SIEMENS AKTIENGESELLSCHAFT
Form 6-K
December 20, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 6-K
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934
December 20, 2006
Commission File Number: 1-15174
Siemens Aktiengesellschaft
(Translation of registrant s name into English)
Wittelsbacherplatz 2
D-80333 Munich
Federal Republic of Germany
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F þ Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes o No þ

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes o No þ

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No þ

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

Key figures

in millions of euros	**2006[1]**	2005[1]
New orders [2]	**84,702**	72,786
Revenue [2]	**76,253**	65,137
Income from continuing operations	**3,107**	3,322
Income (loss) from discontinued operations, net of income taxes	**228**	(662)
Net income	**3,335**	2,660
attributable to		
Minority interest	***210***	*160*
Shareholders of Siemens AG	***3,125***	*2,500*
Net cash from operating and investing activities [2]	**973**	(1,689)
therein: Net cash provided by operating activities	***5,652***	*3,960*
Net cash used in investing activities	***(4,679)***	*(5,649)*
Equity (September 30)	**26,275**	24,181
attributable to		
Minority interest	***702***	*661*
Shareholders of Siemens AG	***25,573***	*23,520*
Employees [2] *(September 30, in thousands)*	**421**	388

[1] Fiscal year from October 1 to September 30

[2] Continuing operations (excluding the discontinued carrier networks, enterprise networks and mobile

devices
activities)

Introduction

According to the Regulation of the European Parliament and Council on the application of International Financial Reporting Standards (IFRS), publicly traded European Union (EU) companies are required to prepare their Consolidated Financial Statements in accordance with IFRS for fiscal years commencing on or after January 1, 2005. However, Member States may defer mandatory application of IFRS until 2007 for companies that either list debt securities only or which apply internationally accepted standards other than IFRS due to a listing outside the EU. The latter particularly applies to companies listed on the New York Stock Exchange (such as Siemens), which prepare their Consolidated Financial Statements under United States Generally Accepted Accounting Principles (U.S. GAAP). In Germany, the *Bilanzrechtsreformgesetz* (BilReG), issued in October 2004, implemented the option to defer mandatory IFRS application.

Accordingly, Siemens primary financial reporting for fiscal year 2006 remains based on U.S. GAAP, including the Consolidated Financial Statements prepared under U.S. GAAP to meet the legal requirements of the German Commercial Code (HGB) and the reporting requirements of the U.S. Securities and Exchange Commission (SEC) on Form 20-F. In addition, Siemens has prepared its first IFRS Consolidated Financial Statements as of and for the two years ended September 30, 2006. Our annual report on Form 20-F contains information that is not included in this report. In accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*, September 30, 2006 represents the first IFRS reporting date. Therefore, Siemens opening IFRS balance sheet is as of October 1, 2004. The first IFRS Consolidated Financial Statements are presented as supplemental information. They serve as a basis for Siemens primary IFRS reporting beginning with the first quarter of fiscal 2007.

The IFRS Consolidated Financial Statements have been prepared in accordance with IFRS and its interpretations issued by the International Accounting Standards Board (IASB), as adopted by the EU. Siemens has applied all standards and interpretations that were effective as of September 30, 2006. In addition, the Company early adopted certain other standards, amendments to standards and interpretations.

Statement of the Managing Board

The Managing Board of Siemens AG is responsible for preparing the following supplemental Consolidated Financial Statements in accordance with IFRS.

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft has audited the Consolidated Financial Statements prepared in accordance with IFRS, and issued an unqualified opinion.

Dr. Klaus Kleinfeld	Joe Kaeser
President and	Executive Vice President and
Chief Executive Officer	Chief Financial Officer
of Siemens AG	of Siemens AG

Independent Auditors Report

The Supervisory Board of Siemens AG:

We have audited the accompanying consolidated balance sheets of Siemens AG and subsidiaries as of September 30, 2006 and 2005 and the related consolidated statements of income, income and expense recognized in equity and cash flows for the years then ended. These consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of Siemens AG and subsidiaries as of September 30, 2006 and 2005 and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Our audits of Siemens AG s consolidated financial statements were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating information appearing on pages 7, 9 and 11 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the balance sheet, and the statements of income and cash flows of Operations, Financing and Real Estate, and Corporate Treasury. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Munich, Germany
December 18, 2006

SIEMENS
CONSOLIDATED STATEMENTS OF INCOME
For the fiscal years ended September 30, 2006 and 2005
(in millions of , per share amounts in)

	Note	Siemens 2006	2005
Revenue		76,253	65,137
Cost of goods sold and services rendered		(57,291)	(47,866)
Gross profit		18,962	17,271
Research and development expenses		(3,413)	(3,019)
Marketing, selling and general administrative expenses		(12,668)	(11,027)
Other operating income	5	647	565
Other operating expense	6	(265)	(426)
Income from investments accounted for using the equity method, net	7	522	536
Financial income, net	8	225	322
Income (loss) from continuing operations before income taxes		4,010	4,222
Income taxes[1]	9	(903)	(900)
Income (loss) from continuing operations		3,107	3,322
Income (loss) from discontinued operations, net of income taxes		228	(662)
Net income (loss)		3,335	2,660
Attributable to:			
Minority interest		210	160
Shareholders of Siemens AG		3,125	2,500
Basic earnings per share	33		
Income from continuing operations		3.27	3.50
Income (loss) from discontinued operations		0.24	(0.69)
Net income		3.51	2.81
Diluted earnings per share	33		
Income from continuing operations		3.26	3.37
Income (loss) from discontinued operations		0.23	(0.66)
Net income		3.49	2.71

CONSOLIDATED STATEMENTS OF INCOME AND EXPENSE RECOGNIZED IN EQUITY
For the fiscal years ended September 30, 2006 and 2005
(in millions of)

	Siemens 2006	2005
Net income	3,335	2,660

Currency translation differences	(349)	460
Available-for-sale financial assets	(354)	39
Derivative financial instruments	58	(144)
Actuarial gains and losses on pension plans and similar commitments	245	(995)
Revaluation effect related to step acquisitions	4	25
Total income and expense recognized directly in equity, net of tax [2] [3]	(396)	(615)
Total income and expense recognized in equity	2,939	2,045
Attributable to:		
Minority interest	181	184
Shareholders of Siemens AG	2,758	1,861

(1) The income taxes of **Eliminations, reclassifications and Corporate Treasury, Operations**, and **Financing and Real Estate** are based on the consolidated effective corporate tax rate applied to income before income taxes.

(2) Includes (50) and 9 in 2006 and 2005, respectively, resulting from investments accounted for using the equity method.

(3) Includes minority interest of (29) and 24 in 2006 and 2005, respectively, relating to currency translation differences.

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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Eliminations, reclassifications and Corporate Treasury		**Operations**		**Financing and Real Estate**	
2006	**2005**	**2006**	**2005**	**2006**	**2005**
(1,489)	(1,312)	75,402	64,296	2,340	2,153
1,489	1,312	(56,768)	(47,383)	(2,012)	(1,795)
		18,634	16,913	328	358
		(3,413)	(3,019)		
(6)	1	(12,316)	(10,740)	(346)	(288)
(77)	(86)	474	419	250	232
	(1)	(221)	(393)	(44)	(32)
		469	490	53	46
65	454	(20)	(266)	180	134
(18)	368	3,607	3,404	421	450
4	(78)	(812)	(726)	(95)	(96)
(14)	290	2,795	2,678	326	354
		237	(666)	(9)	4
(14)	290	3,032	2,012	317	358

SIEMENS
CONSOLIDATED BALANCE SHEETS
As of September 30, 2006 and 2005
(in millions of)

		Siemens	
	Note	**9/30/06**	**9/30/05**
ASSETS			
Current assets			
Cash and cash equivalents		10,214	8,121
Available-for-sale financial assets	**10**	596	2,233
Trade and other receivables	**11**	15,148	17,129
Other current financial assets	**12**	2,370	3,058
Intragroup receivables			
Inventories	**13**	12,790	12,812
Income tax receivables		458	432
Other current assets	**14**	1,274	1,472
Assets classified as held for disposal		7,164	245
Total current assets		50,014	45,502
Goodwill	**15**	9,689	8,821
Other intangible assets	**16**	3,385	3,317
Property, plant and equipment	**17**	12,072	12,012
Investments accounted for using the equity method		2,956	2,812
Other financial assets	**18**	5,042	5,227
Intragroup receivables			
Deferred tax assets	**9**	3,860	3,493
Other assets		713	628
Total assets		87,731	81,812
LIABILITIES AND EQUITY			
Current liabilities			
Short-term debt and current maturities of long-term debt	**21**	2,175	3,995
Trade payables		8,443	10,168
Other current financial liabilities	**19**	1,035	1,829
Intragroup liabilities			
Current provisions	**23**	3,859	4,076
Income tax payables		1,487	1,499
Other current liabilities	**20**	16,485	16,439
Liabilities associated with assets classified as held for disposal		5,385	289
Total current liabilities		38,869	38,295
Long-term debt	**21**	13,122	8,040
Pension plans and similar commitments	**22**	5,083	5,460
Deferred tax liabilities	**9**	102	213
Provisions	**23**	1,858	2,095

Other financial liabilities		248	463
Other liabilities	**24**	2,174	3,065
Intragroup liabilities			
Total liabilities		61,456	57,631
Equity	**25**		
Common stock, no par value[1]		2,673	2,673
Additional paid-in capital		5,662	5,167
Retained earnings		17,082	14,909
Other components of equity		156	772
Treasury shares, at cost[2]			(1)
Total equity attributable to shareholders of Siemens AG		25,573	23,520
Minority interest		702	661
Total equity		26,275	24,181
Total liabilities and equity		87,731	81,812

(1) Authorized: 1,116,087,241 and 1,113,295,461 shares, respectively. Issued: 891,087,241 and 891,085,461 shares, respectively.

(2) 415 and 9,004 shares, respectively.

