Real Estate (SRE)

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

Income before income taxes	144	106	36%
Sales	1,621	1,578	3%
Total assets	3,496	3,455	1%

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

Eliminations, reclassifications and Corporate Treasury

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

Liquidity and Capital Resources

Cash Flow Fiscal 2006 Compared to Fiscal 2005

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,					
	2006	2005	2006	2005	2006	2005
	(in millions)					
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 2006	Operations 2005	SFS, SRE and Corporate Treasury* 2006	SFS, SRE and Corporate Treasury* 2005	Siemens 2006	Siemens 2005
	Year ended September 30, (in millions)					
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

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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.

Cash Flow Fiscal 2005 Compared to Fiscal 2004

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

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

On a continuing basis, net cash used in operating and investing activities was 1.489 billion in fiscal 2005 compared to net cash provided of 3.015 billion in fiscal 2004. Discontinued operations used net cash in operating and investing activities of 1.214 billion, compared to net cash provided of 247 million in fiscal 2004. The change of 1.461 billion year-over-year is due primarily to higher net working capital and higher operating losses in fiscal 2005. In total, including continuing and discontinued operations, net cash used in operating and investing activities was 2.703 billion, compared to net cash provided of 3.262 billion in fiscal 2004.

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

* Also includes eliminations and reclassifications.

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

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

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

Capital Resources and Capital Requirements

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

Ratings

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

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

Following Siemens announcement of the planned acquisition of the Diagnostics division of Bayer AG, on June 30, 2006, Moody s Investors Service changed its outlook for Siemens from stable to negative. On December 11, 2006, Standard & Poor s changed its outlook from CreditWatch negative to negative. 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.

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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 (negative outlook). Within Standard & Poor s long-term issue and issuer credit ratings, an obligation rated AA has the second highest rating category assigned. The modifier indicates that our long-term debt ranks in the lower end of the AA category. The Standard & Poor s rating outlook is an opinion regarding the likely direction of an issuer s rating over the 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.

Please be advised that security ratings are not a recommendation to buy, sell or hold securities. Credit ratings may be subject to revision or withdrawal by the rating agencies at any time. You should evaluate each rating independently of any other rating.

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				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	(in millions)				
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.

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

	Short-Term	Long-Term	Total
		(in millions)	
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	
	SFS	SRE	SFS	SRE
		(in millions)		
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 501 million 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,	
	2006	**2005**
	(in millions)	
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.

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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,	
	2006	**2005**
	(in millions)	
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 Other 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,	
	2006	**2005**
	(in millions)	
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

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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,	
	2006	2005
	(in millions)	
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.

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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 of the Notes to Consolidated Financial Statements 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.

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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. For more information on the possible risks related to those possible violations of law, see Item 3: Key Information Risk Factors.

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.

Recent Accounting Pronouncements

In June 2005, the Financial Accounting Standards Board (FASB) ratified Emerging Issues Task Force (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 million. See Notes to Consolidated Financial Statements for further information.

Outlook

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.

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ITEM 6: DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Management

In accordance with the German Stock Corporation Act (*Aktiengesetz*), we have a Supervisory Board and a Managing Board. The two boards are separate and no individual may simultaneously be a member of both boards. The Managing Board is responsible for managing our business in accordance with applicable laws, our Articles of Association and the Bylaws of the Managing Board. It represents us in our dealings with third parties. The Supervisory Board appoints and removes the members of the Managing Board. The Supervisory Board oversees our management but is not permitted to make management decisions.

In carrying out their duties, each member of the Managing Board and Supervisory Board must exercise the standard of care of a prudent and diligent businessman, and is liable to Siemens for damages if they fail to do so. Both boards are required to take into account a broad range of considerations in their decisions, including the interests of Siemens and those of its shareholders, employees and creditors. The Managing Board is required to respect the rights of shareholders to be treated on an equal basis and to receive equal information. The Managing Board is also required to ensure appropriate risk management within Siemens and to establish an internal control system.

The Supervisory Board has comprehensive monitoring functions. To ensure that these functions are carried out properly, the Managing Board must, among other things, regularly report to the Supervisory Board with regard to current business operations and future business planning. The Supervisory Board is also entitled to request special reports at any time.

As a general rule under German law, a shareholder has no direct recourse against either the members of the Managing Board or the Supervisory Board in the event that they are believed to have breached a duty to Siemens. Apart from insolvency or other special circumstances, only Siemens may assert a claim for damages against members of either board. Moreover, we may only waive these damages or settle these claims if at least three years have passed and if the shareholders approve the waiver or settlement at the shareholders meeting with a simple majority of the votes cast, provided that opposing shareholders do not hold, in the aggregate, one-tenth or more of our share capital and do not have their opposition formally noted in the minutes maintained by a German notary.

