

SIEMENS AKTIENGESELLSCHAFT

Form 20-F

December 02, 2010

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**As filed with the Securities and Exchange Commission on December 2, 2010**

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

**FORM 20-F**

- o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR(g)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
OR**
- p ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the fiscal year ended September 30, 2010  
OR**
- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
OR**
- o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
Date of event requiring this shell company report \_\_\_\_\_  
Commission file number: 1-15174**

**Siemens Aktiengesellschaft  
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D-80333 Munich  
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Securities registered or to be registered pursuant to Section 12(b) of the Act:

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

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

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

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

The number of outstanding shares of each of the issuer's classes of capital or common stock as of September 30, 2010: 869,837,005 common shares, no par value.

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

Yes  No

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

Yes  No

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

Yes  No  Not applicable

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued  
by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

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

Yes  No



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This Form 20-F contains forward-looking statements and information that is, statements related to future, not past, events. These statements may be identified by words such as expects, looks forward to, anticipates, intends, plans, believes, seeks, estimates, will, project or words of similar meaning. Such statements are based on the current expectations and certain assumptions of Siemens management, and are, therefore, subject to certain risks and uncertainties. A variety of factors, many of which are beyond Siemens control, affect Siemens operations, performance, business strategy and results and could cause the actual results, performance or achievements of Siemens to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. In particular, Siemens is strongly affected by changes in general economic and business conditions as these directly impact its processes, customers and suppliers. This may negatively impact our revenue development and the realization of greater capacity utilization as a result of growth. Yet due to their diversity, not all of Siemens businesses are equally affected by changes in economic conditions; considerable differences exist in the timing and magnitude of the effects of such changes. This effect is amplified by the fact that, as a global company, Siemens is active in countries with economies that vary widely in terms of growth rate. Uncertainties arise from, among other things, the risk of customers delaying the conversion of recognized orders into revenue or cancellations of recognized orders, of prices declining as a result of continued adverse market conditions by more than is currently anticipated by Siemens management or of functional costs increasing in anticipation of growth that is not realized as expected. Other factors that may cause Siemens results to deviate from expectations include developments in the financial markets, including fluctuations in interest and exchange rates (in particular in relation to the U.S. dollar), in commodity and equity prices, in debt prices (credit spreads) and in the value of financial assets generally. Any changes in interest rates or other assumptions used in calculating pension obligations may impact Siemens defined benefit obligations and the anticipated performance of pension plan assets resulting in unexpected changes in the funded status of Siemens pension and post-employment benefit plans. Any increase in market volatility, further deterioration in the capital markets, decline in the conditions for the credit business, continued uncertainty related to the subprime, financial market and liquidity crises, or fluctuations in the future financial performance of the major industries served by Siemens may have unexpected effects on Siemens results. Furthermore, Siemens faces risks and uncertainties in connection with certain strategic reorientation measures; the performance of its equity interests and strategic alliances; the challenge of integrating major acquisitions and implementing joint ventures and other significant portfolio measures; the introduction of competing products or technologies by other companies or market entries by new competitors; changing competitive dynamics (particularly in developing markets); the risk that new products or services will not be accepted by customers targeted by Siemens; changes in business strategy; the outcome of pending investigations, legal proceedings and actions resulting from the findings of, or related to the subject matter of, such investigations; the potential impact of such investigations and proceedings on Siemens business, including its relationships with governments and other customers; the potential impact of such matters on Siemens financial statements, and various other factors. More detailed information about certain of the risk factors affecting Siemens is contained throughout this report and in Siemens other filings with the SEC, which are available on the Siemens website, [www.siemens.com](http://www.siemens.com), and on the SEC's website, [www.sec.gov](http://www.sec.gov). Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the relevant forward-looking statement as expected, anticipated, intended, planned, believed, sought, estimated or projected. Siemens neither intends to, nor assumes any obligation to, update or revise these forward-looking statements in light of developments which differ from those anticipated.

In this Form 20-F, references to we, us, our, Company, Siemens or Siemens AG are to Siemens Aktiengesellschaft and, unless the context otherwise requires, to its consolidated subsidiaries. Throughout this annual report, whenever a reference is made to our Company's website, such reference does not incorporate information from the website by reference into this annual report.



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**PART I**

**ITEM 1: IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2: OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3: KEY INFORMATION**

**Selected consolidated financial and statistical data**

The accompanying Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). The financial statements are also in accordance with IFRS as issued by the IASB. Certain pronouncements have been early adopted, see Notes to Consolidated Financial Statements. Until fiscal year end 2006, our primary financial reporting was prepared in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP).

We have presented the selected financial data below as of and for each of the years in the five-year period ended September 30, 2010 in accordance with IFRS. For fiscal years 2010 to 2007, we present our Consolidated Financial Statements prepared in accordance with IFRS. In addition, we published our first IFRS Consolidated Financial Statements for fiscal years 2006 and 2005 as supplemental information in December 2006. The IFRS selected financial data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, the Consolidated Financial Statements and the Notes thereto presented elsewhere in this document.

We have also presented the selected financial data below as of and for each of the years in the two-year period ended September 30, 2007 in accordance with U.S. GAAP. For fiscal years 2010, 2009 and 2008, Siemens is not required to prepare and present financial data in accordance with U.S. GAAP. For fiscal years 2007 and 2006, the selected financial data has been derived from a reconciliation of our IFRS Consolidated Financial Statements to U.S. GAAP.

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Income statement data	2010 <sup>(1)</sup>	Year ended September 30,				2006 <sup>(1)</sup>
		2009 <sup>(1)</sup>	2008 <sup>(1)</sup>	2007 <sup>(1)</sup>	(in millions of \$, except per share data)	
<i>Amounts in accordance with IFRS:</i>						
Revenue	75,978	76,651	77,327	72,448	66,487	
Income from continuing operations before income taxes	5,811	3,891	2,874	5,101	3,418	
Income from continuing operations	4,112	2,457	1,859	3,909	2,642	
Income (loss) from discontinued operations, net of income taxes	(44)	40	4,027	129	703	
Net income	4,068	2,497	5,886	4,038	3,345	
Basic earnings per share						
Income from continuing operations	4.54	2.60	1.91	4.13	2.78	
Income (loss) from discontinued operations	(0.05)	0.05	4.50	0.11	0.74	
Net income	4.49	2.65	6.41	4.24	3.52	
Diluted earnings per share						
Income from continuing operations	4.49	2.58	1.90	3.99	2.77	
Income (loss) from discontinued operations	(0.05)	0.05	4.49	0.11	0.74	
Net income	4.44	2.63	6.39	4.10	3.51	

	2010 <sup>(1)</sup>	Year ended September 30,				2006 <sup>(1)</sup>
		2009 <sup>(1)</sup>	2008 <sup>(1)</sup>	2007 <sup>(1)</sup>	(in millions of \$, except per share data)	
<i>Amounts in accordance with U.S. GAAP:</i>						
Net sales	N/A	N/A	N/A	78,890	77,559	
Income from continuing operations before income taxes	N/A	N/A	N/A	3,250	3,728	
Income from continuing operations, net of income taxes	N/A	N/A	N/A	2,064	2,650	
Income (loss) from discontinued operations, net of income taxes	N/A	N/A	N/A	353	393	
Net income	N/A	N/A	N/A	2,417	3,043	
Basic earnings per share						
Income from continuing operations	N/A	N/A	N/A	2.30	2.97	
Income (loss) from discontinued operations	N/A	N/A	N/A	0.39	0.45	
Net income	N/A	N/A	N/A	2.69	3.42	
Diluted earnings per share						
Income from continuing operations	N/A	N/A	N/A	2.29	2.85	
Income (loss) from discontinued operations	N/A	N/A	N/A	0.39	0.42	
Net income	N/A	N/A	N/A	2.68	3.27	

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Balance sheet data	2010	2009	At September 30,		
			2008	2007	2006
			(in millions of €)		
<i>Amounts in accordance with IFRS:</i>					
Total assets	102,827	94,926	94,463	91,555	87,528
Long-term debt	17,497	18,940	14,260	9,860	13,122
Total equity	29,096	27,287	27,380	29,627	25,895
Common stock	2,743	2,743	2,743	2,743	2,673
<i>Amounts in accordance with U.S. GAAP:</i>					
Total assets	N/A	N/A	N/A	93,470	90,770
Long-term debt	N/A	N/A	N/A	9,853	13,399
Shareholders' equity	N/A	N/A	N/A	30,379	28,926
Common stock	N/A	N/A	N/A	2,743	2,673

(1) Under IFRS, the historical results of the former segments Communications (Com) and Siemens VDO Automotive (SV) are reported as discontinued operations in the Company's Consolidated Statements of Income for all periods presented and the assets and liabilities were classified on the balance sheet as held for disposal. For further information see Notes to Consolidated Financial Statements.

The number of shares outstanding at September 30, 2010, 2009, 2008, 2007 and 2006 was 869,837,005; 866,425,760; 861,557,756; 914,203,038 and 891,086,826, respectively.

**Dividends**

The following table sets forth in euros and in U.S. dollars the dividend paid per share for the years ended September 30, 2006, 2007, 2008, 2009 and the proposed dividend per share for the year ended September 30, 2010. Owners of our shares who are United States residents should be aware that they will be subject to German withholding tax on dividends received. See Item 10: Additional information Taxation.

Year ended September 30,	Dividend paid per share	
	Euro	U.S. dollar
2006	1.45	1.88
2007	1.60	2.36
2008	1.60	2.11
2009	1.60	2.25
2010	2.70 <sup>(1)</sup>	

(1) Proposed by the Managing Board and the Supervisory Board; to be approved by the shareholders at the Annual Shareholders' Meeting on January 25, 2011.

**Exchange rate information**

We publish our Consolidated Financial Statements in euros. As used in this document, euro or means the single unified currency that was introduced in the Federal Republic of Germany on January 1, 1999. U.S. dollar, U.S.\$, USD or \$ means the lawful currency of the United States of America. The currency translations made in the case of dividends we have paid have been made at the noon buying rate at the date of the Annual Shareholders Meeting at which the dividends were approved. As used in this document, the term noon buying rate refers to the rate of exchange for euro, expressed in U.S. dollar per euro, as announced by the Federal Reserve Bank of New York for customs purposes as the rate in The City of New York for cable transfers in foreign currencies.

In order that you may ascertain how the trends in our financial results might have appeared had they been expressed in U.S. dollars, the table below shows the average noon buying rates in The City of New York for cable

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transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York for U.S. dollar per euro for our fiscal years. The average is computed using the noon buying rate on the last business day of each month during the period indicated.