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Eliminations, reclassifications and Corporate Treasury		**Operations**		**Financing and Real Estate**	
9/30/06	**9/30/05**	**9/30/06**	**9/30/05**	**9/30/06**	**9/30/05**
9,072	6,603	1,109	1,471	33	47
416		160	2,216	20	17
	(5)	10,885	12,764	4,263	4,370
145	645	1,314	1,542	911	871
(15,736)	(15,494)	15,680	15,363	56	131
(2)	(4)	12,735	12,744	57	72
2	1	445	420	11	11
48	56	1,122	1,320	104	96
(21)		7,180	245	5	
(6,076)	(8,198)	50,630	48,085	5,460	5,615
		9,557	8,690	132	131
		3,368	3,302	17	15
		8,310	8,217	3,762	3,795
		2,738	2,625	218	187
215	24	1,232	1,769	3,595	3,434
(348)	(365)	348	358		7
222	97	3,532	3,281	106	115
194	73	507	541	12	14
(5,793)	(8,369)	80,222	76,868	13,302	13,313
1,433	3,045	530	564	212	386
28	(2)	8,140	9,961	275	209
508	1,038	483	748	44	43
(16,406)	(16,302)	9,886	9,318	6,520	6,984
	2	3,770	4,024	89	50
2	24	1,468	1,454	17	21
227	146	15,974	16,003	284	290
(16)		5,401	289		
(14,224)	(12,049)	45,652	42,361	7,441	7,983
11,946	6,535	744	984	432	521
		5,081	5,460	2	
(397)	(406)	95	202	404	417

	1	1,761	2,015	97	79
19	23	177	289	52	151
41	61	2,054	2,928	79	76
(3,178)	(2,534)	434	351	2,744	2,183
(5,793)	(8,369)	55,998	54,590	11,251	11,410
		24,224	22,278	2,051	1,903
(5,793)	(8,369)	80,222	76,868	13,302	13,313

SIEMENS
CONSOLIDATED STATEMENTS OF CASH FLOW
For the fiscal years ended September 30, 2006 and 2005
(in millions of)

	Siemens	
	2006	**2005**
Cash flows from operating activities		
Net income (loss)	3,335	2,660
Adjustments to reconcile net income to cash provided		
Amortization, depreciation and impairments	3,118	3,530
Income taxes	809	643
Interest (income) expense, net	(142)	(224)
(Gains) losses on sales and disposals of businesses and real estate, net	(113)	(200)
(Gains) on sales of investments, net[1]	(104)	(49)
(Gains) on sales and impairments of current available-for-sale financial assets, net	(466)	(239)
(Income) from investments[1]	(569)	(635)
Other non-cash (income) expenses	372	(39)
Change in current assets and liabilities		
(Increase) decrease in inventories	(2,313)	(717)
(Increase) decrease in trade and other receivables	(1,027)	24
(Increase) decrease in other current assets	572	301
Increase (decrease) in trade payables	255	97
Increase (decrease) in current provisions	(34)	(369)
Increase (decrease) in other current liabilities	2,053	142
Supplemental contributions to pension trusts		(1,496)
Change in other assets and liabilities	41	279
Income taxes paid	(1,191)	(1,093)
Dividends received	378	343
Interest received	685	684
Net cash provided by (used in) operating activities continuing and discontinued operations	5,659	3,642
Net cash provided by (used in) operating activities continuing operations	**5,652**	**3,960**
Cash flows from investing activities		
Additions to intangible assets and property, plant and equipment	(4,052)	(3,624)
Acquisitions, net of cash acquired	(2,055)	(2,450)
Purchases of investments[1]	(389)	(652)
Purchases of current available-for-sale financial assets	(1,489)	(34)
(Increase) decrease in receivables from financing activities	(469)	(511)
Proceeds from sales of investments, intangibles and property, plant and equipment[1]	914	977
Proceeds from disposals of businesses	(260)	34
Proceeds from sales of current available-for-sale financial assets	3,104	356
Net cash provided by (used in) investing activities continuing and discontinued operations	(4,696)	(5,904)
Net cash provided by (used in) investing activities continuing operations	**(4,679)**	**(5,649)**
Cash flows from financing activities		
Purchase of common stock	(421)	(219)
Proceeds from re-issuance of treasury stock	313	173
Proceeds from issuance of debt	6,701	

Repayment of debt	(1,710)	(848)
Change in short-term debt	(1,762)	711
Interest paid	(596)	(441)
Dividends paid	(1,201)	(1,112)
Dividends paid to minority shareholders	(118)	(108)
Intragroup financing		
Net cash provided by (used in) financing activities	1,206	(1,844)
Effect of exchange rates on cash and cash equivalents	(76)	37
Net increase (decrease) in cash and cash equivalents	2,093	(4,069)
Cash and cash equivalents at beginning of period	8,121	12,190
Cash and cash equivalents at end of period	10,214	8,121

(1) Investments include equity instruments either classified as non-current available-for-sale financial assets or accounted for using the equity method.

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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Eliminations, reclassifications and Corporate Treasury		**Operations**		**Financing and Real Estate**	
2006	**2005**	**2006**	**2005**	**2006**	**2005**
(14)	290	3,032	2,012	317	358
		2,676	3,105	442	425
(3)	78	723	469	89	96
(409)	(308)	404	222	(137)	(138)
		19	(87)	(132)	(113)
		(91)	(49)	(13)	
		(466)	(239)		
		(463)	(531)	(106)	(104)
276	(149)	110	97	(14)	13
(2)		(2,321)	(709)	10	(8)
40	120	(1,115)	(118)	48	22
306	55	79	121	187	125
15	(1)	180	110	60	(12)
(2)	(17)	(60)	(321)	28	(31)
321	(200)	1,734	351	(2)	(9)
			(1,496)		
(53)	(59)	119	329	(25)	9
(94)	(75)	(957)	(901)	(140)	(117)
		299	253	79	90
180	215	159	143	346	326
561	(51)	4,061	2,761	1,037	932
583	**(39)**	**4,032**	**3,072**	**1,037**	**927**
		(3,284)	(2,951)	(768)	(673)
		(2,052)	(2,369)	(3)	(81)
		(369)	(631)	(20)	(21)
(1,409)	(12)	(72)	(8)	(8)	(14)
(70)	(53)			(399)	(458)
		549	641	365	336
		(260)	12		22
986	20	2,112	321	6	15
(493)	(45)	(3,376)	(4,985)	(827)	(874)
(493)	**(45)**	**(3,359)**	**(4,730)**	**(827)**	**(874)**
		(421)	(219)		
		313	173		

6,701					
(1,600)	(596)	(49)	(231)	(61)	(21)
(1,244)	1,065	(419)	(270)	(99)	(84)
(388)	(302)	(141)	(76)	(67)	(63)
		(1,201)	(1,112)		
		(118)	(108)		
(1,046)	(4,722)	1,042	4,597	4	125
2,423	(4,555)	(994)	2,754	(223)	(43)
(22)	3	(53)	33	(1)	1
2,469	(4,648)	(362)	563	(14)	16
6,603	11,251	1,471	908	47	31
9,072	6,603	1,109	1,471	33	47

SIEMENS NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED CHANGES IN EQUITY
For the fiscal years ended September 30, 2006 and 2005
(in millions of)

	Common stock	Additional paid-in capital	Retained earnings
Balance at October 1, 2004	2,673	5,121	14,491
Income and expense recognized in equity			1,530
Dividends			(1,112)
Issuance of common stock and share-based payment		60	
Purchase of common stock			
Re-issuance of treasury stock		(14)	
Other changes in equity			
Balance at September 30, 2005	**2,673**	**5,167**	**14,909**
Income and expense recognized in equity			3,374
Dividends			(1,201)
Issuance of common stock and share-based payment		44	
Purchase of common stock			
Re-issuance of treasury stock		(36)	
Other changes in equity		487	
Balance at September 30, 2006	**2,673**	**5,662**	**17,082**

Other components of equity							
Currency translation differences	**Available-for-sale financial assets**	**Derivative financial instruments**	**Total**	**Treasury shares at cost**	**Total equity attributable to shareholders of Siemens AG**	**Minority interest**	**Total equity**
(25)	411	55	441		22,726	530	23,256
436	39	(144)	331		1,861	184	2,045
					(1,112)	(108)	(1,220)
					60		60
				(219)	(219)		(219)
				218	204		204
						55	55
411	**450**	**(89)**	**772**	**(1)**	**23,520**	**661**	**24,181**
(320)	(354)	58	(616)		2,758	181	2,939
					(1,201)	(144)	(1,345)
					44		44
				(421)	(421)		(421)
				422	386		386
					487	4	491
91	**96**	**(31)**	**156**		**25,573**	**702**	**26,275**

SIEMENS NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEGMENT INFORMATION (continuing operations)
As of and for the fiscal years ended September 30, 2006 and 2005
(in millions of)

	New orders (unaudited)		External revenue		Intersegment revenue	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Operations Groups (5)						
Siemens Business Services (SBS)	5,014	6,531	3,967	4,316	1,190	1,057
Automation and Drives (A&D)	14,108	10,674	11,341	9,073	1,507	1,293
Industrial Solutions and Services (I&S)	9,025	7,189	7,830	5,330	989	977
Siemens Building Technologies (SBT)	5,235	4,518	4,690	4,314	106	101
Power Generation (PG)	12,532	10,964	10,068	8,042	18	19
Power Transmission and Distribution (PTD)	8,028	5,283	6,032	3,933	477	317
Transportation Systems (TS)	6,173	4,599	4,429	4,146	64	40
Siemens VDO Automotive (SV)	10,014	9,787	10,003	9,591	14	19
Medical Solutions (Med)	9,334	8,641	8,164	7,577	63	49
Osram	4,563	4,300	4,487	4,222	76	78
Other Operations(6)	5,115	4,438	4,016	3,432	939	923
Total Operations Groups	**89,141**	**76,924**	**75,027**	**63,976**	**5,443**	**4,873**
Reconciliation to financial statements						
Corporate items, pensions and eliminations	(5,334)	(5,021)	107	104	(5,175)	(4,657)
Other interest expense						
Other assets related and miscellaneous reconciling items						
Total Operations (for columns Group profit/Net capital employed, i.e. Income before income taxes/Total assets)	**83,807**	**71,903**	**75,134**	**64,080**	**268**	**216**
Financing and Real Estate Groups						
Siemens Financial Services (SFS)	645	542	558	476	87	66
Siemens Real Estate (SRE)	1,705	1,621	561	581	1,144	1,040
Eliminations	(10)	(10)			(10)	(10)
Total Financing and Real Estate	**2,340**	**2,153**	**1,119**	**1,057**	**1,221**	**1,096**
Eliminations, reclassifications and Corporate Treasury	**(1,445)**	**(1,270)**			**(1,489)**	**(1,312)**
Siemens	**84,702**	**72,786**	**76,253**	**65,137**		

(1)

Group profit of the **Operations** Groups is earnings before financing interest, certain pension costs and income taxes.

(2) Net capital employed of the **Operations** Groups represents total assets less tax assets, provisions and non-interest bearing liabilities other than tax liabilities.

(3) Intangible assets, property, plant and equipment, acquisitions, non-current available-for-sale financial assets and investments accounted for using the equity method.

(4) Includes amortization and impairments of intangible assets, depreciation of property, plant and equipment, and write-downs of non-current available-for-sale financial assets and investments accounted for using the equity method.

(5) The primary business

components of Communications (Com) are reported as discontinued operations. Com no longer represents an operating segment and will be dissolved during fiscal 2007.

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

(7) Includes cash paid for income taxes according to the allocation of income taxes to **Operations**, **Financing and Real Estate**, and **Eliminations, reclassifications and Corporate Treasury** in the Consolidated Statements of Income. Furthermore, the reclassification of interest payments in the Consolidated Statements of Cash Flow from operating activities into financing activities is

shown in **Eliminations**. Interest payments are external interest paid as well as intragroup interest paid and received.