Supervisory Board

As required by our Articles of Association and German law, our present Supervisory Board consists of 20 members. Ten were elected by our shareholders and ten were elected by our employees. The shareholders may remove any member of the Supervisory Board they have elected in a general meeting by a simple majority of the votes cast by the shareholders in a general meeting. The employee representatives may be removed by the employee assembly which elected them with a majority of three-quarters of the votes cast.

The Supervisory Board elects a chairman and two deputy chairmen from among its members. The election of the chairman and the first deputy chairman requires a two-thirds majority vote. If either the chairman or the first deputy chairman is not elected by a vote of two-thirds of the members of the Supervisory Board, the shareholder representatives elect the chairman and the employee representatives elect the first deputy chairman by a simple majority of the votes cast. The board elects a second deputy chairman by simple majority vote. The Supervisory Board normally acts by simple majority vote, unless otherwise required by law, with the chairman having a deciding vote in the event of a second deadlock.

The Supervisory Board meets at least twice during each half year, normally five times each year. Its main functions are:

- to monitor the management of the Company;

- to appoint and dismiss members of our Managing Board;

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to represent the Company in its dealings with the Managing Board or when its interests are adverse to those of the Managing Board, for example, when the Company enters into an employment agreement with a Managing Board member, the Supervisory Board determines the salary and other compensation components, including pension benefits; and

to approve matters in any areas that the Supervisory Board has made subject to its approval, either generally or in a specific case.

The members of the Supervisory Board are each elected for a maximum term of about five years. The term expires at the end of the Annual Shareholders Meeting in which the shareholders discharge the Supervisory Board member for the fourth fiscal year following the fiscal year in which he or she was elected. Our Articles of Association establish the compensation of the Supervisory Board members. For further details, see Compensation.

The following table sets forth the names of the current members of our Supervisory Board, their dates of birth, the expiration of their respective terms, their board positions and principal occupations, and their principal outside directorships at September 30, 2006:

Name	Date of birth	Term expires	Board position and principal occupation	Companies at which Supervisory Board and similar positions were held
Prof. Dr. Heinrich v. Pierer	1/26/1941	1/24/2008	Chairman of the Supervisory Board	Deutsche Bank AG; Hochtief AG; Münchener Rückversicherungs- Gesellschaft AG; ThyssenKrupp AG; Volkswagen AG
Ralf Heckmann(1)	7/19/1949	1/24/2008	First Deputy Chairman; Chairman of the Central Works Council, Siemens AG	
Dr. Josef Ackermann	2/07/1948	1/24/2008	Second Deputy Chairman; Chairman of the Management Board, Deutsche Bank AG	Bayer AG
Lothar Adler(1)	2/22/1949	1/24/2008	Member; Deputy Chairman of the Central Works Council, Siemens AG	
Gerhard Bieletzki(1)	5/16/1947	1/24/2008	Member; Chairman of the Works Council, Siemens AG, Dortmund facility	
John David Coombe	3/17/1945	1/24/2008	Member; Chartered Accountant (FCA)	GUS plc; Hogg Robinson Group plc; HSBC Holdings plc
Hildegard Cornudet(1)	4/16/1949	1/24/2008	Member; Chairperson of the Central Works Council, Siemens Business Services GmbH & Co. OHG	
Dr. Gerhard Cromme	2/25/1943	1/24/2008		

			Member; Chairman of the Supervisory Board, ThyssenKrupp AG	Allianz AG (since October 13, 2006 Allianz SE); Axel Springer AG; Deutsche Lufthansa AG; E.ON AG; ThyssenKrupp AG; BNP Paribas S.A.; Compagnie de Saint-Gobain S.A.; SUEZ S.A.
Birgit Grube[1]	8/21/1945	1/24/2008	Member; Office clerk	

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Name	Date of birth	Term expires	Board position and principal occupation	Companies at which Supervisory Board and similar positions were held
Heinz Hawreliuk[(1)]	3/20/1947	1/24/2008	Member, Labor Union Secretary, IG Metall	DaimlerChrysler Aerospace AG; DaimlerChrysler Luft- und Raumfahrt Holding AG; Eurocopter Deutschland GmbH
Berthold Huber[(1)]	2/15/1950	1/24/2008	Member; Deputy Chairman, IG Metall	Audi AG
Prof. Dr. Walter Kröll	5/30/1938	1/24/2008	Member; Consultant	MTU Aero Engines GmbH; Wincor Nixdorf AG
Wolfgang Müller[(1)]	1/14/1948	1/24/2008	Member; Labor Union Secretary, IG Metall	
Georg Nassauer[(1)]	3/08/1948	1/24/2008	Member; Steel casting constructor	
Thomas Rackow[(1)(2)]	2/06/1952	1/24/2008	Member; Industrial manager	
Dr. Albrecht Schmidt	3/13/1938	1/24/2008	Member; Bank Director (ret.)	Münchener Rückversicherungs-Gesellschaft AG; Thyssen sche Handelsgesellschaft m.b.H.
Dr. Henning Schulte-Noelle	8/26/1942	1/24/2008	Member; Chairman of the Supervisory Board, Allianz AG (since October 13, 2006 Allianz SE)	Allianz AG (since October 13, 2006 Allianz SE); E.ON AG; ThyssenKrupp AG
Peter von Siemens	8/10/1937	1/24/2008	Member; Industrial manager	
Jerry I. Speyer	6/23/1940	1/24/2008	Member; President, Tishman Speyer	
Lord Iain Vallance of Tummel	5/20/1943	1/24/2008	Member; Chairman, Nations Healthcare Ltd.	