<b>Fiscal year ended September 30,</b>	<b>Average</b>
2006	1.2361
2007	1.3420
2008	1.5067
2009	1.3556
2010	1.3539

The following table shows the noon buying rates for euro in U.S. dollars for the last six months and for November 2010 up to and including November 24, 2010.

<b>2010</b>	<b>High</b>	<b>Low</b>
May	1.3183	1.2224
June	1.2385	1.1959
July	1.3069	1.2464
August	1.3282	1.2652
September	1.3638	1.2708
October	1.4066	1.3688
November (through November 24)	1.4205	1.3350

On November 24, 2010, the noon buying rate was U.S.\$1.3350 per 1.00.

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

**Risk factors**

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

**Strategic**

***We operate in highly competitive markets, which are subject to price pressures and rapid changes:*** The worldwide markets for our products and solutions are highly competitive in terms of pricing, product and service quality, development and introduction time, customer service and financing terms. In many of our businesses, we face downward price pressure and we are or could be exposed to market downturns or slower growth, which may increase in times of declining investment activities and consumer demand. We face strong competitors, some of which are



larger and may have greater resources in a given business area, as well as competitors from emerging markets, which may have a better cost structure. Some industries in which we operate are undergoing consolidation, which may result in stronger competitors and a change in our relative market position. Certain competitors might be more effective and faster in capturing available market opportunities, which in turn may negatively impact our market share. These factors alone or in combination may negatively impact our financial condition, including effects on assets, liabilities and cash flows (financial condition), and results of operations.

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***Our business is affected by the uncertainties of economic and political conditions, in particular, in the current macroeconomic environment following the global downturn and financial crisis:*** Our business environment is influenced by conditions in the domestic and global economies. In fiscal 2010, certain indices and economic data showed signs of improvement and stabilization in the macroeconomic environment compared to the situation during fiscal 2009, which was characterized by a strong decline in consumer and business confidence, increased unemployment and reduced levels of capital expenditure, among other things. In light of the latest economic developments, the high degree of unemployment in certain countries, the level of public debt in the U.S., as well as in Greece and other European countries, uncertainties with respect to the stability of the Chinese economy, and the potential impact of budget consolidation measures by governments around the world, there can be no assurance that these improvements will be broad-based and sustainable, and it is unclear, how they will affect the markets relevant for us. In general, due to the significant proportion of longer-cycle businesses in our Sectors and the importance of long-term contracts for Siemens, there is usually a time lag between the development of macroeconomic conditions and their impact on our financial results. If the improvements are only temporary and if we are not successful in adapting our production and cost structure to the current market environment there can be no assurance that we will not experience further adverse effects that may be material to our financial condition, results of operations and our ability to access capital. For example, it may become more difficult for our customers to obtain financing and as a result they may modify, delay or cancel plans to purchase our products and services or to execute transactions. Furthermore, prices may decline as a result of adverse market conditions to a greater extent than currently anticipated. In addition, contracted payment terms, especially regarding the level of advance payments by our customers relating to long-term projects, may become less favorable, which could negatively impact our cash flows. Additionally, if customers are not successful in generating sufficient revenue or securing access to the capital markets they may not be able to pay, or may delay payment of, the amounts they owe us, which may adversely affect our financial condition and results of operations.

Numerous other factors, such as fluctuations of energy and raw material prices as well as global political conflicts, including in the Middle East and other regions, continue to impact macroeconomic parameters and the international capital and credit markets. The uncertainty of economic and political conditions can have a material adverse impact on our investments, financial condition and results of operations and can also make our budgeting and forecasting more difficult.

Our Sectors and Cross-Sector Businesses are affected by a variety of market conditions and regulation. For example, our Industry Sector is vulnerable to unfavorable market conditions in certain segments of the automotive, manufacturing and construction industries. Our Healthcare Sector, in turn, is dependent on developments and regulations in the healthcare systems around the world, particularly in the important U.S. healthcare market. Finally, our Energy Sector is exposed to the development of global energy demand and is considerably affected by regulations related to energy and environmental policies.

***Our businesses must keep pace with technological changes and develop new products and services to remain competitive:*** The markets in which our businesses operate experience rapid and significant changes due to the introduction of innovative technologies. To meet our customers' needs in these areas we must continuously design new, and update existing products and services and invest in and develop new technologies. Introducing new products and technologies requires a significant commitment to research and development, which in return requires considerable financial resources that may not always result in success. Our sales and profits may suffer if we invest in technologies that do not operate or may not be integrated as expected or are not accepted in the marketplace as anticipated or if our products or systems are not introduced to the market in a timely manner, in particular compared to our competitors, or as they become obsolete. Furthermore, in some of our markets, the need to develop and introduce new products rapidly in order to capture available opportunities may lead to quality problems. Our operating results depend to a significant extent on our ability to anticipate and adapt to changes in markets and to reduce the costs of producing high-quality, new and existing products. Any inability to do so could have a material adverse effect on our

financial condition and results of operations.

***Our financial condition and results of operations may be adversely affected by continued strategic reorientations and cost-cutting initiatives:*** We are in a continuous process of strategic reorientation and constantly engage in cost-cutting initiatives, including in connection with ongoing capacity adjustment measures

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and structural initiatives, for example, in the Cross-Sector Business Siemens IT Solutions and Services. Capacity adjustments through consolidation of business activities and manufacturing facilities, and the streamlining of product portfolios are also part of these cost reduction efforts. These measures may negatively impact our financial condition and results of operations. Any future contribution of these measures to our profitability will be influenced by the actual savings achieved and by our ability to sustain these ongoing efforts.

***Our financial condition and results of operations may be adversely affected by portfolio measures:*** Our strategy includes divesting our interests in some business areas and strengthening others through portfolio measures, including mergers and acquisitions.

With respect to dispositions, we may not be able to divest some of our activities as planned, and the divestitures we do carry out could have a negative impact on our financial condition, results of operations and, potentially, our reputation.

Mergers and acquisitions are inherently risky because of difficulties that may arise when integrating people, operations, technologies and products. There can be no assurance that any of the businesses we acquire can be integrated successfully and as timely as originally planned or that they will perform well once integrated. In addition, we may incur significant acquisition, administrative and other costs in connection with these transactions, including costs related to integration of acquired businesses. Furthermore, portfolio measures may result in additional financing needs and adversely affect our financial leverage and our debt-to-equity ratio. Acquisitions may also lead to substantial increases in intangible assets, including goodwill. Our balance sheet reflects a significant amount of intangible assets, including goodwill. Among our businesses, the largest amount of goodwill is allocated to the Divisions Diagnostics and Imaging & IT of the Healthcare Sector, and Industry Automation of the Industry Sector. If we were to encounter continuing adverse business developments including negative effects on our revenues, profits or on cash, or adverse effects from an increase in the weighted average cost of capital (WACC) or from foreign exchange rate developments or otherwise perform worse than expected at acquisition, then these intangible assets, including goodwill, e.g., at the Diagnostics Division, might have to be written down further and could materially and adversely affect our results of operations. The likelihood of such adverse business developments increases in times of difficult or uncertain macroeconomic conditions. For example, as a result of a strategic review which was finalized in the fourth quarter of fiscal 2010, the Diagnostics Division's medium-term growth prospects and the long-term market development in laboratory diagnostics have been reassessed and the Division's business planning has been adjusted accordingly to reflect expected lower growth prospects. The adjusted business plan was the basis for the annual goodwill impairment test in the fourth quarter of fiscal 2010, which resulted in a goodwill impairment of 1.145 billion with respect to the goodwill allocated to the Diagnostics Division.

***We may be adversely affected by our equity interests and strategic alliances:*** Our strategy includes strengthening our business interests through joint ventures, associated companies and strategic alliances. Certain of our investments are accounted for using the equity method, including, among others, Nokia Siemens Networks B.V. (NSN), Enterprise Networks Holdings B.V. (EN), BSH Bosch und Siemens Hausgeräte GmbH (BSH) and Kraus-Maffei Wegmann GmbH&Co.KG (KMW). Any factors negatively influencing the profitability of our equity investments, including negative effects on revenues, profits or on cash, could have an adverse effect on our equity pick-up related to these equity interests or may result in a write-down of these investments. In addition, our financial condition and results of operations could also be adversely affected in connection with loans, guarantees or non-compliance with financial covenants related to these equity investments. Furthermore, such investments are inherently risky as we may not be able to sufficiently influence corporate governance processes or business decisions taken by our equity investments and strategic alliances that may have a negative effect on our business. In addition, joint ventures bear the risk of difficulties that may arise when integrating people, operations, technologies and products. Strategic alliances may also pose risks for us because we compete in some business areas with companies with which we have strategic alliances.



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***We are dependent upon hiring and retaining highly qualified management and technical personnel:*** Competition for highly qualified management and technical personnel remains intense in the industries and regions in which our Sectors and Cross-Sector Businesses operate, in particular, in times of economic recovery. In many of our business areas, we intend to expand our business activities, for which we will need highly skilled employees. Our future success depends in part on our continued ability to hire, assimilate and retain engineers and other qualified personnel. There can be no assurance that we will continue to be successful in attracting and retaining all the highly qualified employees and key personnel needed in the future, including in appropriate geographic locations, and any inability to do so could have a material adverse effect on our business.

***Increased IT security threats and higher levels of professionalism in computer crime could pose a risk to our systems, networks, products, solutions and services:*** We observe a global increase in IT security threats and higher levels of professionalism in computer crime, which pose a risk to the security of systems and networks and the confidentiality, availability and integrity of data. While we attempt to mitigate these risks by employing a number of measures, including employee training, comprehensive monitoring of our networks and systems, and maintenance of backup and protective systems such as firewalls and virus scanners, our systems, networks, products, solutions and services remain potentially vulnerable to attacks. Depending on their nature and scope, such attacks could potentially lead to the leakage of confidential information, improper use of our systems and networks, manipulation and destruction of data, defective products, production downtimes and supply shortages, which in turn could adversely affect our reputation, competitiveness and results of operations.

***We may face interruption of our supply chain, including the inability of third parties to deliver parts, components and services on time, and could be subject to rising raw material prices:*** Our financial performance depends in part on reliable and effective supply chain management for components, sub-assemblies and other materials. Capacity constraints and supply shortages resulting from ineffective supply chain management may lead to delays and additional cost. We rely on third parties to supply us with parts, components and services. Using third parties to manufacture, assemble and test our products reduces our control over manufacturing yields, quality assurance, product delivery schedules and costs. The third parties that supply us with parts and components also have other customers and may not have sufficient capacity to meet all of their customers' needs, including ours, during periods of excess demand. Component supply delays can affect the performance of our Sectors. Although we work closely with our suppliers to avoid supply-related problems, there can be no assurance that we will not encounter supply problems in the future or that we will be able to replace a supplier that is not able to meet our demand. This risk is particularly evident in businesses with a very limited number of suppliers. Shortages and delays could materially harm our business. Unanticipated increases in the price of components due to market shortages or other reasons could also adversely affect the performance of our Sectors.