Total revenue		Group profit[1]		Net capital employed[2]		Net cash from operating and investing activities		Capital spending[3]		Amortization, depreciation and impairments[4]	
2006	2005	2006	2005	9/30/06	9/30/05	2006	2005	2006	2005	2006	2005
5,157	5,373	(751)	(701)	171	224	(679)	(263)	284	340	290	516
12,848	10,366	1,558	1,269	3,833	3,298	1,043	401	682	1,222	295	272
8,819	6,307	282	170	1,279	1,521	175	473	252	70	133	102
4,796	4,415	223	185	1,763	1,402	(115)	121	244	159	110	110
10,086	8,061	779	969	1,945	1,546	337	236	603	557	217	198
6,509	4,250	315	218	1,701	1,634	139	23	185	163	128	85
4,493	4,186	72	43	111	42	12	(551)	150	185	56	57
10,017	9,610	608	619	3,767	3,489	442	341	487	623	415	427
8,227	7,626	1,012	919	4,975	3,360	(391)	393	1,662	1,035	289	278
4,563	4,300	456	456	1,976	1,977	413	455	358	311	261	265
4,955	4,355	(35)	84	993	1,418	(128)	304	210	204	136	262
80,470	**68,849**	**4,519**	**4,231**	**22,514**	**19,911**	**1,248**	**1,933**	**5,117**	**4,869**	**2,330**	**2,572**
(5,068)	(4,553)	(569)	(650)	(6,516)	(4,793)	(575)[7]	(3,591)[7]	182	475	44	29
		(343)	(177)								
				64,224	61,750						
75,402	**64,296**	**3,607**	**3,404**	**80,222**	**76,868**	**673**	**(1,658)**	**5,299**	**5,344**	**2,374**	**2,601**
		Income before income taxes		**Total assets**							
645	542	306	319	10,543	10,162	(219)	(344)	521	563	250	221
1,705	1,621	115	131	3,221	3,490	187	202	270	212	192	203
(10)	(10)			(462)	(339)	242[7]	195[7]				
2,340	**2,153**	**421**	**450**	**13,302**	**13,313**	**210**	**53**	**791**	**775**	**442**	**424**
(1,489)	**(1,312)**	**(18)**	**368**	**(5,793)**	**(8,369)**	**90**[7]	**(84)**[7]				
76,253	**65,137**	**4,010**	**4,222**	**87,731**	**81,812**	**973**	**(1,689)**	**6,090**	**6,119**	**2,816**	**3,025**

SIEMENS
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1. Basis of presentation

The accompanying Consolidated Financial Statements present the operations of Siemens AG and its subsidiaries (the Company or Siemens) and have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations issued by the International Accounting Standards Board (IASB), as adopted by the European Union (EU). These are the Company s first Consolidated Financial Statements under IFRS. The effects of the adoption of IFRS on the financial position, results of operations and cash flows of Siemens as presented herein are described below.

Siemens has prepared and reported its Consolidated Financial Statements in euros ( ). Siemens is a German based multinational corporation with a balanced business portfolio of activities predominantly in the field of electronics and electrical engineering (for further information see Note 34).

Siemens primary financial reporting for fiscal 2006 continues to be based on United States Generally Accepted Accounting Principles (U.S. GAAP) and includes the Consolidated Financial Statements prepared under U.S. GAAP to meet the legal requirements of the German Commercial Code (HGB) and the reporting requirements of the U.S. Securities and Exchange Commission (SEC) on Form 20-F. Siemens has the option under the German law to defer the application of IFRS until fiscal 2008. However, as significant momentum is developing with respect to the adoption of IFRS, the Company decided to publish full IFRS information earlier than required. The accompanying IFRS Consolidated Financial Statements are presented as supplemental information. As a result, two sets of Consolidated Financial Statements are published for fiscal 2006. These IFRS Consolidated Financial Statements include a reconciliation of equity and net income from U.S. GAAP to IFRS for all balance sheet dates presented, as well as a reconciliation of equity as of October 1, 2004, when IFRS was adopted. The IFRS Consolidated Financial Statements presented herein will serve as a basis for Siemens IFRS reporting beginning with the first quarter of fiscal 2007.

Siemens applied all standards and interpretations issued by the IASB that were effective as of September 30, 2006. In addition, the Company early adopted certain other standards, amendments to standards and interpretations, including the following standards which had a significant impact:

IAS 19 (Amendment), *Actuarial Gains and Losses, Group Plans and Disclosures*. This amendment provides for an additional option of recognizing actuarial gains and losses in full in the period in which they occur, outside profit or loss, directly in equity. The actuarial gains and losses are presented in the Consolidated Statements of Income and Expense recognized in Equity and recorded in full in *Retained earnings* in the period when they arise. Once recorded in equity, these actuarial gains and losses will not be recycled into the Consolidated Statements of Income in future periods. The amendment is effective for fiscal years beginning on or after January 1, 2006.

IAS 39 (Amendment), *Cash Flow Hedge Accounting of Forecast Intragroup Transactions*. This amendment is effective for fiscal years beginning on or after January 1, 2006. It is relevant to the Company, as it allows the Company to continue using cash flow hedge accounting for intragroup transactions, which is also permitted under U.S. GAAP.

IFRS 7, *Financial Instruments: Disclosures*. This standard requires extensive disclosures about the significance of financial instruments for an entity s financial position and results of operations, and qualitative and quantitative disclosures on the nature and extent of risks arising from financial instruments. It combines disclosure requirements from IAS 32, *Financial Instruments: Disclosure and Presentation*, and IAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and adds new disclosure requirements. The standard is effective for reporting periods beginning on or after January 1, 2007. Siemens has decided to early adopt IFRS 7 in its 2006 financial statements and also presents comparative information for 2005 according to IFRS 7. IFRS 7 was also considered in determining the presentation of items on the face of the Consolidated Balance Sheets and the Consolidated Statements of Income.

The Consolidated Financial Statements were authorised for issue by the Managing Board on December 18, 2006.

SIEMENS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Financial statement presentation

The presentation of the Company s worldwide financial data is accompanied by a component model presentation breaking down Siemens financial position, results of operations and cash flows into three components (see below). These components contain the Company s reportable segments (also referred to as Groups). Communications (Com) no longer represents an operating segment and will be dissolved in fiscal 2007 (for further information see Note 4 and Note 34).

Siemens Represents the Consolidated Financial Statements of the Company.

Operations Defined as Siemens ten operating Groups and certain operating activities not associated with these Groups, as well as centrally managed items including corporate headquarters, but excluding the activities of the **Financing and Real Estate** Groups and the Corporate Treasury.

Financing and Real Estate Siemens **Financing and Real Estate** Groups are responsible for the Company s international leasing, finance, credit and real estate management activities.

Eliminations, reclassifications and Corporate Treasury Captures separately the consolidation of transactions among **Operations** and **Financing and Real Estate**, as well as certain reclassifications. This component also includes the Company s Corporate Treasury activities.

The Company s presentation of **Operations**, **Financing and Real Estate** and **Corporate Treasury** reflects the management of these components as distinctly different business activities, with different goals and requirements. Management believes that this presentation provides a clearer understanding of the components of the Company s financial position, results of operations and cash flows. The accounting principles applied to these components are generally the same as those used for **Siemens**. The Company has allocated shareholders equity to the **Financing and Real Estate** business based on a management approach which takes into consideration the inherent risk evident in the underlying assets. The remaining amount of total shareholders equity is shown under **Operations**. Income taxes are allocated to **Eliminations, reclassifications and Corporate Treasury, Operations** and **Financing and Real Estate** by applying the effective tax rate of Siemens to the income before income taxes of each respective component. Deferred income tax assets and liabilities are allocated to these components based on available component specific information and applicable proportions of such amounts to total assets and liabilities of **Siemens**. The financial data presented for the **Operations** and **Financing and Real Estate** and **Eliminations, reclassifications and Corporate Treasury** components are not intended to purport the financial position, results of operations and cash flows as if they were separate entities under IFRS.

The information disclosed in these Notes relates to **Siemens** unless otherwise stated.

Explanation of transition to IFRS

The most significant change from U.S. GAAP was the adoption of the new option to recognize actuarial gains and losses in equity in the period in which they occur. Thus, actuarial gains and losses were recognized directly in equity as of the date of transition to IFRS as well as in all subsequent periods presented.

Siemens applied IFRS 1, *First-time Adoption of International Financial Reporting Standards* in making the transition to IFRS, with October 1, 2004 as the date of transition to IFRS. IFRS 1 requires that all IFRS standards and interpretations that are effective for the first IFRS Consolidated Financial Statements for the year ended September 30, 2006, be applied consistently and retrospectively for all fiscal years presented. However, this standard provides exemptions and exceptions to this general requirement in specific cases. Siemens applied the following exemptions:

a. Business combinations

Business combinations that occurred before October 1, 2004, were not restated retrospectively in accordance with IFRS 3, *Business Combinations*. Within the limits imposed by IFRS 1, the carrying amounts of assets acquired and liabilities assumed as part of past business combinations as well as the amounts of goodwill that arose from such transactions as they were determined under U.S. GAAP, are considered their deemed cost under IFRS at the date of transition.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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b. Currency translation differences

Cumulative translation differences as of October 1, 2004, arising from translation into euro of the financial statements of foreign operations whose functional currency is other than euro were reset to zero. Accordingly, the cumulative translation differences were included in *Retained earnings* in the IFRS opening balance sheet. In the case of subsequent disposal of an entity concerned, no amount of currency translation difference relating to the time prior to the transition date will be included in the determination of the gain or loss on disposal of such entity.

c. Share-based payment

As permitted under IFRS 1, IFRS 2, *Share-based Payment* has not been retrospectively applied to all share-based payment awards. This exemption has been applied for all equity awards which were granted prior to November 7, 2002, as well as those equity awards granted prior to October 1, 2003, which vested before January 1, 2005. All such equity awards exempted from IFRS 2 continue to be accounted for under the intrinsic value approach as under U.S. GAAP.

Changes in presentation of the Consolidated Financial Statements

The presentation of the Consolidated Financial Statements has been modified to comply with the requirements of IAS 1, *Presentation of Financial Statements*. Under IFRS, minority interests are presented within equity. As a result of applying the new option provided by IAS 19 to recognize actuarial gains and losses directly in equity, Consolidated Statements of Income and Expense recognized in Equity have been added.

Reconciliation of equity and net income from U.S. GAAP to IFRS

The following reconciliation describes the effect of major differences between U.S. GAAP and IFRS on the equity as of September 30, 2006 and 2005 and in the opening balance sheet as of October 1, 2004, as well as on net income for fiscal years 2006 and 2005.