(1) Elected by employees.

(2) Klaus Wigand ceased to be a member of the Supervisory Board effective January 26, 2006. The substitute member of the Supervisory Board, Thomas Rackow, succeeded Klaus Wigand as a member of the Supervisory Board.

There are four Supervisory Board committees: the Chairman s Committee, the Audit Committee, the Ownership Rights Committee and the Mediation Committee. Set forth in the table below are the current members of each committee. For a comprehensive discussion of the functions of our committees, please refer to Item 10: Additional Information Corporate Governance.

Name of committee	Current members
Chairman s Committee	Chairman Prof. Dr. Heinrich v. Pierer, First Deputy Chairman Ralf Heckmann,* Second Deputy Chairman Dr. Josef Ackermann
Audit Committee	Chairman Dr. Gerhard Cromme, Prof. Dr. Heinrich v. Pierer, Ralf Heckmann,* Heinz Hawreliuk,* Dr. Henning Schulte-Noelle
Ownership Rights Committee	Chairman Prof. Dr. Heinrich v. Pierer, Dr. Josef Ackermann, Dr. Albrecht Schmidt
Mediation Committee	Chairman Prof. Dr. Heinrich v. Pierer, Ralf Heckmann,* Dr. Josef Ackermann, Heinz Hawreliuk*

* Elected by employees.

The business address of the members of our Supervisory Board is the same as our business address, Wittelsbacherplatz 2, D-80333 Munich, Germany, care of Prof. Dr. Heinrich v. Pierer.

Managing Board

Our Managing Board currently consists of 10 members. Under our Articles of Association, our Supervisory Board determines the Managing Board s size, although it must have more than one member. Under German law, the Managing Board is responsible for all management matters, including the following which are specifically reserved to the Managing Board:

- preparation of the annual financial statements;
- the calling of the Annual Shareholders Meeting and preparation and execution of the resolutions; and
- reports to the Supervisory Board and the Annual Shareholders Meeting concerning certain matters.

The Managing Board, with the approval of the Supervisory Board, has adopted Bylaws for the conduct of its affairs. Pursuant to the current Bylaws of the Managing Board, a Corporate Executive Committee has been created. This Corporate Executive Committee consists exclusively of members of the Managing Board and is authorized to make all management decisions, in particular strategic decisions that are not specifically reserved to the full Managing Board by law, our Articles of Association or the Bylaws of the Managing Board. The Bylaws of the Managing Board state that the maximum number of Corporate Executive Committee members should not exceed nine. The Bylaws require that the Chief Executive Officer (CEO) and his deputies, if any, the Chief Financial Officer (CFO) and the member of the Managing Board who heads Corporate Human Resources (Corporate Personnel Department) all be members of the Corporate Executive Committee. Appointments of the remaining unspecified members of the Corporate Executive Committee require the approval of the Supervisory Board. Our current Corporate Executive Committee consists of President and CEO Klaus Kleinfeld; Executive Vice-President and CFO Joe Kaeser; as well as Executive Vice-Presidents Johannes Feldmayer, Rudi Lamprecht, Jürgen Radomski, Hermann Requardt, Uriel J. Sharef and Klaus Wucherer.

Other committees of our Managing Board are authorized to make certain decisions without seeking the approval of the full Managing Board. These committees included an Equity Committee, responsible for certain capital measures and a Committee Responsible for the Issuance of Employee Stock, including the determination of the terms of such issuances. With a resolution dated July 25, 2006, the Equity Committee and the Committee Responsible for the Issuance of Employee Stock have been consolidated to form the Equity and Employee Stock Committee, which has assumed all responsibilities of the two newly merged committees. The members of this committee are President and CEO Klaus Kleinfeld; Executive Vice-President and CFO Joe Kaeser and Executive Vice-President Jürgen Radomski, who were also the members of the two newly merged committees.