Our Sectors purchase raw materials including copper, steel, aluminum and oil, which exposes them to fluctuations in energy and raw material prices. In recent times, commodities have been subject to volatile markets, and such volatility is expected to continue. If we are not able to compensate for our increased costs or pass them on to customers, price increases could have a material adverse impact on our financial results. In contrast, in times of falling commodity prices, we may not fully profit from such price decreases as we attempt to reduce the risk of rising commodity prices by several means, such as long-term contracting or physical and financial hedging. In addition to price pressure that we may face from our customers expecting to benefit from falling commodity prices or adverse market conditions, this could also adversely affect our results of operations.

***We may face operational failures and quality problems in our value chain processes:*** Our value chain comprises all steps, from research and development to supply chain management, production, marketing, sales and services. Operational failures in our value chain processes could result in quality problems or potential product, labor safety,

regulatory or environmental risks. Such risks are particularly present in relation to our production facilities, which are located all over the world and have a high degree of organizational and technological complexity. From time to time, some of the products we sell might have quality issues resulting from the design or manufacture of such products or from the software integrated into them. Such operational failures or quality issues could have a material adverse effect on our financial condition and results of operations.

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***Our financial condition and results of operations may be adversely affected by cost overruns or additional payment obligations related to the management of our long-term, fixed price or turnkey projects:*** We perform a portion of our business, especially large projects, under long-term contracts that are awarded on a competitive bidding basis. Some of these contracts are inherently risky because we may assume substantially all of the risks associated with completing the project and the post-completion warranty obligations. For example, we face the risk that we must satisfy technical requirements of a project even though we may not have gained experience with those requirements before we win the project. The profit margins realized on such fixed-priced contracts may vary from original estimates as a result of changes in costs and productivity over their term. We sometimes bear the risk of unanticipated project modifications, shortage of key personnel, quality problems, financial difficulties of our customers, cost overruns or contractual penalties caused by unexpected technological problems, unforeseen developments at the project sites, performance problems with our suppliers, subcontractors and consortium partners or other logistical difficulties. Certain of our multi-year contracts also contain demanding installation and maintenance requirements, in addition to other performance criteria relating to timing, unit cost requirements and compliance with government regulations, which, if not satisfied, could subject us to substantial contractual penalties, damages, non-payment and contract termination. There can be no assurance that contracts and projects, in particular those with long-term duration and fixed-price calculation, can be completed profitably. For additional information, see Item 5: Operating and financial review and prospects Critical accounting estimates.

**Financial**

***We are exposed to currency risks and interest rate risks:*** We are exposed to fluctuations in exchange rates, especially between the U.S. dollar and the euro, because a high percentage of our business volume is conducted in the U.S. and as exports from Europe. In addition, we are exposed to currency effects involving the currencies of emerging markets such as China, India and Brazil. As a result, a strong euro in relation to the U.S. dollar and other currencies can have a material impact on our other revenues and results. Certain currency risks as well as interest rate risks are hedged on a Company-wide basis using derivative financial instruments. Depending on the development of foreign currency exchange rates, our hedging activities can have significant effects on our cash flow. Our Sectors and Cross-Sector Businesses engage in currency hedging activities which sometimes do not qualify for hedge accounting. In addition, our Corporate Treasury has interest rate hedging activities which also do not qualify for hedge accounting, and are subject to changes in interest rates. Accordingly, exchange rate and interest rate fluctuations may influence our results and lead to earnings volatility. A strengthening of the euro (particularly against the U.S. dollar) may also change our competitive position, as many of our competitors may benefit from having a substantial portion of their costs based in weaker currencies, enabling them to offer their products at lower prices.

***We are exposed to volatile credit spreads:*** Regarding our Corporate Treasury activities, widening credit spreads due to uncertainty and risk aversion in the financial markets might lead to changing fair market values of our existing trade receivables and derivative financial instruments. In addition, we also see a risk of increasing refinancing costs if the recent stabilization and improvement in the global financial markets does not persist. Furthermore, costs for buying protection on credit default risks could increase due to a potential increase of counterparty risks.

***Our future financing via Corporate Treasury may be affected by the uncertainties of economic conditions and the development of capital and bank markets:*** Our Corporate Treasury is responsible for the financing of the Company and our Sectors and Cross-Sector Businesses. Negative developments in the foreign exchange, money or capital markets, such as limited availability of funds (particularly U.S. dollar funds), may increase our overall cost of funding. The worldwide financial market crisis has had a global impact on the capital markets. These developments and the higher risk awareness of investors and of governments, in particular, may lead to further politically influenced regulation of the financial sector, could influence our future possibilities of obtaining debt financing, and may significantly increase credit spreads. Regarding our Corporate Treasury activities, deteriorating credit quality and/or default of counterparties may adversely affect our results.



***Downgrades of our ratings could increase our cost of capital and could negatively affect our businesses:*** Our financial condition and results of operations are influenced significantly by the actual and expected

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performance of the Sectors and Cross-Sector Businesses, as well as the Company's portfolio measures. An actual or expected negative development of our results of operations or cash flows or an increase in our net debt position could result in the deterioration of our credit rating. Downgrades by rating agencies could increase our cost of capital, may reduce our potential investor base and may negatively affect our businesses.

***Our financing activities subject us to various risks, including credit, interest rate and foreign exchange risk:*** We provide our customers with various forms of direct and indirect financing in connection with large projects such as those undertaken by our Energy Sector. We finance a large number of smaller customer orders, for example the leasing of medical equipment, in part through SFS. SFS also incurs credit risk by financing third-party equipment or by taking direct or indirect participations in financings, such as syndicated loans. In part, we take a security interest in the assets we finance or we receive additional collateral. We may lose money if the credit quality of our customers deteriorates or if they default on their payment obligation to us, if the value of the assets in which we have taken a security interest or additional collateral declines, if interest rates or foreign exchange rates fluctuate, or if the projects in which we invest are unsuccessful. Potential adverse changes in economic conditions could cause a further decline in the fair market values of financial assets and customer default rates to increase substantially and asset and collateral values to decline, resulting in losses which could have a negative effect on our financial condition and results of operations.

***Our financial condition and results of operations may be adversely affected by several parameters influencing the funded status of our pension benefit plans:*** The funded status of our pension plans may be affected by an increase or decrease in the defined benefit obligation (DBO), as well as by an increase or decrease in the value of plan assets. Pensions are accounted for in accordance with actuarial valuations, which rely on statistical and other factors in order to anticipate future events. These factors include key pension plan valuation assumptions such as the discount rate, expected rate of return on plan assets, rate of future compensation increases and pension progression. Actual developments may differ from assumptions due to changing market and economic conditions, thereby resulting in an increase or decrease in the DBO. Significant movements in financial markets or a change in the portfolio mix of invested assets can result in corresponding increases or decreases in the value of plan assets, particularly equity securities, or in a change of the expected rate of return on plan assets. Also, changes in pension plan assumptions can affect net periodic pension cost. For example, a change in discount rates or in the expected return on plan assets assumptions may result in changes in the net periodic benefit cost in the following financial year. In order to comply with local pension regulations in selected foreign countries, we may face a risk of increasing cash outflows to reduce an underfunding of our pension plans in these countries, if any. At the end of fiscal 2010, the combined funded status of Siemens' principal pension benefit plans showed an underfunding of \$6.4 billion, compared to an underfunding of \$4.0 billion at the end of fiscal 2009. Further, the combined funded status of Siemens' principal other post-employment benefit plans showed an underfunding of \$0.7 billion at the end of fiscal 2010, compared to an underfunding of \$0.6 billion at the end of the prior fiscal year. Other liabilities for pension plans and similar commitments amounted to \$1.2 billion at the end of fiscal 2010, compared to \$1.1 billion at the end of the prior fiscal year. For further information, see Item 5: Operating and financial review and prospects Critical accounting estimates and Notes to Consolidated Financial Statements.

**Compliance**

***We are subject to regulatory risks associated with our international operations:*** Protectionist trade policies and changes in the political and regulatory environment in the markets in which we operate such as foreign exchange import and export controls, tariffs and other trade barriers and price or exchange controls could affect our business in several national markets, impact our sales and profitability and make the repatriation of profits difficult, and may expose us to penalties, sanctions and reputational damage. In addition, the uncertainty of the legal environment in some regions could limit our ability to enforce our rights. For example, as a globally operating organization, we conduct business with customers in countries that are subject to export control regulations, embargos, sanctions or

other forms of trade restrictions imposed by the U.S., the European Union or other countries or organizations. Business with customers in Iran has recently become subject to significant further regulation under Resolution 1929 (2010) of the Security Council of the United Nations, the U.S. Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 enacted on July 1, 2010 as well as the Council Regulation

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(EU) No. 961/2010 of October 25, 2010 on restrictive measures against Iran and repealing Regulation (EC) No. 423/2007. Even though we have decided, as a general rule, as described in more detail in Item 4:

Information on the Company Overview, not to enter into new contracts with customers in Iran, we may still conduct certain business activities and provide products and services to customers in Iran under limited circumstances in accordance with the detailed policies implementing this general rule. New or tightened export control regulations, sanctions, embargos or other forms of trade restrictions imposed on Iran or on other sanctioned countries in which we do business may result in a curtailment of our existing business in such countries and in an adaptation of our policies. In addition, the termination of our activities in Iran or other sanctioned countries may expose us to customer claims and other actions. We are currently in the process of evaluating the potential impact, if any, of the Iran legislation referenced above on, among other things, pre-existing contractual obligations in our Energy Sector's business in Iran.

We expect that sales to emerging markets will continue to account for an increasing portion of our total revenue, as our business naturally evolves and as developing nations and regions around the world increase their demand for our offering. Emerging market operations present several risks, including civil disturbances, health concerns, cultural differences such as employment and business practices, volatility in gross domestic product, economic and governmental instability, the potential for nationalization of private assets and the imposition of exchange controls. In particular, the Asian markets are important for our long-term growth strategy, and our sizeable operations in China are influenced by a legal system that is still developing and is subject to change. Our growth strategy could be limited by governments supporting local industries. Our Sectors and Cross-Sector Businesses, particularly those that derive their revenue from large projects, could be adversely affected if future demand, prices and gross domestic product in the markets in which those Sectors and Cross-Sector Businesses operate do not develop as favorably as expected. If any of these risks or similar risks associated with our international operations were to materialize, our financial condition and results of operations could be materially adversely affected.