	Explanatory note	September 30, 2006	September 30, 2005	Opening balance sheet as of October 1, 2004
Equity under U.S. GAAP		**29,306**	**27,022**	**26,760**
Change in presentation of minority interest	a	702	656	529
Equity under U.S. GAAP, including minority interest		**30,008**	**27,678**	**27,289**
Capitalization of development costs	b	251	230	217
Investments accounted for using the equity method	c	(141)	(164)	(182)
Sale and leaseback transactions	d	207	186	208
Financial instruments	e	252	(266)	(235)
Pensions and other post-employment benefits	f	(1,667)	(849)	(1,932)
Termination benefits	g	(532)	(305)	(347)
Provisions	h	(385)	(234)	(62)
Other		(191)	(69)	(36)
Deferred taxes	i	(1,527)	(2,026)	(1,664)
Total adjustments		**(3,733)**	**(3,497)**	**(4,033)**

Equity under IFRS	**26,275**	**24,181**	**23,256**

SIEMENS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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	Explanatory note	Year ended September 30, 2006	2005
Net income under U.S. GAAP		**3,033**	**2,248**
Change in presentation of minority interest	a	213	158
Net income under U.S. GAAP, including minority interest		**3,246**	**2,406**
Capitalization of development costs	b	17	13
Investments accounted for using the equity method	c	32	15
Sale and leaseback transactions	d	21	(22)
Financial instruments	e	(294)	64
Pensions and other post-employment benefits	f	613	552
Termination benefits	g	(231)	42
Provisions	h	(148)	(173)
Other		(110)	(60)
Deferred taxes	i	189	(177)
Total adjustments		**89**	**254**
Net income under IFRS		**3,335**	**2,660**

a. Change in presentation of minority interest

Under IFRS, minority interest is reported as a separate item within equity. U.S. GAAP requires minority interest to be presented separately from equity. Consistent with the balance sheet presentation, under IFRS the minorities share of net income is presented as an allocation of net income, whereas, under U.S. GAAP, the minorities share is considered in determining net income.

b. Capitalization of development costs

Under IFRS, development costs are capitalized, if specified criteria are met, while they are expensed under U.S. GAAP, except for internally generated software. The additional capitalization of product development costs (less related amortization) under IFRS increased equity by 251, 230 and 217 as of September 30, 2006 and 2005, and October 1, 2004, respectively. The resulting increase in net income in 2006 and 2005 was 17 and 13, respectively.

c. Investments accounted for using the equity method

IFRS requires that the application of the equity method be based on financial information provided by the associated companies and joint ventures that is in compliance with IFRS. Due to resulting IFRS adjustments relating to investments accounted for using the equity method, equity decreased by 141, 164 and 182 as of September 30, 2006 and 2005, and October 1, 2004, respectively. Net income under IFRS increased by 32 and 15 in 2006 and 2005, respectively, as compared to U.S. GAAP.

d. Sale and leaseback transactions

U.S. GAAP and IFRS differ with respect to the accounting for a gain arising from a sale and leaseback transaction. If the leaseback is an operating lease, any gain on sale is deferred over the life of the lease under U.S. GAAP. Under IFRS, the gain is immediately recognized in net income if the sale was established at fair value. Adjustments made in this respect increased equity under IFRS by 207, 186 and 208 as of September 30, 2006 and 2005, and October 1, 2004, respectively. The effect on net income was an increase of 21 in fiscal 2006 and a decrease of 22 in fiscal 2005.

e. Financial instruments

Under U.S. GAAP, the conversion feature in debt instruments convertible into shares of the issuer are generally not separated (bifurcated) from the debt instrument and accounted for separately at fair value. Under IFRS, a compound financial instrument with terms and conditions that grant the issuer the right to settle the option in cash upon conversion is divided into separate liability components at inception.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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The conversion right component is considered a derivative instrument and measured at fair value through profit or loss. The residual liability component representing the debt obligation is measured at fair value at inception and is subsequently measured at amortized cost using the effective interest method. In the third quarter of fiscal 2006, Siemens decided to waive the cash settlement option of the convertible bond and reclassified the conversion right component, which is deemed to be an equity component, to *Additional paid-in capital*. As of September 30, 2006, equity increased by 230 mainly due to this reclassification of the conversion right component. As of September 30, 2005, and October 1, 2004, the bifurcated conversion right component reduced equity by 375 and 350, respectively, due to the consideration of the conversion right as a derivative instrument and its re-measurement to fair value as well as the accretion of the debt component. Net income decreased by 198 and 25 in fiscal 2006 and 2005, respectively, due to the fair value re-measurement of the conversion right and additional interest expense.

Moreover, the „short-cut-method that may be applied under U.S. GAAP to hedge interest rate risk, if certain conditions are met, is not allowed under IFRS. As the requirements for the application of hedge accounting under IFRS are more restrictive, hedge accounting related to interest rate risk for certain fixed-rate debt obligations was discontinued. IFRS 1 requires that the corresponding basis adjustments recognized under U.S. GAAP as of September 30, 2004 be carried forward to the IFRS opening balance and deferred over the remaining life of the related instrument. The termination of hedge accounting resulted in a decrease in equity as of September 30, 2006 of 7 and an increase in equity as of September 30, 2005, of 89. The effect on net income was a decrease of 96 in fiscal 2006 and an increase of 89 in fiscal 2005.

Under U.S. GAAP, equity instruments for which there is no readily determinable market value are recorded at cost. Under IFRS, all equity instruments, including non-exchange traded equity investments are measured at fair value, if reliably measurable, with unrealized gains and losses included in *Other components of equity*, net of applicable deferred income taxes. Investments for which a fair value is not reliably measurable are recorded at cost. The adjustments increased equity as of September 30, 2006 and 2005, and October 1, 2004, by 29, 20 and 115, respectively. The adjustment of 115 relates primarily to fair value adjustments on shares in Juniper Networks, Inc. (Juniper), which under U.S. GAAP were measured at cost because they were subject to sales restrictions until September 30, 2004.

f. Pensions and other post-employment benefits

Under IFRS, actuarial gains and losses resulting from changes in actuarial assumptions used to measure pension plan obligations are recognized directly in equity in the period in which they occur based on the new alternative introduced by IAS 19 (amended), which Siemens decided to apply in connection with the early adoption of this amended standard. As of October 1, 2004 (the date of transition to IFRS), all actuarial gains and losses and vested past service cost previously unrecognized under U.S. GAAP were recorded in *Retained earnings*. Under U.S. GAAP, unrecognized actuarial gains and losses exceeding the corridor continue to be amortized over the average remaining service period of active plan participants. Likewise, unrecognized vested past service cost continues to be amortized over the average remaining service period of active plan participants. As the effect of actuarial gains and losses do not impact the income statement under IFRS, increased net income resulted under IFRS of 602 and 549 in 2006 and 2005, respectively, as compared to U.S. GAAP for which amortization of net unrecognized actuarial losses existed.

U.S. GAAP defines an accumulated benefit obligation (ABO) that, in contrast to the projected benefit obligation, does not include assumptions about future compensation increases. If the ABO exceeds the fair value of plan assets, a liability at least equal to such difference referred to as the minimum liability is recorded on the balance sheet. The difference between the amount recorded on the balance sheet and the minimum liability referred to as the additional minimum liability (AML) is recognized either as an intangible pension asset, to the extent that past service cost exists, or within Accumulated Other Comprehensive Income (AOCI) (similar to *Other components of equity* under IFRS). As the AML recorded by the Company under U.S. GAAP represents a significant portion of the total unrecognized actuarial losses existing at each balance sheet date presented, the reduction in equity compared to U.S. GAAP resulting from pensions was significantly less than the amount of such unrecognized actuarial losses.

The overall impact associated with these changes was an increase in the unfunded liabilities for pension plans and similar commitments and a decrease in equity of 1,588, 749 and 1,877 as of September 30, 2006 and 2005, and as of October 1, 2004, respectively. Besides pensions, differences in the accounting for other long-term post employment benefits affected equity and net income. Other long-term post-employment benefits are employee benefits that are paid regardless of the reason for the employee s departure. Differences between the aforementioned amounts and the amounts provided in the tables above resulted primarily from such benefits.

SIEMENS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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g. Termination benefits

A significant portion of the adjustments resulting from termination benefits relates to the partial retirement program available to Siemens employees in Germany. The majority of participants opted for a partial retirement arrangement that is typically composed of a full-time service period and an inactive period, where the employee receives 50% of the salary for each year during the entire partial retirement period. In addition, participants receive an annual bonus and a severance payment at the end of the inactive period. While under U.S. GAAP both the annual bonus to be paid in the inactive period and the severance payment are recognized as expense on a pro rata basis over the service period, IFRS requires that these benefit elements of the partial retirement arrangement are recognized in full as expense immediately when a partial retirement agreement is established. Adjustments to partial retirement obligations reduced equity under IFRS by 213, 296 and 369 as of September 30, 2006 and 2005, and October 1, 2004, respectively, whereas net income increased by 82 and 73 in 2006 and 2005, respectively.

Another difference between U.S. GAAP and IFRS arises from voluntary termination agreements. Under U.S. GAAP, a liability is recognized only when a voluntary termination agreement has been signed by both the employer and the employee. By contrast, under IFRS, a liability is recognized when the employer has irrevocably committed itself to grant a termination benefit. Such agreements resulted in lower equity under IFRS than under U.S. GAAP by 319, 8 and 5 as of September 30, 2006 and 2005, and October 1, 2004, respectively. Net income decreased by 313 and 3 for the years ended September, 30, 2006 and 2005, respectively.

h. Provisions

Under IFRS, provisions generally must be discounted and recognized at present value at each balance sheet date, i.e. the discount rate should be adjusted at each reporting date to reflect current market conditions. In contrast, under U.S. GAAP, discounting of provisions is limited to specific cases, such as to asset retirement obligations, whereby U.S. GAAP requires such obligations be discounted only using the discount rate determined when the provision is initially recognized. With respect to asset retirement obligations, applicable interest rates were therefore different for IFRS compared to U.S. GAAP. Due to a lower discount rate under IFRS, the present values to be recognized under IFRS increased with a negative effect on equity of 85 as of October 1, 2004. A continuing decline in the discount rate in fiscal 2005 led to a significant increase in the present value with a corresponding decrease in equity of 219 as of September 30, 2005 and in net income of 134 in 2005. As of September 30, 2006 equity under IFRS was 157 lower than under U.S. GAAP, whereas net income was 62 higher due to an increase in the discount rate in fiscal 2006 as compared to 2005.

This reconciling item contains various other differences with respect to recognition and measurement of provisions, such as provisions for vacant property and contingent liabilities with a range of possible outcomes where each point in that range is as likely as any other.

i. Deferred taxes

The adjustments as described above resulted in additional differences between the carrying amount of assets and liabilities in the Consolidated Financial Statements and their tax basis. Deferred taxes were recognized on temporary differences, with differences in pension accounting between U.S. GAAP and IFRS having the most significant impact.

This reconciling item also includes tax effects resulting from differences in accounting for income taxes between U.S. GAAP and IFRS. For the Company, such effects mainly result from calculating deferred taxes on elimination of intragroup profits. According to IFRS, deferred taxes on intragroup profit elimination are calculated with reference to the tax rate of the acquiring company whereas, under U.S. GAAP, the tax rate in the seller s or manufacturer s jurisdiction is used.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Assets held for disposal and discontinued operations

According to IFRS, a discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale. Under U.S. GAAP, the results of operations of a component of an entity that either has been disposed of or is classified as held for sale shall be reported in discontinued operations if the operations and cash flows have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction and the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.

The results and financial position of the carrier-related business and the enterprise networks business have been presented as discontinued operations under IFRS. These businesses are not presented as discontinued operations under U.S. GAAP due to Siemens anticipated continuing involvement in the carrier-related business and the enterprise networks business and therefore have been presented as continuing activities in Siemens Consolidated Financial Statements under U.S. GAAP.