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The Supervisory Board appoints the members of the Managing Board for a maximum term of five years. They may be re-appointed or have their term extended for one or more terms of up to a maximum of five years each. The Supervisory Board may remove a member of the Managing Board prior to the expiration of his or her term for good cause. According to the Managing Board s Bylaws, the age of a member of the Managing Board shall not exceed 65.

The Bylaws require the Managing Board to take action by a two-thirds majority vote unless applicable law requires a larger majority. In practice, the Managing Board reaches its decisions by consensus.

The following table sets forth the names of the members of our Managing Board, their dates of birth, the expiration of their respective terms, their current positions and their principal outside directorships at September 30, 2006:

Name	Date of birth	Term expires	Current position	Companies at which Supervisory Board and similar positions were held
Dr. Klaus Kleinfeld	11/06/1957	9/30/2007	President and CEO	Bayer AG; Alcoa Inc.; Citigroup Inc.
Prof. Johannes Feldmayer	10/16/1956	9/30/2007	Executive Vice-President	ExxonMobil Central Europe Holding GmbH; Infineon Technologies AG
Dr. Thomas Ganswindt(1)	11/18/1960	9/30/2007	Executive Vice-President	
Joe Kaeser(2)	6/23/1957	3/31/2011	Executive Vice-President and CFO	Bayerische Börse AG
Prof. Dr. Edward G. Krubasik	1/19/1944	9/30/2006	Executive Vice-President	Dresdner Bank AG
Rudi Lamprecht	10/12/1948	3/31/2009	Executive Vice-President	
Eduardo Montes(3)	10/02/1951	3/31/2011	Senior Vice-President	
Dr. Jürgen Radomski	10/26/1941	12/31/2007	Executive Vice-President	ALBA AG; Deutsche Krankenversicherung AG; Dräger Medical AG
Prof. Dr. Erich R. Reinhardt	10/03/1946	3/31/2011	Senior Vice-President	Bio^{M} AG; Dräger Medical AG
Prof. Dr. Hermann Requardt (3)	2/11/1955	3/31/2011	Senior Vice-President (4)	
Dr. Uriel J. Sharef	8/19/1944	3/31/2008	Executive Vice-President	
Prof. Dr. Claus Weyrich	1/06 /1944	9/30/2006	Senior Vice-President	HERAEUS Holding GmbH
Prof. Dr. Klaus Wucherer	7/09/1944	3/31/2008	Executive Vice-President	Deutsche Messe AG; Infineon Technologies AG

(1) Dr. Thomas Ganswindt resigned from the Managing Board effective October 1, 2006.

(2) Heinz-Joachim Neubürger ceased to be a member of the Managing Board and the Corporate Executive Committee effective May 1, 2006. Joe Kaeser succeded Heinz-Joachim Neubürger as CFO and member of the Corporate Executive Committee.

(3) Eduardo Montes and Prof. Dr. Hermann Requardt have been appointed members of the Managing Board effective May 1, 2006.

(4) The Supervisory Board appointed Prof. Dr. Hermann Requardt Executive Vice-President and member of the Corporate Executive Committee effective October 1, 2006.

The business address of the members of our Managing Board is the same as our business address, Wittelsbacherplatz 2, D-80333 Munich, Germany.

Compensation

This section 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, this section describes the policies and levels of compensation paid to Supervisory Board members.

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This section 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 section is not additionally presented in Item 18: Financial Statements or in Item 5: Operating and Financial Review and Prospects.

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 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 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 Economic Value Added (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 Item 5: Operating and Financial Review and Prospects Fiscal 2006 Compared to Fiscal 2005 Economic Value Added). 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.

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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 Stock-Based Compensation) 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.

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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:

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

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The following table describes the details of cash compensation:

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

(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.

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Accordingly, stock-based compensation was as follows:

		Stock awards from Stock-based)	Other stock compensation(2)	Stock options[3]	Fair value of stock-based compensation: Stock awards from LT bonus[2]	Other stock awards[2]	Stock options[3]	Total
		(Number of units)[1]			(Expressed in)[1]			
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]	2006							
	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
	2006		2,955			200,054		200,054

Prof. Dr. Hermann Requardt(7)(8)								
	2005							
Prof. Dr. Claus Weyrich(8)	2006							
	2005		1,388	17,365		79,505	70,502	150,007
	2006		**37,302**			**2,525,346**		**2,525,346**
Total	**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 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 granted for fiscal 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 Notes to Consolidated Financial Statements). 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 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.

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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 of the Notes to 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 of the Notes to Consolidated Financial Statements.

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

Supervisory Board Remuneration

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

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

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

As a result, the remuneration of Supervisory Board members for fiscal year 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.

	2006				2005			
	Fixed compensation	Short-term variable compensation	Long-term variable compensation	Total	Fixed compensation	Short-term variable compensation	Long-term variable compensation	Total