***Public prosecutors and other government authorities in jurisdictions around the world are conducting investigations of our Company and certain of our current and former employees regarding allegations of public corruption and other illegal acts. The results of these and any future investigations may have a material adverse effect on the development of future business opportunities, our financial condition and results of operations, the price of our shares and American depository shares (ADS) and our reputation:*** Public prosecutors and other government authorities in jurisdictions around the world are investigating allegations of corruption at a number of our former business groups and regional companies. In addition to ongoing investigations, there could be additional investigations launched in the future by governmental authorities in these or other jurisdictions and existing investigations may be expanded. As a result, governmental authorities may take action against us or some of our employees. These actions could include further criminal and civil fines as well as penalties, sanctions, injunctions against future conduct, profit disgorgements, disqualifications from directly and indirectly engaging in certain types of business, the loss of business licenses or permits or other restrictions. In addition to monetary and other penalties, further monitors could be appointed to review future business practices with the goal of ensuring compliance with applicable laws and we may otherwise be required to further modify our business practices and our Compliance Program. Tax authorities may also impose certain remedies, including potential tax penalties. Depending on the development of the investigations, we may be required to accrue material amounts for such penalties, damages, profit disgorgement or other possible actions that may be taken by various governmental authorities. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations, the price of our shares and ADS and our reputation.

Additionally, we engage in a substantial amount of business with governments and government-owned enterprises around the world. We also participate in a number of projects funded by government agencies and intergovernmental organizations such as multilateral development banks. If we or our subsidiaries are found to have engaged in certain illegal acts or are found not to have taken effective steps to address the allegations or findings of corruption in our business, this may impair our ability to participate in business with governments or intergovernmental organizations

and may result in formal exclusions from such business, which may have a material adverse effect on our business. For example, legislation of member states of the European Union could in certain cases result in mandatory or discretionary exclusion from public contracts in case of a conviction for bribery and certain other offences or for other reasons. As described in more detail in Item 4: Information on the Company

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Legal proceedings, we or our subsidiaries have in the past been excluded from government contracting as a result of findings of corruption or other misconduct. Conviction for illegal behavior or exclusion from participating in contracting with governments or intergovernmental organizations in one jurisdiction may lead to exclusion in other jurisdictions or by other intergovernmental organizations. Even if we are not formally excluded from participating in government business, government agencies or intergovernmental organizations may informally exclude us from tendering for or participating in certain contracts. From time to time, we have received requests for information from government customers and intergovernmental organizations regarding the investigations described above and our response to those investigations. We expect to continue to receive such requests in the future.

In addition, our involvement in existing and potential corruption proceedings could damage our reputation and have an adverse impact on our ability to compete for business from both public and private sector customers. The investigations could also impair our relationship with business partners on whom we depend and our ability to obtain new business partners. They may also adversely affect our ability to pursue strategic projects and transactions which could be important to our business, such as strategic alliances, joint ventures or other business combinations. Current or possible future investigations could result in the cancellation of certain of our existing contracts, and the commencement of significant third-party litigation, including by our competitors.

Many of the governmental investigations are at this time still ongoing and we cannot predict when they will be completed or what their outcome will be, including the potential effect that their results or the reactions of third parties thereto may have on our business. Future developments in these investigations, responding to the requests of governmental authorities and cooperating with them, especially if we are not able to resolve the investigations in a timely manner, could divert management's attention and resources from other issues facing our business. We have implemented a worldwide Compliance Program to prevent and address compliance risks and are continuously working to improve the effectiveness and efficiency of this program, supported by our global compliance organization.

***Examinations by tax authorities and changes in tax regulations could adversely affect our financial condition and results of operations:*** We operate in approximately 190 countries and therefore are subject to different tax regulations. Changes in tax law could result in higher tax expense and payments. Furthermore, this could materially impact our tax receivables and liabilities as well as deferred tax assets and deferred tax liabilities. In addition, the uncertainty of tax environment in some regions could limit our ability to enforce our rights. As a globally operating organization, we conduct business in countries subject to complex tax rules, which may be interpreted in different ways. Future interpretations or developments of tax regimes may affect our tax liability, return on investments and business operations. We are regularly examined by tax authorities in various jurisdictions.

***Our business could suffer as a result of current or future litigation:*** We are subject to numerous risks relating to legal, governmental and regulatory proceedings to which we are currently a party or to which we may become a party in the future. We routinely become subject to legal, governmental and regulatory investigations and proceedings involving, among other things, requests for arbitration, allegations of improper delivery of goods or services, product liability, product defects, quality problems, intellectual property infringement, non-compliance with tax regulations and/or alleged or suspected violations of applicable laws. In addition, we may face further claims in connection with the circumstances that led to the corruption proceedings described above. For additional information with respect to specific proceedings, see Item 4: Information on the Company Legal proceedings. There can be no assurance that the results of these or any other proceedings will not materially harm our business, reputation or brand. Moreover, even if we ultimately prevail on the merits in any such proceedings, we may have to incur substantial legal fees and other costs defending ourselves against the underlying allegations. We record a provision for legal risks when (1) we have a present obligation as a result of a past event; (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (3) a reliable estimate can be made of the amount of the obligation. In addition, we maintain liability insurance for certain legal risks at levels our management believes are

appropriate and consistent with industry practice. Our insurance policy, however, does not protect us against reputational damage. Moreover, we may incur losses relating to legal proceedings beyond the limits, or outside the coverage, of such insurance. Finally, there can be no assurance that we will be able to maintain adequate insurance coverage on commercially reasonable terms in the future. Each of these

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risks may have a material adverse effect on our financial condition and results of operations, and our provisions for legal proceedings-related losses may not be sufficient to cover our ultimate losses or expenditures.

***We are subject to environmental and other government regulations:*** Some of the industries in which we operate are highly regulated. Current and future environmental and other government regulations or changes thereto, may result in significant increases in our operating or product costs. We could also face liability for damage or remediation for environmental contamination at the facilities we design or operate. For example, we are required to bear environmental clean-up costs mainly related to remediation and environmental protection liabilities which have been accrued based on the estimated costs of decommissioning facilities for the production of uranium and mixed-oxide fuel elements in Hanau, Germany, as well as a nuclear research and service center in Karlstein, Germany. For further information, see Item 4: Information on the Company Environmental matters and Notes to Consolidated Financial Statements. We establish provisions for environmental risks when (1) we have a present obligation as a result of a past event; (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (3) a reliable estimate can be made of the amount of the obligation. With regard to certain environmental risks, we maintain liability insurance at levels that our management believes are appropriate and consistent with industry practice. We may incur environmental losses beyond the limits, or outside the coverage, of such insurance, and such losses may have a material adverse effect on our financial condition and results of our operations, and our provisions for environmental remediation may not be sufficient to cover our ultimate losses or expenditures.

## **ITEM 4: INFORMATION ON THE COMPANY**

### **Overview**

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

During fiscal 2010, Siemens employed an average of 402,700 people and operated in approximately 190 countries worldwide. In fiscal 2010, we had revenue of 75.978 billion. Our balanced business portfolio is based on leadership in electronics and electrical engineering. Following our strategy to benefit from global megatrends, Siemens operations are focused on three Sectors. These Sectors are Industry, Energy and Healthcare. We have combined the expertise in these three Sectors with a commitment to original research and development (R&D) to build strong global market positions. The Industry Sector's portfolio ranges from industry automation and drives products and services to building, lighting and mobility solutions and services as well as system integration and solutions for plant business. The Energy Sector offers a wide spectrum of products, services and solutions for the generation, transmission and distribution of power and for the extraction, conversion and transport of oil and gas. The Healthcare Sector develops, manufactures and markets diagnostic and therapeutic systems, devices and consumables, as well as information technology systems for clinical and administrative purposes. Besides these activities, Siemens IT Solutions and Services as well as Siemens Financial Services (SFS) support Sector activities as business partners (Cross-Sector Businesses) while continuing to build up their own business with external customers. Equity Investments includes investments accounted for by the equity method, at cost or as current available-for-sale financial assets that are not allocated to a Sector or Cross Sector Business by reason of strategic fit. Our businesses operate under a range of regional and economic conditions. In internationally-oriented long-cycle industries, for example, customers have multi-year planning and implementation horizons that tend to be independent of short-term economic trends. Our



activities in these areas include primarily the Energy Sector and the mobility solutions business within the Industry Sector. The Healthcare Sector's business activities are relatively unaffected by short-term economic trends but are dependent on regulatory and policy developments around the world. In fields with more industry-specific cycles, customers tend to have shorter horizons for their spending

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decisions and greater sensitivity to current economic conditions. Our activities in these areas include automation and drives as well as lighting operations within the Industry Sector. Our businesses, especially the Healthcare Sector, are also influenced by technological change and the rate of acceptance of new technologies.

As a globally-operating organization, we also conduct business with customers in Iran, Syria and Cuba. The U.S. Department of State designates these countries as state sponsors of terrorism and subjects them to export controls. Our activities with customers in these states are insignificant relative to our size (approximately 1% of our revenue in fiscal 2010) and do not, in our view, represent either individually or in aggregate a material investment risk. We actively employ systems and procedures for compliance with applicable export control programs, including those in the United States, the European Union and Germany.

As previously disclosed, we have decided that, subject to the exceptions outlined below we will not enter into new contracts with customers in Iran. Accordingly, we have issued group-wide policies that establish the details of our general decision. Under these policies, Siemens shall not tender further bids for direct deliveries to customers in Iran. Furthermore, indirect deliveries from Siemens to Iran via external third parties, including companies in which Siemens holds a minority stake, are generally prohibited unless an exception is specifically approved under certain circumstances. Notwithstanding the foregoing, products and services for humanitarian purposes, including the products and services supplied by our Healthcare Sector, and products and services required to service the installed base (e.g. spare parts and maintenance and assembly services) may still be provided under the policies. Finally, pre-existing commitments to customers in Iran may be honored, i.e. legally binding obligations resulting from agreements that existed, or bids that were submitted, before the aforementioned policies were announced and adopted. Although, over time, we expect our business activities in Iran to decline as a result of the implementation of the new policies and the related reduction of the number of new contracts, the actual development of our revenues in the future will largely depend on the timing and scope of customer requests to fulfill pre-existing commitments. For additional information, see Item 3: Key information Risk factors.

## **Strategy**

### **Global megatrends**

Global megatrends are long-term processes that will drive global demand in coming decades. We at Siemens view demographic change, urbanization, climate change and globalization as megatrends that will have an impact on all humanity and leave their mark on global developments. We therefore have aligned our strategy and business activities with these trends. In our three Sectors, Industry, Energy and Healthcare, we have developed pioneering products and solutions which we believe are capable of dealing with climate change, contributing to improved healthcare for a growing and aging population, and shaping infrastructures and mobility in urban areas in an energy-efficient and thus environmentally friendly way.