Impact on the Consolidated Statements of Cash Flow

The adjustments made to the Consolidated Statements of Cash Flow only change the allocation of cash flows between operating, investing and financing activities and had no impact on the net change in cash and cash equivalents.

As described above in b., under IFRS, certain development costs are capitalized as intangible assets in addition to those already capitalized under U.S. GAAP. The corresponding cash outflows are presented within cash flows from investing activities as additions to intangible assets. Therefore, *Net cash provided by (used in) investing activities* as of September 30, 2006 and 2005, respectively, decreased by 82 and 80 under IFRS compared to U.S. GAAP with a corresponding increase in *Net cash provided by (used in) operating activities*.

Under IFRS, the Company has elected to present cash outflows for interest paid within *Net cash provided by (used in) financing activities.* This decreased *Net cash provided by (used in) financing activities* by 596 and 441 in 2006 and 2005, respectively, with a corresponding increase in *Net cash provided by (used in) operating activities*, where interest paid was included under U.S. GAAP.

2. Summary of significant accounting policies

Basis of consolidation The Consolidated Financial Statements include the accounts of Siemens AG and its subsidiaries which are directly or indirectly controlled. Control is generally conveyed by ownership of the majority of voting rights. Additionally, the Company consolidates special purpose entities (SPE ´s) when, based on the evaluation of the substance of the relationship with Siemens, the Company concludes that it controls the SPE. Associated companies companies in which Siemens has the ability to exercise significant influence over operating and financial policies (generally through direct or indirect ownership of 20% to 50% of the voting rights) are recorded in the Consolidated Financial Statements using the equity method of accounting. Companies in which Siemens has joint control are also recorded using the equity method.

Business combinations All business combinations are accounted for under the purchase method. The cost of an acquisition is measured at the fair value of the assets given and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination (including contingent liabilities) are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Company s share of the identifiable net assets acquired is recorded as goodwill.

Foreign currency translation The assets and liabilities of foreign subsidiaries, where the functional currency is other than the euro, are translated using period-end exchange rates, while the statements of income are translated using average exchange rates during the period. Differences arising from such translations are recognized within equity.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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The exchange rates of the significant currencies of non-euro countries used in the preparation of the Consolidated Financial Statements were as follows:

Currency	ISO Code	Year-end exchange rate 1 quoted into currencies specified below September 30,		Annual average rate 1 quoted into currencies specified below Fiscal year	
		2006	2005	2006	2005
U.S. Dollar	USD	1.266	1.204	1.230	1.273
British pound	GBP	0.678	0.682	0.685	0.688

Revenue recognition Revenue is recognized for product sales when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the risks and rewards of ownership have been transferred to the customer, the amount of revenue can be measured reliably, and collection of the related receivable is reasonably assured. If product sales are subject to customer acceptance, revenues are not recognized until customer acceptance occurs. Revenues from construction-type projects are generally recognized under the percentage-of-completion method, based on the percentage of costs to date compared to the total estimated contract costs, contractual milestones or performance. Revenues from service transactions are recognized as services are performed. For long-term service contracts, revenues are recognized on a straight-line basis over the term of the contract or, if the performance pattern is other than straight-line, as the services are provided. Revenue from software arrangements is recognized at the time persuasive evidence of an arrangement exists, delivery has occurred, the amount of revenue can be measured reliably and collectibility is probable. Revenue from maintenance, unspecified upgrades or enhancements and technical support is allocated using the residual value method and is recognized over the period such items are delivered. If an arrangement to deliver software requires significant production, modification, or customization of software, the entire arrangement is accounted for under the percentage-of-completion method. Operating lease income for equipment rentals is recognized on a straight-line basis over the lease term. Interest income from finance leases is recognized using the effective interest method.

Sales of goods and services sometimes involve the provision of multiple elements. In these cases, the Company determines whether the contract or arrangement contains more than one unit of accounting. An arrangement is separated if (1) the delivered element(s) has value to the customer on a stand-alone basis, (2) there is objective and reliable evidence of the fair value of the undelivered element(s) and (3), if the arrangement includes a general right of return relative to the delivered element(s), delivery or performance of the undelivered element(s) is considered probable and substantially in the control of the Company. If all three criteria are fulfilled, the appropriate revenue recognition convention is then applied to each separate unit of accounting. Generally, the total arrangement consideration is allocated to the separate units of accounting based on their relative fair values. In cases where there is objective and reliable fair value evidence of the undelivered elements but not for one or more of the delivered elements, the residual method is used, i.e. the amount allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of the undelivered elements. Objective and reliable fair values are sales prices for the component when it is regularly sold on a stand-alone basis or third-party prices for similar components. If the three criteria are not met, revenue is deferred until such criteria are met or until the period in which the last undelivered element is delivered. The amount allocable to the delivered elements is limited to the amount that is not contingent upon delivery of additional elements or meeting other specified performance conditions.

Product-related expenses and contract losses Provisions for estimated costs related to product warranties are recorded in *Cost of goods sold and services rendered* at the time the related sale is recognized, and are established on an individual basis, except for consumer products. The estimates reflect historic trends of warranty costs, as well as information regarding product failure experienced during construction, installation or testing of products. In the case of new products, expert opinions and industry data are also taken into consideration in estimating product warranty provisions. Expected contract losses are recognized in the period when the current estimate of total contract costs exceeds contract revenue.

Research and development costs Costs of research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are expensed as incurred.

Costs for development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, are capitalized if development costs can be measured reliably; the product or process is technically and commercially feasible; future economic benefits are probable; and Siemens intends, and has sufficient resources, to complete development and to use or sell the asset. The costs capitalized include the cost of materials, direct labour and directly attributable general overhead expenditure that serves to prepare the asset for use. Such capitalized costs are included in *Other intangible assets* as other internally generated intangible assets (see Note 16). Other development costs are expensed as incurred. Capitalized development costs are stated at cost less accumulated amortization and impairment losses with an amortization period of generally three to five years.

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Earnings per share Basic earnings per share is computed by dividing income from continuing operations and net income, both attributable to ordinary shareholders of Siemens AG by the weighted average shares outstanding during the year. Diluted earnings per share is calculated by assuming conversion or exercise of all potentially dilutive securities, stock options and stock awards.

Goodwill Goodwill is not amortized, but instead tested for impairment annually, as well as whenever there are events or changes in circumstances (triggering events) which suggest that the carrying amount may not be recoverable. Goodwill is carried at cost less accumulated impairment losses.

The goodwill impairment test is based on cash-generating units, which at Siemens are its divisions. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the division or divisions that are expected to benefit from the synergies of the business combination in which the goodwill arose. If the carrying amount of the division, to which the goodwill is allocated, exceeds its recoverable amount goodwill allocated to this division must be reduced accordingly. The recoverable amount is the higher of the division s fair value less costs to sell and its value in use. Siemens generally determines the recoverable amount of a division based on its fair value less costs to sell. These values are generally determined based on discounted cash flow calculations. Impairment losses on goodwill are not reversed in future periods if the recoverable amount exceeds the carrying amount of the cash-generating unit to which the goodwill is allocated. See Note 15 for further information.

Other intangible assets Other intangible assets consist of software and other internally generated intangible assets, patents, licenses and similar rights. The Company amortizes intangible assets with finite useful lives on a straight-line basis over their respective estimated useful lives to their estimated residual values. Estimated useful lives for software, patents, licenses and other similar rights generally range from three to five years, except for intangible assets with finite useful lives acquired in business combinations. Intangible assets acquired in business combinations primarily consist of customer relationships and technology. Weighted average useful lives in specific acquisitions ranged from nine to twenty-two years for customer relationships and from seven to twelve years for technology. Intangible assets which are determined to have indefinite useful lives are not amortized, but instead tested for impairment at least annually. See Note 16 for further information.

Property, plant and equipment Property, plant and equipment is valued at cost less accumulated depreciation and impairment losses. If the costs of certain components of an item of property, plant and equipment are significant in relation to the total cost of the item, they are accounted for and depreciated separately. Depreciation expense is recognized using the straight-line method. Costs of construction of qualifying long-term assets include capitalized interest, which is amortized over the estimated useful life of the related asset. The following useful lives are assumed:

Factory and office buildings	20 to 50 years
Other buildings	5 to 10 years
Technical machinery & equipment	5 to 10 years
Furniture & office equipment	generally 5 years
Equipment leased to others	generally 3 to 5 years

Impairment of property, plant and equipment and other intangible assets with finite useful lives The Company reviews property, plant and equipment and other intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by the comparison of the carrying amount of the asset to the recoverable amount, which is the higher of the asset s value in use and its fair value less costs to sell. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their recoverable amount. If the fair value cannot be determined, the assets value in use is applied as their recoverable amount. The assets value in use is measured by discounting their estimated future cash flows. If there is an indication that the reasons which caused the impairment no longer exist, Siemens would consider the need to reverse all or a portion of the impairment.

The Company s property, plant and equipment and other intangible assets to be disposed of are recorded at the lower of carrying amount or fair value less costs to sell and depreciation is ceased.

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Discontinued operations Discontinued operations are reported when a component of an entity comprising operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity is classified as held for sale or has been disposed of, if the component either (a) represents a separate major line of business or geographical area of operations or (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or (c) is a subsidiary acquired exclusively with a view to resale.

Income taxes The Company applies IAS 12, *Income Taxes*. Under the asset and liability method of IAS 12, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The effect on deferred tax assets and liabilities of a change in tax laws is recognized in the income statement, unless related to items directly recognized in equity, in the period the new laws are substantively enacted. Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilized.

Inventories Inventory is valued at the lower of acquisition or production cost or net realizable value, cost being generally determined on the basis of an average or first-in, first-out method. Production costs comprise direct material and labor and applicable manufacturing overheads, including depreciation charges. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Provisions A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are recognized at present value by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money. Provisions for onerous contracts are measured at the lower of the expected cost of fulfilling the contract and the expected cost of terminating the contract. Additions to provisions are generally recognized in the income statement. The present value of legal obligations associated with the retirement of property, plant and equipment (asset retirement obligations) that result from the acquisition, construction, development or normal use of an asset is added to the carrying amount of the associated asset. The additional carrying amount is depreciated over the life of the asset. If the asset retirement obligation is settled for other than the carrying amount of the liability, the Company will recognize a gain or loss on settlement.

Financial instruments A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets of the Company mainly include cash and cash equivalents, available-for-sale financial assets, trade receivables, loans receivable, finance lease receivables and derivative financial instruments with a positive fair value. Financial liabilities of the Company mainly comprise notes and bonds, loans from banks, commercial paper, trade payables, finance lease payables and derivative financial instruments with a negative fair value.

Financial instruments are recognized on the balance sheet when Siemens becomes a party to the contractual obligations of the instrument. For regular way purchases or sales of financial assets, i.e. purchases or sales under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned, the trade date is applied.