**Demographic change** includes two major trends: the world's population continues to grow rapidly and to get older. It is estimated that by the year 2050 the world's population will reach nine billion, compared to approximately seven billion today. By then, life expectancy is expected to be at a global average of 76 years, compared to 68 years today and 46 years in 1950. This will challenge the ability of future healthcare systems to make affordable healthcare available to everyone. Siemens provides innovative medical solutions that can help to reduce healthcare costs, while at the same time improving the quality of healthcare, through preventive care and early diagnosis of disease – two essential requirements for living longer, healthier lives.

**Urbanization** refers to the growing number of large, densely-populated cities around the world. This includes both established metropolitan centers in industrialized nations and fast-rising urban centers in emerging economies. In 2009, for the first time in human history more than half the world's population lived in urban areas. This figure is

expected to rise to 70% by 2050, coinciding with rapid overall population growth, as mentioned above. Accordingly, there is strong demand for sustainable and energy-efficient infrastructures for buildings, transportation systems, and energy and water supply. We believe that Siemens' wide-ranging portfolio is well-suited to improving the quality of life in cities. We believe that our products and solutions for manufacturing, urban transit, building

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construction, power distribution and hospitals, among other things, can help to advance mobility, security and an adequate supply of life's basic requirements while at the same time reducing the burden on the environment.

**Climate change** is a fact. The average global surface temperature increased by 0.76 degrees Celsius between 1850 and the beginning of the 21<sup>st</sup> century. This correlates with a rise in carbon dioxide concentration in the atmosphere, which is higher today than at any time in the last 800,000 years. The reduction of greenhouse gas emissions is vital to avoiding increasingly drastic effects on our ecosystem. There is a strong need for innovative technologies to increase efficiency and reduce the emissions related to energy generation and consumption. Siemens is a leader in climate protection technologies, including but not limited to increasing the efficiency of power generation from fossil fuels; generating energy from renewable sources such as wind and solar; increasing the efficiency and performance of electrical grids; increasing the energy efficiency of transportation solutions and industrial processes; reducing the energy needs of buildings; and reducing emissions from all of the above.

**Globalization** refers to the increasing integration of the world's economies, politics, culture and other areas of life. Between 1950 and 2007, the volume of global trade expanded at an average annual rate of 6.2%. The number of multinational enterprises rose globally from around 10,000 in 1968/69 to more than 80,000 in 2008. Further, the four largest threshold countries – Brazil, Russia, India and China (BRIC) – are emerging as important players in the global economy. Globalization leads to increased competitive pressure and demand for economical, timely-to-market, high-quality products and solutions. With our offerings, we aim to increase our customers' productivity by facilitating process and energy efficiency improvements and the flow of goods. In addition, we believe that our presence in approximately 190 countries puts us in an excellent position to leverage above-average growth in emerging markets.

## **Strategy of the Siemens Group**

Our **vision** is to be a pioneer in

energy efficiency,

industrial productivity,

affordable and personalized healthcare, and

intelligent infrastructure solutions.

This vision is reflected in our company strategy, which guides us in turning our vision into reality. Above all, we are aiming to be a market and technology leader in our businesses, based on our corporate values – to be **responsible**, **excellent** and **innovative**. We believe that this approach will position us to achieve sustainable, profitable growth and to outpace our competitors. As an integrated technology company, we intend to profit from the megatrends described above.

Our strategy comprises what we call our **three strategic directions**:

focusing on innovation-driven growth markets,

getting closer to our customers, and

using the power of Siemens.

Through the end of fiscal 2010, we implemented our strategy through the Fit<sub>4</sub>2010 program. In the context of Fit<sub>4</sub>2010, we defined ambitious targets for growth, profitability, liquidity and our capital structure that we aimed to achieve by the end of fiscal 2010. These targets were established with normal business cycles in mind, i.e., without taking into account the global recession caused by the financial crisis and its aftereffects on our business over the past two fiscal years. For further information on the financial measures of the Fit<sub>4</sub>2010 program, see Item 5: Operating and financial review and prospects Business and operating environment Financial performance measures.

The Fit<sub>4</sub>2010 program divided the potential harbored by Siemens as an integrated technology company into four categories: Portfolio, People Excellence, Operational Excellence and Corporate Responsibility. We have

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carefully targeted our **Portfolio** at attractive markets by means of stringent resource allocation and a clear focus on the three Sectors. We deliver value for our customers because, within the context of **People Excellence**, our standard is to employ the best workers worldwide – a precondition for a high-performance culture. Diversity in our management is a key component of our corporate strategy and a fundamental prerequisite for our Company's long-term success. Open Innovation – opening up businesses to bring in the expertise of a wide range of internal and external experts in different areas from around the world – helps to ensure that we continue to constantly develop and refine our technology. Open Innovation formed part of the **Operational Excellence** element of Fit<sub>4</sub>2010, as did supply chain management, which is intended to increase efficiency in sourcing and the supply chain throughout our Company. The **Corporate Responsibility** element, finally, has seen us introduce a uniform Compliance Program worldwide, with systems and processes to ensure proper conduct, and continues to highlight both our commitment to society and our acknowledgement of the significance of climate protection.

Building on the achievements of our Fit<sub>4</sub>2010 program and the preceding company programs, we are approaching the future. Effective fiscal 2011, **One Siemens** is our framework for sustainable value creation, with a financial target system for capital-efficient growth and the goal of continuous improvement relative to the market and our competitors.

We will measure our performance against our competitors. Our goal and our aspiration is to consistently outperform our competitors and to set standards for leadership – with respect to financial performance as well as operational strength. The financial target system of One Siemens defines financial key performance indicators for revenue growth, for capital efficiency and profitability, and for the optimization of our capital structure. In addition, we set hurdle rates that generally need to be considered before acquisitions are executed. Further, we defined an indicator targeted at an attractive dividend policy. We believe that these indicators will play a key role in driving the value of our Company. For further information, see Item 5: Operating and financial review and prospects – Business and operating environment – Financial performance measures.

To achieve our goal of sustainably enhancing the value of Siemens and of exploiting the full potential of our integrated technology company, we have defined three concrete focus areas along each of the three strategic directions set forth above, which we aim to address in the years ahead. In the strategic direction of **focusing on innovation-driven growth markets**, our first focus area is to **be a pioneer in technology-driven markets**. We intend to concentrate on innovation- and technology-driven markets that will form the basis of Siemens' core business in the future, for example, by providing intelligent and sustainable infrastructures for the world's cities. Our second focus area is to **strengthen our portfolio**. We are actively and systematically managing our portfolio with the principal aim of achieving or maintaining a no. 1 or no. 2 position in our current and future markets. To **provide a leading environmental portfolio** is our third focus area: Not only does our Environmental Portfolio enhance our Company's revenue, it also makes a significant contribution to climate protection. Our revenue target for our Environmental Portfolio is to exceed € 40 billion by the end of fiscal 2014.

In the second strategic direction of **getting closer to our customers**, one of our focus areas is to **grow in emerging markets** while maintaining our position in our established markets. We plan to offer more products, solutions and services for the rapidly growing entry-level segments, which are more price sensitive and mostly found in emerging markets. As a consequence, we aim to continuously increase our share of revenue from emerging markets. A second focus area is to **expand our service business**, which is highly diversified and broadly distributed throughout our Company. We believe that the large installed base of our products and solutions at our clients provides promising growth opportunities for our service business. Services play a key role in profitability at Siemens and, in addition, long-term service agreements are less likely to be impacted by economic fluctuations. To **intensify our customer focus** and to increase customer satisfaction is our third focus area. We believe that customer proximity and local presence are important factors in being able to respond quickly to changing market requirements.

In the strategic direction of **using the power of Siemens**, our first focus area is to **encourage lifelong learning and development** of our employees. We invest continuously in expanding the expertise of our people through demanding training and education programs. We aim to develop our employees worldwide by identifying talent and offering challenging tasks. To **empower our diverse and engaged people worldwide** is our second focus area which involves strengthening diversity. We believe that the strong potential of our employees skills, experience and

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qualifications can give us a clear competitive advantage in our global markets. The third focus area is to **stand for integrity**. On the basis of our values, we have formulated clear and binding principles of conduct that cover all aspects of our entrepreneurial activities.

### **Segment strategies**

Our **Industry** Sector is one of the world's leading suppliers of production, transportation, building, and lighting technology. The Sector aims to make customers more competitive by automating the entire lifecycle of customer investments. Its innovative and environmentally-friendly products, systems, services and solutions are designed specifically to increase the productivity and flexibility of its customers and to help them make more efficient use of resources and energy. Our Industry Sector relies on common technology platforms (such as Totally Integrated Automation, or TIA) that are developed into business-specific applications by the Divisions. This approach is intended to enable the Divisions to achieve profitable above-average growth.

We believe that our **Energy** Sector is the only company in the world capable of improving efficiency throughout the entire chain of energy conversion, from the extraction of oil & gas via power generation to the transmission and distribution of electric energy. As an integrated technology company, the Sector occupies a leading position in its industry in terms of technology and continues to set industry standards. Our Energy Sector aims to grow profitably and at a faster than average rate to achieve a market-leading position in every single business area.

The strategy pursued by our **Healthcare** Sector focuses on increasing efficiency in healthcare by improving quality while reducing cost. The Sector strives to continuously enhance its market position by consistently focusing on customer requirements and market demands, by implementing an innovation strategy for its products, services and solutions to meet these needs, and by continuously improving its own cost position. Our Healthcare Sector is working on building up its presence in the growth markets of the future, characterized by closer integration between diagnostics and therapy, and an increasing demand for efficient healthcare delivery in emerging markets. The Sector's integrated approach combining medical imaging and therapy systems, laboratory diagnostics and healthcare IT systems addresses the entire medical supply chain – from prevention and early detection to diagnosis, and on to treatment and aftercare.

**Siemens IT Solutions and Services**, a leading European IT service provider, offers IT expertise and delivers industry-focused end-to-end IT solutions by leveraging Siemens' technology and capabilities. The portfolio ranges from consulting, software development and deployment, and system integration to the comprehensive management of IT infrastructures. With an understanding of the client's business and core processes, Siemens IT Solutions and Services' strong engineering culture enables it to create practical innovations with measurable value to the customer. Siemens IT Solutions and Services is a reliable and sustainable partner in the transformation of business processes. In fiscal 2010, we launched a strategic reorientation of Siemens IT Solutions and Services aimed at strengthening the competitive position of the business in preparation for its operation on a standalone basis, including a reorganization of solutions, outsourcing and software activities. Siemens IT Solutions and Services' position as a legally separate operating company within the Siemens Group as of October 1, 2010, together with its simplified organizational structure and processes, gives Siemens IT Solutions and Services greater flexibility to master the dynamics of the IT services market.

**Siemens Financial Services (SFS)** pursues a three-part strategy, comprising the management of the financial risks to which Siemens is exposed, the tailoring of financing solutions for Siemens customers to support our Company's business activities, and the provision of finance for other companies, primarily in the three fields of industry, energy and healthcare. By leveraging its financing expertise and industrial know-how, SFS creates value for its customers and helps them strengthen their competitiveness.





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### **Important corporate programs and initiatives**

#### **Program for the reduction of legal entities**

In order to reduce complexity within our group structure, optimize synergies and strengthen governance and transparency, we had started a program aimed at reducing the number of legal entities. Due to significant M&A activities targeted at enhancing and optimizing our portfolio, the number of legal entities had substantially increased in recent years.

By the end of the current fiscal year, we achieved our target of reducing the number of legal entities, including non-controlling interests, to fewer than 1,000 by 2010. This number excludes the recently established legal entities related to the legal carve-out of Siemens IT Solutions and Services and legal entities that are due to be sold, liquidated or merged where Siemens has taken all such action as is within its control to complete such sale, liquidation or merger. This compares to approximately 1,300 legal entities at the end of the prior fiscal year, approximately 1,600 legal entities at the end of fiscal 2008 and approximately 1,800 legal entities at the end of fiscal 2007. The reduction was achieved primarily by integrating legal entities into existing Siemens Regional Companies. Streamlining actions within our portfolio also contributed to the achievement of this goal.

#### **Real estate bundling program**

In 2009, Siemens initiated a multi-year program to improve the efficiency of its real estate management, which is projected to run until 2014. Under the program, Siemens is bundling its entire real estate portfolio in Siemens Real Estate (SRE) and implementing further measures to increase the efficiency of the real estate assets bundled in SRE. The program is expected to generate approximately 250 million in annual cost savings for the Siemens Sectors and Cross-Sector Businesses by the end of fiscal 2011 and approximately 400 million in annual cost savings from 2014 onward, mainly through the more efficient utilization of space and a reduction in vacant property. Compared to the cost position prior to the start of the program, annual cost savings of approximately 190 million for the Siemens Sectors and Cross-Sector Businesses have already been achieved by the end of fiscal 2010. During its implementation, the real estate bundling program entails costs associated with reducing vacancy and consolidating locations, primarily at SRE. For further information, see Item 5: Operating and financial review and prospects Fiscal 2010 compared to fiscal 2009 Segment information analysis Reconciliation to Consolidated Financial Statements Siemens Real Estate.

#### **Portfolio activities**

Since fiscal 2008, we have completed the following transactions to optimize our business portfolio for sustainable profitability and growth:

##### **Acquisitions**

At the beginning of November 2009, the Sector Energy's Renewable Division completed the acquisition of 100% of Solel Solar Systems Ltd., a solar thermal power technology company;

Acquisition of various other entities in fiscal 2010, which were neither material individually nor in aggregate;

Acquisition of various entities in fiscal 2009, which were neither material individually nor in aggregate;

Sector Healthcare's Diagnostics division acquired Dade Behring at the beginning of November 2007 to further expand Healthcare's position in the growing laboratory diagnostics market; and

Acquisition of three entities in fiscal 2008, which were not significant individually: BJC, Spain, a supplier of switches and socket-outlets at sector Industry, Building Technologies division; Innotec GmbH, a leading software provider for lifecycle management solutions at Sector Industry s Industry Automation division; and the rolling mill technology specialist Morgan Construction Co., USA, at Sector Industry, Industry Solutions division.

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### **Dispositions and discontinued operations**

At the beginning of November 2009, the Sector Industry's Mobility Division sold its Airfield Solutions Business;

At the end of December 2009, the Sector Healthcare sold its 25% minority stake in Dräger Medical AG & Co. KG to the majority shareholder Drägerwerk AG & Co. KGaA;

In January 2009, Siemens announced its intent to sell, and classified as held for disposal, its 34% interest in the joint venture Areva NP S.A.S., held by the Energy Sector. The Company expects to receive the expert opinion regarding the valuation of Areva NP S.A.S. within calendar year 2010, which is a necessary precondition to close this transaction;

The sale of Siemens' 50% stake in Fujitsu Siemens Computers (Holding) BV (FSC), held by the segment Equity Investment, closed at the beginning of April 2009;

At the beginning of October 2008, Siemens completed the transfer of an 80.2% stake in Siemens Home and Office Communication Devices GmbH & Co. KG (SHC), reported in Centrally managed portfolio activities;

By the end of September 2008, the Siemens enterprise networks business, reported in discontinued operations and formerly part of Com, was brought into the joint venture Enterprise Networks Holdings BV, the Netherlands. In exchange, Siemens received a 49% stake in Enterprise Networks Holdings BV, while the remaining 51% are held by The Gores Group, USA, which contributed two entities - Enterasys and SER Solutions - to the joint venture. Commencing with closing of the transaction, Siemens accounts its remaining equity interest, held by the segment Equity Investments, under the equity method; and

The sale of Siemens VDO Automotive (SV), reported as discontinued operations, to Continental AG, Hanover, Germany, closed at the beginning of December 2007.

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

### **Description of business**

Our financial reporting comprises six reportable segments. These segments consist of:

three Sectors, Industry, Energy and Healthcare, which are reported along with fourteen Divisions which comprise the Divisions, Industry Automation, Drive Technologies, Building Technologies, OSRAM, Industry Solutions and Mobility, belonging to the Industry Sector, the Divisions, Fossil Power Generation, Renewable Energy, Oil & Gas, Power Transmission and Power Distribution, belonging to the Energy Sector and the Divisions, Imaging & IT, Workflow & Solutions and Diagnostics, belonging to the Healthcare Sector,

Equity Investments and

two Cross-Sector Businesses, Siemens IT Solutions and Services and Siemens Financial Services.

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The following figure shows Siemens reporting structure for the periods covered by this annual report:

During fiscal 2010, Siemens initiated a change of the organizational structure of its Healthcare Sector with effect from October 1, 2010. For additional information, see Healthcare. Financial reporting for fiscal 2010 continued to be based on the organizational structure effective until September 30, 2010 as described above.

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The Industry Sector offers a complete spectrum of products, services and solutions for the efficient use of resources and energy and improvements of productivity in industry and infrastructure. Its integrated technologies and holistic solutions address primarily industrial customers, such as process and manufacturing industries, and infrastructure customers, especially in the areas of transport, buildings and utilities. The portfolio spans industry automation and drives products and services, building, lighting and mobility solutions and services, and system integration and solutions for plant businesses. The Sector consists of six Divisions: Industry Automation, Drive Technologies, Building Technologies, OSRAM, Industry Solutions, and Mobility.

The following table provides key financial data concerning the Industry Sector.

	<b>Year ended September 30, 2010</b>
Total revenue	34.869 billion
External revenue	33.728 billion
External revenue as percentage of Siemens revenue	44.39%
Sector profit	3.478 billion

The following chart provides a geographic breakdown of the Industry Sector's external revenue in fiscal 2010.

The **Industry Automation** Division offers automation systems such as programmable logic controllers and process control systems, sensors such as process instrumentation and analytics, and industrial software such as product lifecycle management and manufacturing execution systems software. The Division's portfolio ranges from standard products and systems for the manufacturing, processing and construction industries to solutions for entire industrial vertical markets, including automation solutions for entire automobile production facilities and chemical plants. At the beginning of fiscal 2010, the Division's low-voltage switchgear business was transferred to the Building Technologies Division.

The **Drive Technologies** Division offers integrated technologies that cover a wide range of drive applications with electrical components such as standard motors and drives for conveyor belts, pumps and compressors, heavy duty motors and drives for rolling steel mills, compressors for oil and gas pipelines and mechanical components such as gears for wind turbines and cement mills. Drive Technologies offers products such as automation systems and services for production machinery and machine tools. The Division's portfolio includes standard products as well as industry-specific control and drive solutions for wind power, metal forming, printing and electronic manufacturing as well as solutions for manufacturers of glass, wood, plastic, ceramic, textile and packaging equipment and crane systems.

The **Building Technologies** Division offers products, services and solutions for commercial, industrial, public and residential buildings, including building automation, comfort, building safety and security, low-voltage switchgear such as circuit protection and distribution products, and building operations. In addition, the Division offers energy solutions, aiming to improve a building's energy cost, reliability and performance while minimizing its impact on the environment. The Division's broad range of offerings includes heating and ventilation controls, security systems and devices such as intruder detection, video surveillance and building access control, fire safety solutions such as fire detection, protection alarm systems and non-water based fire extinguishing, and electrical installation equipment for buildings such as low-voltage switchgear, sockets and circuit breakers. The low-voltage



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switchgear business was transferred from the Industry Automation Division to the Building Technologies Division at the beginning of fiscal 2010.

**OSRAM** supplies lighting solutions for all aspects of life and living environments, providing its customers with an extensive product portfolio of lamps such as incandescent, halogen, compact fluorescent, fluorescent, high-intensity discharge and Xenon lamps, opto-electronic semiconductor light sources such as light emitting diodes (LEDs), organic LEDs, high power laser diodes, LED systems and LED luminaires, relevant electronic equipment such as electronic ballasts and lighting control and management systems as well as precision material and components. These products are used in applications in households, industrial and commercial applications, and public spaces and infrastructure.

The **Industry Solutions** Division is Siemens' systems integrator and solutions provider for industrial plant businesses, covering planning, construction, operation and maintenance over a plant's entire lifecycle. With its water processing and raw material processing systems, the Division helps to increase the productivity and competitiveness of enterprises in various industries and to meet the need for environmentally compatible solutions. Its processes and systems are applied in the iron and steel production, pulp and paper, cement, marine and mining industries. We also offer equipment for the treatment of potable water and wastewater such as membranes and lab water/high purity water systems, treatment and outsourcing solutions for industrial wastewater, electrical and automation solutions for municipal wastewater and water transport as well as water treatment services.

The **Mobility** Division's goal is to network distinct transportation systems with one another to move people and goods efficiently. The Division combines Siemens' products, solutions and services in operating systems for rail transportation such as central control systems, interlockings and automated train controls, for road traffic including traffic detection, information and guidance, for airport logistics including cargo tracking and baggage handling, for postal automation including letter parcel sorting, and for rail electrification, as well as rail vehicles for mass transit, regional, long-distance transportation, and locomotives. At the beginning of fiscal 2010, the Division closed the sale of its airfield lighting business.