Initially, financial instruments are recognized at their fair value. Transaction costs directly attributable to the acquisition or issue of financial instruments are only recognized in determining the carrying amount, if the financial instruments are not measured at fair value through profit or loss. Subsequently, financial assets and liabilities are measured according to the category cash and cash equivalents, available-for-sale financial assets, loans and receivables, financial liabilities measured at amortized cost or financial assets and liabilities classified as held for trading to which they are assigned.

Cash and cash equivalents The Company considers all highly liquid investments with less than three months maturity from the date of acquisition to be cash equivalents. Cash and cash equivalents are measured at cost.

Available-for-sale financial assets Investments in equity instruments, debt instruments and fund shares are all classified as available-for-sale financial assets. They are accounted for at fair value if reliably measurable, with unrealized gains and losses included in *Other components of equity*, net of applicable deferred income taxes. Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at cost.

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When available-for-sale financial assets incur a decline in fair value below acquisition cost and there is objective evidence that the asset is impaired, the cumulative loss that has been recognized in equity is removed from equity and recognized in the Consolidated Statements of Income. The Company considers all available evidence such as market conditions and prices, investee-specific factors and the duration and the extent to which fair value is less than acquisition cost in evaluating potential impairment of its available-for-sale financial assets. An impairment loss may be reversed in subsequent periods for debt instruments, if the reasons for the impairment no longer exist.

Loans and receivables Financial assets classified as loans and receivables are measured at amortized cost using the effective interest method less any impairment losses. Impairment losses on trade and other receivables are recognized using separate allowance accounts. See Note 3 for further information regarding the determination of impairment.

Financial liabilities Siemens measures financial liabilities, except for derivative financial instruments, at amortized cost using the effective interest method.

Derivative financial instruments Derivative financial instruments, such as foreign currency exchange contracts and interest rate swap contracts, are measured at fair value. Derivative instruments are classified as held for trading unless they are designated as hedging instruments, for which hedge accounting is applied. Changes in the fair value of derivative financial instruments are recognized periodically either in net income or, in the case of a cash flow hedge, in *Other components of equity,* net of applicable deferred income taxes. Certain derivative instruments embedded in host contracts are also accounted for separately as derivatives.

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

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

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

See Note 29, *Derivative financial instruments and hedging activities* for further information.

Share-based payment IFRS 2 distinguishes between cash-settled and equity-settled share-based payment transactions. For both types, the fair value is measured at grant date and the compensation expense is allocated over the period during which the employees become unconditionally entitled to the awards. Cash-settled awards are remeasured at fair value on each reporting date until the award is settled. Siemens uses a Black-Scholes option pricing model to determine the fair value of its share-based payment plans. See Note 31 for further information on share-based payment transactions.

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3. Management estimates and judgments

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 The Groups, particularly PG, TS, I&S, PTD and SBT, conduct a significant portion of their business under construction contracts with customers. The Company generally accounts 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. Management of the operating Groups continually reviews all estimates involved in such construction contracts and adjusts them as necessary. The Company also uses 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 Siemens Financial Services (SFS), which performs such reviews in support of the Company s Corporate Executive Committee. At a minimum, a customer s credit rating must be single B from external rating agencies, or an equivalent SFS-determined rating. In cases where the credit quality does not meet such standards, the Company recognizes revenue for construction contracts and financed projects based on the lower of cash if irrevocably received, or contract completion. The Company believes the credit factors used provide a reasonable basis for assessing credit quality.

Trade and other receivables 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, management also considers 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. 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 Siemens tests at least annually whether goodwill has suffered any impairment, in accordance with its accounting policy. The determination of the recoverable amount of a division to which goodwill is allocated involves the use of estimates by management. The Company uses discounted cash flow based methods. These discounted cash flow calculations use five-year projections that are based on the financial budgets approved by management. Cash flow projections take into account past experience and represent management s best estimate about future developments. Cash flows after the planning period are extrapolated using individual growth rates. Key assumptions on which management has based its determination of fair value less costs to sell and value in use include estimated growth rates, weighted average cost of capital and tax rates. These estimates, including the methodology used, can have a material impact on the respective values and ultimately the amount of any goodwill impairment.

Pension plans and similar commitments Pension benefit costs and benefits are determined in accordance with actuarial valuations, which rely on key assumptions including discount rates and expected return on plan assets. For all pension plans, asset values are based upon the fair value of plan assets at the balance sheet date. This value is the basis for the determination of the return on plan assets. Other post-employment benefit costs and benefits are determined in accordance with actuarial valuations, which rely on key assumptions including applicable discount rates and health care trend rates. The discount rate assumptions reflect the rates available on high-quality fixed-income investments of appropriate duration at the balance sheet date. 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 pension and other post-employment benefit costs and benefits are based in part on current market conditions. Pension and related other post-employment benefit costs or benefits could change due to variations in these underlying key assumptions. For a discussion of the current funding status and the impact of these critical assumptions, see Note 22.

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Provisions 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 the 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 a provision 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.

4. Acquisitions, dispositions and discontinued operations

a) Acquisitions

During the years ended September 30, 2006 and 2005, the Company completed a number of acquisitions. These acquisitions have been accounted for under the purchase method and have been included in the Company s Consolidated Financial Statements since the date of acquisition.

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

aa) Acquisitions in fiscal 2006

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

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

ab) Acquisitions in fiscal 2005

In May 2005, the Company acquired CTI Molecular Imaging, Inc. (CTI), USA. The primary reason for the acquisition was to strengthen the Company s commitment to molecular imaging development. Siemens previously owned a 49% interest in a joint venture consolidated by CTI before the acquisition of which Siemens was the primary customer. CTI was integrated into Med and consolidated as of May 2005, when it became a wholly owned subsidiary. The acquisition costs amount to 809 (including 60 in cash acquired). Based on the final purchase price allocation, 157 was allocated to intangible assets subject to amortization and 556 to goodwill. Of the 157 intangible assets, 99 was allocated to technology and 44 to customer relationships. Technology and customer relationships are amortized on a straight-line basis over weighted-average useful lives of 9 years.

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In fiscal 2005, the Company acquired, in several steps, the Austrian engineering group VA Technologie AG (VA Tech) for acquisition costs of 1,049 (including 535 cash acquired). The VA Tech business was consolidated as of July 15, 2005, when it became a wholly owned subsidiary of Siemens. VA Tech s metallurgy, power transmission and distribution, and infrastructure activities were mainly integrated into I&S and PTD to support their global market targets. Smaller portions were integrated into other business activities. In order to comply with a European antitrust ruling, the Company sold the majority of the VA Tech power generation business, including the hydropower activities, to Andritz AG of Austria, in May 2006. No gain or loss was recorded in connection with the sale of this business. The difference between the consideration received upon the sale and the book value of the business resulted in an increase in goodwill. Based on the final purchase price allocation for the VA Tech acquisition, approximately 142 was allocated to intangible assets subject to amortization and 1,054 to goodwill. Of the 142 intangible assets, 55 was allocated to order backlog and 26 to technology. Order backlog and technology are amortized on a straight-line basis over weighted-average useful lives of four and seven years, respectively.

In July 2005, the Company completed the acquisition of all shares of Flender Holding GmbH, Germany (Flender), a supplier of mechanical and electrical drive equipment, focusing on gear technology. The primary reason for the acquisition was to enable the Company to offer a full drive train (motor, inverter, gear) to customers. The business is being integrated into A&D and was consolidated as of July 2005. The acquisition costs amount to 702. Based on the final purchase price allocation, 409 was allocated to intangible assets subject to amortization and 428 was recorded as goodwill. Of the 409 intangible assets, 264 was allocated to customer relationships and 101 to technology. Customer relationships and technology are amortized over weighted-average amortization periods of 12 years and 10 years, respectively.

In fiscal 2005, the Company acquired Bonus Energy A/S, Denmark, a supplier of wind energy systems and substantially all of the assets of Robicon Corporation, USA, a manufacturer of medium voltage drives and power controls. The combined purchase price of the two acquisitions amounts to 476.

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

b) Dispositions

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

In the fourth quarter of fiscal 2005, Siemens announced the carve out of the Distribution and Industry Logistics (DI) and Material Handling Products (MHP) divisions, formerly of the Logistics and Assembly Systems Group (L&A), into separate entities (Dematic business). The Dematic business has been reported in Other Operations for all periods presented. In June 2006, Siemens signed an agreement to divest a significant portion of its Dematic business to Triton Managers II Limited based in Jersey. Closing of the transaction occurred on August 31, 2006. The disposal loss on the transaction amounted to 39 and is reported in *Other operating expense.*

c) Discontinued operations

In June 2006, Siemens and Nokia Corporation (Nokia), Finland announced an agreement to contribute the carrier-related operations of Siemens and the Networks Business Group of Nokia into a new company, to be called Nokia Siemens Networks (NSN), in exchange for shares in NSN. Siemens and Nokia will each own an economic share of approximately 50% of NSN. Siemens expects to account for its investment in NSN using the equity method. The 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 closing conditions, and agreement on a number of detailed implementation steps. Siemens expects to realize a gain on this transaction.

The Company also plans to dispose of its enterprise networks business in fiscal 2007. Both the enterprise networks business and the carrier-related operations are still included in the former operating Group, Com, which no longer represents an operating segment as of September 30, 2006. The Mobile Devices (MD) business was also included in Com prior to its sale, as described below. The remaining business activities of Com that are not held for disposal are currently presented in Other Operations. Except for these businesses, the historical results of Com are presented as discontinued operations in the Company s Consolidated Statements of Income for the years ended September 30, 2006 and 2005.

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In fiscal 2005, Siemens signed an agreement to sell its MD business to BenQ Corporation (BenQ) based in Taiwan (the Agreement). The Agreement also provided for the sale of MD s operation included in Siemens Shanghai Mobile Communications Ltd. in the Peoples Republic of China (SSMC), subject to the consent of the Company s minority shareholders which was obtained in July 2005. The MD transaction, excluding SSMC and activities in certain countries (Deferred Countries), was completed on September 30, 2005. In fiscal 2005, the losses directly attributable to BenQ amounted to 411. The net result of discontinued operations in fiscal 2005 includes additional exit related charges of 131 resulting in a total loss recognized on the sale of MD (excluding SSMC) of 542. As part of the Agreement, Siemens purchased 50 in Global Depositary Receipts (GDR ´s) on common shares in BenQ in December 2005, which at that time represented a 2.4 percent investment in BenQ (see Note 10). All of the MD activities for which the transaction was not completed as of September 30, 2005, including the MD operations of Siemens Shanghai Mobile Communications Ltd. in the Peoples Republic of China, were sold in fiscal 2006. No additional direct gain or loss on the transaction was realized in fiscal 2006. Discontinued operations in fiscal 2006 includes charges pursuant to the terms of the MD disposal transaction, including substantial effects stemming from the insolvency of BenQ Mobile GmbH & Co. OHG, Germany.

The assets and liabilities of the above transactions were classified on the balance sheet as held for disposal and measured at the lower of their carrying amount or fair value less costs to sell.