The **Industry Sector**'s principal customers are industrial, infrastructure and governmental customers in a broad range of markets, including construction and real estate, transportation and logistics, metals and mining, machinery, utilities and automotive. The Sector is active globally, including in emerging markets, especially those in the Asia-Pacific region, which management believes have significant growth potential. Apart from the Siemens Brand, the Sector markets some parts of its portfolio under different brand names (such as OSRAM and Sylvania for lighting products or Flender for gears), depending on geography and technology.

The Sector sells its products primarily through dedicated personnel in Siemens' worldwide network of regional sales units. In addition, it uses original equipment manufacturers, solution providers, installers, general contractors, third-party distributors and independent agents. Its small project businesses (e.g., the businesses of its Building Technologies Division) have a decentralized business organization with a local branch network to deliver solutions to their customers directly.

The large size of some of the Sector's projects (especially in the Mobility Division and in parts of the Industry Solutions and Building Technologies Divisions) occasionally exposes it to risks related to technical performance or specific customers or countries. In the past, the Sector has experienced significant losses on individual projects in connection with such risks. For additional information on these risks, see Item 3: Key information Risk factors.

The Sector has manufacturing locations worldwide, especially throughout North and South America, Western and Eastern Europe, and Asia, allowing it to stay close to its major customers and keep shipping charges low. In recent years, material costs have been negatively affected by significant price volatility for metals, energy and other raw



materials. The Sector continues to work on reducing the use of hazardous materials (e.g., mercury or lead) and to replace them in its products and processes. Sustainable products, such as energy-saving lamps and LEDs, coking coal free iron production processes (COREX), energy efficient motors and energy management play a major role in its innovation strategy.

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Average product lifetimes in the Sector's product businesses tend to be short (typically ranging from one to five years from introduction) and are even shorter where software and electronics play an important role. The lifecycles in the solutions businesses tend to be longer, as the Sector supports its customers with significant service through the whole life of their infrastructures. The timing and extent to which a Division of the Industry Sector is affected by economic cycles depends largely on the kind of business activities it conducts. Divisions where business activities tend to react very quickly to changes in the overall economic environment include Industry Automation, OSRAM and those business activities of Drive Technologies that serve customers in the manufacturing industries. Divisions where business activities are generally impacted later by the changes in the overall economic environment include Building Technologies, Industry Solutions and those business activities of Drive Technologies that serve customers in process industries as well as in the energy and infrastructure sector. The development of markets served by our Mobility Division is primarily driven by public spending. Customers of our Mobility Division usually have multi-year planning and implementation horizons. Our Mobility Division therefore tends to be independent of short-term economic trends.

No single competitor has a broad business portfolio similar to that of the Industry Sector. The Sector's principal competitors with broad portfolios are multinational companies such as ABB, Alstom, Bombardier, Emerson, General Electric, Honeywell, Johnson Controls, Philips, Schneider Electric and Tyco. In the industries in which the Sector is active consolidation is occurring on several levels. In particular, suppliers of automation solutions have supplemented their activities with actuator or sensor technology, while suppliers of components and products have supplemented their portfolio with adjacent products for their sales channels.

The main competitors of the **Industry Automation** Division are ABB, Schneider Electric, Rockwell and Emerson Electric. Within its product lifecycle management business, the Division also competes with, among others, Dassault Systemes and PTC. Competitors of the **Drive Technologies** Division include companies with broad business portfolios such as ABB, Emerson and Mitsubishi Electric but also specialist companies such as Fanuc, SEW and Baldor. For the **Building Technologies** Division, the main global competitors of its solutions businesses are large system integrators such as Tyco, Honeywell, Johnson Controls, UTC and Bosch as well as Schneider Electric in some markets. The security business is also facing increased competition from information technology (IT) integrators due to the convergence of physical and IT security. The main competitors of the Division's products business are large multi-national suppliers such as GE, Johnson Controls, Honeywell, Bosch and Schneider Electric. It also faces competition from niche competitors and from new entrants, such as utility companies and consulting firms, exploiting the fragmented energy efficiency market. In the worldwide lighting market, as a result of acquisitions and consolidations over the last decades, **OSRAM**, Philips and General Electric are the key players in traditional lighting. In addition, there are several new entrants, especially in China. Within its LED business, the Division competes with among others Nichia, Philips and Cree. Competitors of the **Industry Solutions** Division vary by business area and region. They range from large, diversified multinational to small, highly specialized local companies. The Division's main international competitors include ABB, General Electric, SMS, Danieli and Veolia. The **Mobility** Division competes in its industry globally with a relatively small number of large companies and with numerous small to mid-sized competitors who are either active on a regional level or specialize within narrow product spectrums. Mobility's principal competitors are Alstom and Bombardier.

Moreover, the Sector's Divisions compete with many specialized or local companies, particularly in the European, Chinese and Indian markets. Asian competitors are generally focused on large-scale production and cost cutting. European competitors are focused on high quality lifecycle service. Nevertheless, most major competitors have established global bases for their businesses. In addition, competition in the field has become increasingly focused on technological improvements and price. Intense competition, budget constraints and rapid technical progress within the industry place significant downward pressure on prices. In addition, competitors continuously shift their production to low-cost countries.

**Energy**

The Energy Sector offers a wide spectrum of products, services and solutions for the generation, transmission and distribution of power, and the extraction, conversion and transport of oil and gas. It primarily addresses the needs of energy providers, but also serves industrial companies, particularly in the oil and gas industry. The Energy

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Sector covers the whole energy conversion chain. The Sector consists of six Divisions: Fossil Power Generation, Renewable Energy, Oil & Gas, Energy Service, Power Transmission and Power Distribution. Financial results of the Energy Service Division are reflected in the Fossil Power Generation Division, the Oil & Gas Division and the Renewable Energy Division and are therefore not reported separately.

The following table provides key financial data concerning the Energy Sector.

	<b>Year ended September 30, 2010</b>
Total revenue	25.520 billion
External revenue	25.204 billion
External revenue as percentage of Siemens revenue	33.17%
Sector profit	3.562 billion

The following chart provides a geographic breakdown of the Energy Sector's external revenue in fiscal 2010.

The **Fossil Power Generation** Division offers high-efficiency products and solutions for fossil-based power generation. The offering extends from gas and steam turbines and generators to complete turnkey power plants. The Division concentrates on gas and steam turbines and turbo generators, including control systems, in the larger power range, with an emphasis on combined-cycle gas, steam power plants and conventional islands for nuclear power plants. It also develops solutions for instrumentation and control systems for all types of power plants and for use in power generation, including information technology solutions providing management applications from the plant to the enterprise level and is working on the development and production of systems based on emerging technologies such as integrated gasification and carbon capture and storage. During fiscal 2009, the Division successfully finalized trial operations on the world's largest and most powerful gas turbine in Irsching near Ingolstadt, Germany, which is currently being converted into a high-efficiency combined-cycle power plant and is expected to commence commercial operations in calendar year 2011. Fossil Power Generation has stakes in other companies such as our minority stakes in Areva NP in the nuclear power sector, which is currently being divested, and the Russian power plant supplier Power Machines. The Division is also represented in a number of joint ventures in China, including Shanghai Electric Power Generation Equipment where Fossil Power Generation recently increased its stake from 34% to 40%. Siemens is currently in the process of terminating the shareholders agreement of the joint venture Areva NP, and selling its 34% interest in Areva NP to the majority shareholder Areva S.A. under the terms of a put agreement. For additional information, see Legal proceedings.

The **Renewable Energy** Division provides solutions for the production of electricity from renewable energy sources, including wind, solar thermal energy and photovoltaic. In the rapidly growing global wind power market, the Division builds wind turbines from 2.3 megawatts to 3.6 megawatts with rotor diameters spanning 82 to 120 meters for on- and offshore applications, provides services to off- and onshore wind farms and, in coordination with other Divisions within the Energy Sector ensures the efficient linking of wind farms to power grids. In the photovoltaic industry, the Division focuses on ground-based and large roof top systems above 1 megawatt-peak. To strengthen Renewable Energy's position in the solar thermal energy market, we acquired Solel Solar Systems Ltd. in the first quarter of fiscal 2010. The Division provides receivers, solar fields and turnkey solutions for solar thermal power plants, partly in cooperation with the Fossil Power and the Oil & Gas Division. In addition to its participations in the wind and solar power business, Siemens holds a minority stake in a joint venture in hydropower generation, Voith Hydro Power Generation.



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The **Oil & Gas** Division supplies high-efficiency products and on- and offshore solutions for the production transport and processing of oil, gas and water, which are used in the oil and gas industries, the petrochemical and chemical industries as well as other industries. The portfolio includes high-efficiency steam and gas turbines, including control systems, in the small and medium range; it also includes turbocompressors for a broad range of applications. The Oil & Gas Division further offers a variety of power generation and distribution solutions, process and automation technology and integrated IT solutions. The Division's activities encompass design, engineering and supply.

The **Energy Service** Division offers comprehensive services, including parts and components, for complete power plants including on- and offshore wind farms as well as rotating machines such as gas and steam turbines, generators and compressors. It provides these services using advanced plant diagnostics and systems engineering. The Division also offers power plant maintenance and operation services and emissions control services and systems. All financial results relating to the Division are reflected in the Fossil Power Generation Division, the Oil & Gas Division and the Renewable Energy Division and are therefore not reported separately.

The **Power Transmission** Division covers high-voltage transmission solutions, power transformers, high-voltage switching products and systems, and innovative alternating and direct current transmission systems. The Division supplies energy utilities and large industrial power users with equipment, systems and services used to process and transmit electrical power from the source, typically a power plant, to various points along the power transmission network. In the power transmission process, electricity generated by a power plant is transformed to a high voltage that can be transported efficiently over long distances along overhead lines or underground or subsea cables. This voltage step-up occurs at or near the site of the power plant, and requires transformation, control, transmission, switching and protection systems. High-voltage power then passes through one or more substations, which use distribution switchgear to control the amounts delivered, circuit breakers and surge arresters to protect against transmission hazards and transformers to reduce the voltage to a medium level for safe distribution in populated areas. Since October 2007, the Division has secured key components through a joint venture with Infineon Technologies in Germany for design, manufacturing and sale of high performance semiconductors.

The **Power Distribution** Division combines medium-voltage components, systems and solutions, power automation solutions and products as well as services for power equipment and transmission and distribution networks. The Division supplies energy utilities and large industrial power users with equipment, systems and services used to process and distribute power via a distribution grid to the low voltage grid and the end user, respectively. Metering systems measure and record the locations and amounts of power transmitted.

The Power Transmission and Power Distribution Divisions together provide customers with turnkey power transmission systems and distribution substations, discrete products and equipment for integration by the Sector's customers into larger systems, information technology systems and consulting services relating to the design and construction of power transmission and distribution networks. These offerings include power systems control equipment and information technology systems, transformers, high-voltage products and power equipment for both alternating and direct current transmission systems; protection and substation control systems; and medium-voltage equipment, including circuit breakers and distribution switchgear systems and components. In fiscal 2010, Siemens divested its stake in Capital Meters Holdings Ltd.