The following amounts of the major classes of assets and liabilities classified as held for disposal as of September 30, 2006 relate to the carrier networks business and the enterprise networks business, and as of September 30, 2005 relate to the MD business:

	September 30,	
	2006	**2005**
Trade and other receivables	2,706	89
Inventories	2,135	104
Goodwill	369	
Property, plant and equipment	645	43
Other assets	1,309	9
Assets classified as held for disposal	**7,164**	**245**
Trade payables	2,077	228
Current provisions	576	45
Pension plans and similar commitments	381	1
Non-current provisions	121	
Payroll and social security taxes	450	
Other liabilities	1,780	15
Liabilities associated with assets classified as held for disposal	**5,385**	**289**

The net results of discontinued operations presented in the Consolidated Statements of Income consist of the following components:

	Year ended September 30,	
	2006	**2005**

Revenue	13,428	15,440
Costs and expenses	(13,294)	(15,948)
Loss on disposal of discontinued operations		(411)
Income (loss) from discontinued operations before income taxes	**134**	**(919)**
Income taxes	94	257
Income (loss) from discontinued operations, net of income taxes	**228**	**(662)**

The net income tax benefit for fiscal 2006 related to discontinued operations consists of deferred tax benefits generated on pre-tax losses in jurisdictions with higher statutory income tax rates that were only partially offset by income tax expense generated on pre-tax income in jurisdictions with lower statutory income tax rates.

Within *Net cash provided by (used in) financing activities* dividends paid to minority shareholders include 31 and 37, respectively, relating to discontinued operations for the fiscal years ended September 30, 2006 and 2005.

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5. Other operating income

	Year ended September 30,	
	2006	**2005**
Gains on sales of real estate	208	154
Gains on disposals of businesses	54	91
Other	385	320
	647	565

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

6. Other operating expense

	Year ended September 30,	
	2006	**2005**
Impairment of goodwill		(262)
Losses on sales of real estate	(40)	(27)
Losses on disposals of businesses	(109)	(70)
Other	(116)	(67)
	(265)	(426)

Impairment of goodwill of 262 in fiscal 2005 relates to SBS cash-generating unit Operation-Related Services.

Losses on disposals of businesses in fiscal 2006 includes a pre-tax loss of 39 from the Company s sale of its Dematic business (see Note 4).

7. Income from investments accounted for using the equity method, net

	Year ended September 30,	
	2006	**2005**
Share of profit, net	470	516
Gains on sales, net	57	34
Impairment	(5)	(14)
	522	536

8. Financial income, net

	Year ended September 30,	
	2006	**2005**
Interest income, net	142	204
Income from pension plans and similar commitments, net	213	87
Income from available-for-sale financial assets, net	163	106

Other financial income, net	(293)	(75)
	225	322

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The total amounts of interest income and expense were as follows:

	Year ended September 30, 2006	2005
Interest income	698	643
Interest expense	(556)	(439)
Interest income, net	142	204
Thereof: Interest income (expense) of Operations, net	(61)	(64)
Thereof: Other interest income, net	203	268

Interest income (expense) of Operations, net includes interest income and expense primarily related to receivables from customers and payables to suppliers, interest on advances from customers and advanced financing of customer contracts. *Other interest income, net* includes all other interest amounts primarily consisting of interest relating to corporate debt and related hedging activities, as well as interest income on corporate assets.

The components of *Income from pension plans and similar commitments, net* were as follows:

	Year ended September 30, 2006	2005
Expected return on plan assets	1,396	1,263
Interest cost	(1,183)	(1,176)
Income from pension plans and similar commitments, net	213	87

Service cost for pension plans and similar commitments are allocated among functional costs (*Cost of goods sold and services rendered*, *Research and development expenses*, *Marketing, selling and general administrative expenses*).

The components of *Income from available-for-sale financial assets, net* were as follows:

	Year ended September 30, 2006	2005
Dividends received	89	116
Impairment	(101)	(75)
Gains on sales, net	177	51
Other	(2)	14
Income from available-for-sale financial assets, net	163	106

In fiscal 2006, *Gains on sales, net* includes gains of 15 and 33, respectively, on the sales of the Company s remaining interests in Epcos AG (Epcos) and Infineon Technologies AG (Infineon) and a pre-tax gain of 84 related to the sale of the Company s interest in SMS Demag AG.

In fiscal 2006 and 2005, impairments of 20 and 4, respectively, relate to current available-for-sale financial assets traded in an active market.

Other financial income, net mainly includes the interest component from measurement of provisions amounting to 29 and (177) in fiscal 2006 and 2005, respectively. In fiscal 2006 and 2005, a result of (143) and 29, respectively, from the valuation of the conversion right of the convertible notes was included in *Other financial income, net*.

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9. Income taxes

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

	Year ended September 30, 2006	2005
Germany	1,275	1,543
Foreign	2,735	2,679
	4,010	4,222

Income tax expense (benefit) consists of the following:

	Year ended September 30, 2006	2005
Current:		
German corporation and trade taxes	296	140
Foreign income taxes	834	548
	1,130	**688**
Deferred:		
Germany	(200)	268
Foreign	(27)	(56)
	(227)	**212**
Income tax expense	**903**	**900**

The current tax expense includes adjustments recognized for current tax of prior periods in the amount of 141 and 59 in fiscal 2006 and 2005, respectively.

Of the deferred tax benefit in fiscal 2006 and the deferred tax expense in fiscal 2005, (145) and 55, respectively, relate to the origination and reversal of temporary differences.

For fiscal years ended September 30, 2006 and 2005, the Company was subject to German federal corporation tax at a base rate of 25% plus solidarity surcharge of 5.5% on federal corporation taxes payable. As a result, the statutory rate for the year ended September 30, 2006 and 2005 consists of the federal corporate tax rate, including solidarity surcharge, of 26.4%, and trade tax net of federal benefit of 12.6%, for a combined rate of 39%.

Income tax expense differs from the amounts computed by applying statutory German income tax rates (39% for fiscal years ended September 30, 2006 and 2005) as follows:

	Year ended September 30, 2006	2005

Expected income tax expense	1,564	1,647
Increase (decrease) in income taxes resulting from:		
Non-deductible losses and expenses	182	173
Goodwill	(21)	(155)
Tax-free income	(167)	(176)
Tax-free gains from sales of businesses	(295)	(122)
Taxes for prior years	(120)	(57)
Change in judgment of realizability of deferred tax assets	109	(12)
Foreign tax rate differential	(155)	(226)
Tax effect of investments accounted for using the equity method	(187)	(212)
Other	(7)	40
Actual income tax expense	903	900

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

	September 30, 2006	September 30, 2005
Assets:		
Financial assets	618	578
Other intangible assets	73	153
Property, plant and equipment	373	295
Inventories	529	711
Receivables	624	365
Pension plans and similar commitments	1,825	2,201
Provisions	1,639	1,700
Liabilities	1,062	1,800
Tax loss and credit carryforwards	2,061	1,826
Other	901	371
Deferred tax assets	9,705	10,000
Liabilities:		
Other intangible assets	477	603
Property, plant and equipment	860	770
Inventories	1,749	1,750
Receivables	1,346	1,951
Provisions	526	435
Liabilities	403	143
Other	586	1,068
Deferred tax liabilities	5,947	6,720
Total deferred tax assets, net	3,758	3,280

In assessing the realizability of deferred tax assets, management considers to which extent it is probable that the deferred tax asset will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable profits during the periods in which those temporary differences and tax loss carryforwards become deductible. Management considers the expected reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is probable the Company will realize the benefits of these deductible differences.

As of September 30, 2006, the Company had 6,455 of gross tax loss carryforwards. Of the total, 5,694 tax loss carryforwards have unlimited carryforward periods and 761 expire over the periods to 2023. The Company assumes that the future operations will generate sufficient taxable income to realize the deferred tax assets.

Deferred tax assets have not been recognized in respect of the following items (gross amounts):

	September 30, 2006	September 30, 2005
Deductible temporary differences	982	377

Tax loss carryforwards	1,135	1,837
	2,117	2,214

The amount of unrecognized deductible temporary differences as of September 30, 2006, includes an amount of 638 which is related to deductible temporary differences for German trade tax purposes. The corresponding tax effect amounts to 82.

As of September 30, 2006 and 2005, 323 and 324, respectively, of the unrecognized tax loss carryforwards expire over the periods to 2023.

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The movement in unrecognized tax loss carryforwards in the current year is primarily due to the recognition of tax loss carryforwards related to the initial accounting for business combinations.

The Company provides for income taxes or foreign withholding taxes on the cumulative earnings of foreign subsidiaries when it is determined that such earnings either will be subject to taxes or are intended to be repatriated. In fiscal year 2006, income taxes on cumulative earnings of 7,595 of foreign subsidiaries have not been provided for because such earnings will either not be subject to any such taxes or are intended to be indefinitely reinvested in those operations. It is not practicable to estimate the amount of the unrecognized deferred tax liabilities for these undistributed foreign earnings.

Including the items charged or credited directly to equity and the benefit from discontinued operations, the provision (benefit) for income taxes consists of the following:

	Year ended September 30, 2006	2005
Continuing operations	903	900
Discontinued operations	(94)	(257)
Income and expense recognized directly in equity	(294)	(577)
Other changes in equity*	316	
	831	66

* Tax effect on reclassification of conversion right (see Notes 21 and 25).

10. Available-for-sale financial assets

The following tables summarize the current portion of the Company s investment in available-for-sale financial assets:

	September 30, 2006			
			Unrealized	
	Cost	Fair Value	Gain	Loss
Equity instruments	64	81	17	
Debt instruments	498	492		6
Fund shares	23	23		
	585	596	17	6

	September 30, 2005			
			Unrealized	
	Cost	Fair Value	Gain	Loss
Equity instruments	1,752	2,139	388	1
Debt instruments	79	80	1	

Fund shares	14	14		
	1,845	2,233	389	1

Proceeds from sales of available-for-sale financial assets traded in an active market for the years ended September 30, 2006 and 2005 were 2,701 and 356, respectively. Gross realized gains on sales of such available-for-sale financial assets for the years ended September 30, 2006 and 2005 were 409 and 243, respectively. Gross realized losses on sales of such available-for-sale financial assets for the years ended September 30, 2006 and 2005 were 7 and , respectively.

In April 2006, the Company completed the sale of its remaining interest in Infineon, representing 136.3 million shares, for net proceeds of 1,127. The transaction resulted in a gain of 33 (see Note 8). In connection with the sale, 50 was reclassified from *Other components of equity*, *net of income tax* to net income. As a result of the transaction, the Company no longer owns any shares of Infineon. As of September 30, 2005, the Company had an 18.2% ownership interest in Infineon.

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In March 2006, the Company sold its remaining interest in Epcos, representing 8.2 million shares, for net proceeds of 90. The transaction resulted in a pre-tax gain of 15 (see Note 8).

In fiscal 2006, the Company made total investments of 1,409 in debt instruments. Net proceeds from the sale of debt instruments in fiscal 2006 totaled 986.

As part of the MD transaction, Siemens purchased 50 in Global Depositary Receipts (GDR s) on common shares in BenQ in December 2005, which at that time represented a 2.4 percent investment in BenQ. The GDR ´s were impaired by 20 as of September 30, 2006. The related impairment charge is included in *Financial income, net.*

In November 2005, the Company s former operating Group, Com, sold its remaining interest in Juniper, representing 22.8 million shares, for net proceeds of 465. The transaction resulted in a pre-tax gain of 356, included in *Income (loss) from discontinued operations, net of income taxes*. Fiscal 2005 includes the sale of 13 million shares of Juniper for net proceeds of 263 resulting in a pre-tax gain of 208, reported in *Income (loss) from discontinued operations, net of income taxes.*

Available-for-sale financial assets classified as non-current are included in *Other financial assets* (see Note 18).

11. Trade and other receivables

	September 30,	
	2006	**2005**
Trade receivables from the sale of goods and services	13,620	15,475
Receivables from finance leases	1,482	1,488
Receivables from associated and related companies	46	166
	15,148	17,129

Related companies are those in which Siemens has an ownership interest of less than 20% and exercises no significant influence over their operating and financial policies.

The valuation allowance on the Company s current and long-term receivables (see Notes 12 and 18) changed as follows:

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

Receivables from finance leases are presented in the balance sheet as follows:

	September 30,	
	2006	**2005**
Receivables from finance leases, current	1,482	1,488

Receivables from finance leases, long-term portion	2,969	2,899

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Minimum future lease payments to be received are as follows:

	September 30, 2006
2007	1,679
2008	1,288
2009	860
2010	540
2011	310
Thereafter	284
Minimum future lease payments	**4,961**

The following table shows a reconciliation of minimum future lease payments to the gross and net investment in leases and to the present value of the minimum lease payments receivable:

	September 30,	
	2006	**2005**
Minimum future lease payments	4,961	4,816
Plus: Unguaranteed residual values	211	355
Gross investment in leases	5,172	5,171
Less: Unearned finance income	(605)	(645)
Less: Allowance for doubtful accounts	(116)	(139)
Net investment in leases	4,451	4,387
Less: Present value of unguaranteed residual value	(152)	(253)
Present value of minimum lease payments receivable	**4,299**	**4,134**

The gross investment in leases and the present value of minimum lease payments receivable are due as follows:

	September 30,	
	2006	**2005**
Gross investment in leases	5,172	5,171
Within 1 year	1,716	1,720
1 to 5 years	3,147	3,150
Thereafter	309	301
Present value of minimum lease payments receivable	4,299	4,134
Within 1 year	1,408	1,464
1 to 5 years	2,661	2,476
Thereafter	230	194

Investments in finance leases relate primarily to medical engineering, data processing equipment and industrial and consumer products of third party manufacturers. Actual cash flows will vary from contractual maturities due to future sales of finance receivables, prepayments and write-offs.

See Note 4 for further information on *Trade and other receivables* reclassified to *Assets classified as held for disposal*.

12. Other current financial assets

	September 30,	
	2006	**2005**
Derivative financial instruments	424	784
Loans receivable	472	535
Receivables from associated and related companies	239	258
Other	1,235	1,481
	2,370	**3,058**

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13. Inventories

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

Costs and earnings in excess of billings on uncompleted contracts relates to construction contracts with net asset balances where contract costs plus recognized profits less recognized losses exceed progress billings. Liabilities from contracts for which progress billings exceed costs and recognized profits less recognized losses are recognized in *Other current liabilities.*

The aggregate amount of costs incurred and recognized profits less recognized losses for construction contracts in progress as of September 30, 2006 and 2005 amounted to 37,518 and 31,756, respectively. Advance payments received on construction contracts in progress were 5,421 and 4,294 as of September 30, 2006 and 2005. Revenue from construction contracts amounted to 19,239 and 15,662, respectively for fiscal 2006 and 2005. Information concerning construction contracts does not include disposal groups.

See Note 4 for further information on *Inventories* reclassified to *Assets classified as held for disposal*.

14. Other current assets

	September 30, 2006	September 30, 2005
Other tax receivables	722	815
Prepaid expenses	269	295
Other	283	362
	1,274	**1,472**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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15. Goodwill

Goodwill has changed as follows:

	Year ended September 30, 2006	Year ended September 30, 2005
Cost		
Balance at beginning of year	10,262	7,615
Translation differences and other	(225)	175
Acquisitions and purchase accounting adjustments	1,450	2,497
Adjustments from the subsequent recognition of deferred tax assets	(35)	(20)
Dispositions and reclassifications to assets held for disposal	(634)	(5)
Balance at year-end	10,818	10,262
Accumulated impairment losses		
Balance at beginning of year	1,441	1,139
Translation differences and other	(47)	23
Impairment losses recognized during the period		279
Dispositions and reclassifications to assets held for disposal	(265)	
Balance at year-end	1,129	1,441
Net book value		
Balance at beginning of year	8,821	6,476
Balance at year-end	9,689	8,821

Impairment losses for the year ended September 30, 2005 include 17 which are reported in *Income (loss) from discontinued operations, net of income taxes.*

	Net book value as of 10/1/2005	Translation differences and other	Acquisitions and purchase accounting adjustments*	Dispositions and reclassifications to assets held for disposal	Impairments	Net book value as of 9/30/2006
Operations						
Communications (Com)	386	(13)	(4)	(369)		
Siemens Business Services (SBS)	126		1			127
Automation and Drives (A&D)	926	(10)	78			994
Industrial Solutions and Services (I&S)	915	(23)	204			1,096
Siemens Building Technologies (SBT)	444	(9)	121			556
Power Generation (PG)	1,225	(21)	211			1,415
	547	(4)	58			601

Power Transmission and Distribution (PTD)					
Transportation Systems (TS)	173				173
Siemens VDO Automotive (SV)	1,529	(1)	2		1,530
Medical Solutions (Med)	2,113	(95)	775		2,793
Osram	86	(3)	3		86
Other Operations	220		(32)		188
Financing and Real Estate					
Siemens Financial Services (SFS)	131	1	(2)		130
Siemens Real Estate (SRE)					
Siemens	**8,821**	**(178)**	**1,415**	**(369)**	**9,689**

* Includes adjustments from the subsequent recognition of deferred tax assets.

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	Net book value as of 10/1/2004	Translation differences and other	Acquisitions and purchase accounting adjustments*	Dispo-sitions	Impair-ments	Net book value as of 9/30/2005
Operations						
Communications (Com)	315	13	75		17	386
Siemens Business Services (SBS)	269	4	115		262	126
Automation and Drives (A&D)	388	6	532			926
Industrial Solutions and Services (I&S)	381	7	527			915
Siemens Building Technologies (SBT)	415	8	21			444
Power Generation (PG)	1,027	15	183			1,225
Power Transmission and Distribution (PTD)	320	14	213			547
Transportation Systems (TS)	111		62			173
Siemens VDO Automotive (SV)	1,524		5			1,529
Medical Solutions (Med)	1,514	80	524	5		2,113
Osram	78	4	4			86
Other Operations	52	1	167			220
Financing and Real Estate						
Siemens Financial Services (SFS)	82		49			131
Siemens Real Estate (SRE)						
Siemens	**6,476**	**152**	**2,477**	**5**	**279**	**8,821**

* Includes adjustments from the subsequent recognition of deferred tax assets.

In fiscal 2006, the net increase in goodwill was 868. The increase of 1,415 related to acquisitions and purchase accounting adjustments was offset by (178) primarily for U.S.$ currency translation differences and (369) of goodwill formerly at Com that was reclassified as part of *Assets classified as held for disposal*. Med s acquisition of DPC increased goodwill by 751. For further information on acquisitions, dispositions and discontinued operations see Note 4. No goodwill was impaired or written off in fiscal 2006.

In fiscal 2005, goodwill increased by 2,345. The increase of 152 in foreign currency translation and other adjustments results primarily from the strengthening of the U.S. $ against the euro. The VA Tech acquisition resulted in additions to goodwill of 920. Med s acquisition of CTI, and A&D s acquisition of Flender increased goodwill by 539 and 445, respectively.

Siemens tests at least annually whether goodwill suffered any impairment, in accordance with the accounting policy stated in Note 2. Key assumptions on which management has based its determinations of the recoverable amount for the divisions carrying goodwill include growth rates up to 3% and after-tax discount rates of 6.5% to 8.5%. Where possible, reference to market prices is made.

Within the Operations Groups the following divisions are allocated a significant amount of goodwill: Health Services division within Med in an amount of 864 (2005: 906), Industrial Applications division within PG in an amount of 658 (2005: 650) and Interior & Infotainment division within SV in an amount of 626 (2005: 626).

During the fourth quarter of fiscal 2005, the Company recorded a goodwill impairment of 262, which is included in *Other operating expense*. Based on the results of the Company s analysis of projects at SBS s cash-generating unit Operation-Related Services (ORS) in connection with changing markets, competition in outsourcing business and structural challenges to attaining originally targeted profitability, the Company revised its related business plan and concluded that goodwill of ORS was impaired. Significant cost pressure due to excess capacity, the necessity for restructuring efforts and the need for new investments in order to achieve a competitive market position caused the Company to reassess its estimated future cash flows from its ORS business to a level materially below earlier estimates. The fair value of the cash-generating unit was estimated using the present value of expected future cash flows. The growth rate used in this calculation was 2% and the after-tax discount rate 7.8%.

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16. Other intangible assets

	10/1/05	Translation differences	Additions	Retirements*	9/30/06	Accumulated amortization	Net book value as of 9/30/06	Accumulated amortization 10/1/05	Net book value as of 10/1/05	Amortization during fiscal year 2006
Software and other internally generated intangible assets	2,675	(49)	647	955	2,318	1,320	998	1,585	1,090	427
Patents, licenses and similar rights	3,729	(64)	649	239	4,075	1,688	2,387	1,502	2,227	364
Other intangible assets	**6,404**	**(113)**	**1,296**	**1,194**	**6,393**	**3,008**	**3,385**	**3,087**	**3,317**	**791**

* Includes *Other intangible assets* reclassified to *Assets classified as held for disposal* (see Note 4 for further information).

	10/1/04	Translation differences	Additions	Retirements*	9/30/05	Accumulated amortization	Net book value as of 9/30/05	Accumulated amortization 10/1/04	Net book value as of 10/1/04	Amortization during fiscal year 2005
Software and other internally generated intangible assets	2,234	35	560	154	2,675	1,585	1,090	1,121	1,113	522

Patents, licenses and similar rights	2,777	32	1,051	131	3,729	1,502	2,227	1,195	1,582	298
Other intangible assets	**5,011**	**67**	**1,611**	**285**	**6,404**	**3,087**	**3,317**	**2,316**	**2,695**	**820**

* Includes *Other intangible assets* reclassified to *Assets classified as held for disposal* (see Note 4 for further information).

Amortization expense for the years ended September 30, 2006 and 2005 includes 131 and 218, respectively, reported in *Income (loss) from discontinued operations, net of income taxes.*

Amortization expense on intangible assets is included in *Cost of goods sold and services rendered*, *Research and development expenses* or *Marketing, selling and general administrative expenses*, depending on the use of the asset.

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

Fiscal year