In addition to equipment and systems, the Power Transmission and Power Distribution Divisions offer a growing range of services and integrated solutions for various stages in the power transmission and distribution process. They provide analytical and consulting services, as well as equipment and systems in the power quality field that are designed to improve the availability and reliability of power transmitted by analyzing and reducing the causes of power fluctuations and failures. Power quality systems and services have become increasingly important with the growing use of sensitive computerized, electronic and other equipment requiring continuous power with very little fluctuation in voltage or frequency. As a leading international supplier of intelligent power networks, or smart grids,

which use digital technology to improve power reliability, unite large, centralized generation units with small, decentralized ones and achieve cost and energy savings, the Power Transmission and Power Distribution Divisions are responding to and anticipating these market trends. The Sector continues to strengthen its smart grid portfolio across the entire energy conversion chain and aims to capture a significant portion of the market, which it expects to grow in coming years due to climate change and rising energy demands as well as liberalized energy

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markets and economic stimulus programs. In fiscal 2010, Siemens launched the company project Smart Grid Applications and formed three regional units to market new Smart Grid Applications. In addition, a global unit will develop and market new products and applications for electromobility solutions including the last mile to the customer.

The **Energy Sector** distributes its products and services through its own dedicated sales force, supported by Siemens' worldwide network of regional companies. Additional sales channels include joint ventures and license partners, especially in markets requiring a high degree of local knowledge.

Overall, the Sector's principal customers are large power utilities and independent power producers and power distributors, construction engineering firms and developers. Due to ongoing deregulation in the power industry, its customer base continues to diversify from one formerly composed almost exclusively of power utilities responsible for all stages of power generation, transmission and distribution to one that includes an increasing number of independent system operators and power distributors supplying services at different points of the power generation, transmission and distribution network. Because certain significant areas of the Sector's business, such as power plant construction, involve working on medium- or longer-term projects for customers who may not require the Sector's services again in the short term, the Sector's most significant customers tend to vary significantly from year to year.

The Energy Sector's business activities vary widely in size from component delivery and comparatively small projects to turnkey contracts for the construction of new power plants with contract values of more than 0.5 billion each. The large size of some of the Sector's projects occasionally exposes it to risks related to technical performance, a customer or a country. In the past, the Sector has experienced significant losses on individual projects in connection with such risks. For additional information about our long-term contracts, see Item 3: Key information Risk factors. Moreover, the Sector generates an increasing proportion of its revenue from oil and gas activities and industrial customers in the developing world. While this region represents a growth market for power generation, transmission and distribution products and systems, the Sector's activities in that region expose it to risks associated with economic, financial and political disruptions that could result in lower demand or affect customers' abilities to pay.

The Sector's competitors vary by Division. The **Fossil Power Generation** Division's market consists of a relatively small number of companies, some with very strong positions in their domestic markets. Its principal competitors in gas turbines are General Electric, ALSTOM Power and Mitsubishi Heavy Industries, whereas its main competitors in steam turbines are ALSTOM Power, Bharat Heavy Electricals Limited, Toshiba and General Electric. In China, manufacturers are mainly focused on their large home market, but have recently begun to transform from local to international suppliers. The Division aims to participate in this growth through a Chinese joint venture. Korean engineering and procurement companies offer a large product and solutions range and establish themselves as one-stop-shops which offer customer solutions out of one hand. In instrumentation and controls, ABB is the Division's principal competitor. The principal competitors of the **Renewable Energy** Division in the growing wind turbine market are Vestas, General Electric, Gamesa, Enercon and Suzlon with smaller and low-cost competitors, especially from China, increasingly challenging the dominant players' large market share. Within the solar thermal energy market, the Division's main competitor for products is Schott Solar, a producer of receivers. In the photovoltaic business, competitors are fully integrated companies such as Solarworld. The **Oil & Gas** Division faces a mix of competitors, some with strong global market positions and some with a solid regional focus playing a key role; the Division is further seeing the expansion of some competitors from their home countries, as they seek to develop a global presence. Its principal competitors vary by product; in automation and controls, they are ABB, Honeywell and General Electric whereas in compressors and steam and gas turbines, they are General Electric, Solar, MAN Turbo and Dresser Rand. The primary competitors of the **Power Transmission** and **Power Distribution** Divisions are a small group of large, multinational companies offering a wide variety of products, systems and services. The Power Transmission Division's key global competitors are ABB and Alstom, which took over Areva's transmission business in 2010. Further competition comes from regional and niche manufacturers, such as Toshiba, China XD, Crompton



Greaves or Tebian Electric Apparatus Stock Co., and, increasingly, local competitors in low-cost countries such as China and India. The Power Distribution Division holds a leading position in its markets. Its key competitors are ABB, Schneider and Areva, as well as regional

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competitors in certain markets such as China and India where local competitors have lately also begun to venture into export markets. Increasing international competition from local and regional competitors in low-cost countries is one of the reasons why the Power Transmission and Power Distribution Divisions have entered into several joint ventures in China, which is the Sector's largest single power transmission and distribution market.

**Healthcare**

The Healthcare Sector offers customers a comprehensive portfolio of medical solutions across the value-added chain ranging from medical imaging to in vitro diagnostics to interventional systems and clinical information technology systems—all from a single source. In addition, the Sector provides technical maintenance, professional and consulting services, and, together with Siemens Financial Services, financing to assist customers in purchasing the Sector's products.

The following table provides key financial data concerning the Healthcare Sector.

	<b>Year ended September 30, 2010</b>
Total revenue	12.364 billion
External revenue	12.280 billion
External revenue as percentage of Siemens revenue	16.16%
Sector profit	748 million

The following chart provides a geographic breakdown of the Healthcare Sector's external revenue in fiscal 2010.

During fiscal 2010, Siemens initiated a change of the organizational structure of its Healthcare Sector with effect from October 1, 2010 as described below. Financial reporting for fiscal 2010 continued to be based on the organizational structure effective until September 30, 2010, which comprised the following three Divisions:

The **Imaging & IT** Division comprised medical imaging systems, including x-ray, computed tomography, magnetic resonance, molecular imaging and ultrasound, which are used to generate morphological and functional images of the human body. This information is used both for diagnostic purposes and in preparation for potential treatment, including interventional and minimally invasive procedures. The Division also offered computer-based systems, workstations and software, enabling healthcare professionals to retrieve, process and store the patient's imaging information. In addition, the Division offered hospital information systems, which allow to digitally store, retrieve and transmit all relevant clinical and administrative information, and which are used to facilitate and optimize clinical workflows by our customers. The Division was also active in computer-based decisions support systems and knowledge-based technologies for assisting doctors with the diagnosis of diseases.

The **Workflow & Solutions** Division provided integrated solutions for areas such as cardiology, oncology, women's health, urology, surgery and audiology. The portfolio included oncology care systems, including linear accelerator and particle therapy technologies used in cancer treatments, x-ray imaging systems for mammography and surgery applications as well as urology systems, and audiology products (hearing aids) and related products and supplies. The Division also provided product-related services for the Sector's imaging and therapeutic equipment and consulting services.



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The **Diagnostics** Division offers products and services in the area of in vitro diagnostics. In vitro diagnostics is based on the analysis of bodily fluids such as blood or urine and supplies vital information for the detection and management of disease as well as an individual patient's risk assessment. The Division's portfolio represents a comprehensive range of diagnostic testing systems and consumables, including clinical chemistry and immunodiagnostics, molecular diagnostics (i.e., testing for nucleic acids), hematology, hemostasis, microbiology, point-of-care testing and clinical laboratory automation solutions. During the fourth quarter of fiscal 2010, we completed a strategic review that reassessed the medium-term growth prospects and long-term market development of the laboratory diagnostics business, and subsequently announced a preliminary estimate of goodwill impairment charges. Following completion of the annual impairment test, Diagnostics took impairment charges at the close of the fourth quarter of fiscal 2010 of 1.204 billion, including 1.145 billion for goodwill, which was below the previously announced estimate primarily due to currency translation effects.

Following the reorganization which took effect as of October 1, 2010, the Healthcare Sector comprises the following three Divisions, one Operating Unit and one separate Business Unit reporting directly to the Sector.

The **Imaging and Therapy Systems** Division merges the business with large-scale medical devices for diagnostic imaging, which was previously included in the Imaging & IT Division, and therapy solutions, which was previously included in the Workflow & Solutions Division and Imaging & IT Division. The new Division reflects the trend of increasing integration between imaging and therapy systems and is intended to further strengthen Siemens' leading position in these markets. The **Clinical Products** Division mainly comprises the business with ultrasound, mammography and x-ray equipment, which was previously included in the Imaging & IT Division and Workflow & Solutions Division. In addition to providing innovative high-end solutions, the Clinical Products Division focuses on the development of cost-efficient, less complex equipment that meets essential customer requirements, particularly in emerging economies. The Clinical Products Division also comprises the internal supplier Components and Vacuum Technology which also provides components to the Division Imaging & Therapy Systems. The scope of the **Diagnostics** Division remains unchanged, comprising the in vitro diagnostics business. The Sector Operating Unit **Customer Solutions** manages sales and services as well as the Business Unit covering hospital information systems. **Audiology** provides hearing aids and is independently managed as a Sector Business Unit.

The customers of the Healthcare Sector include healthcare providers such as hospital groups and individual hospitals, group and individual medical practices, reference and physician office laboratories and outpatient clinics. The Sector sells the majority of its products and services through in-house sales staff, which is now grouped in its Customer Solutions Operating Unit, supported by dedicated product specialists. In some countries, it also uses dealers, particularly for the sale of low-end products (such as low-end ultrasound and x-ray equipment). In vitro diagnostics products and services are primarily sold through the Sector's dedicated diagnostics sales force, which is now also grouped within the Sector's Customer Solutions Operating Unit, while in some regions dealers are used. A small portion of the Sector's sales revenue derives from the delivery of products and components to competitors on an original equipment manufacturer (OEM) basis. The Sector's products are serviced primarily by its own dedicated personnel.

The Healthcare Sector faces market risks in connection with ongoing health care reform efforts. In the United States, a new health care reform was enacted in the spring of 2010. In particular, an excise tax will be charged on certain medical devices. Siemens believes that this tax will mainly impact the computed tomography and magnetic resonance business.

The Healthcare Sector has research and development and OEM cooperation agreements with various companies, including Bruker in the field of magnetic resonance imaging, Toshiba, Mochida, National Semiconductor and Biosense Webster in the field of ultrasound, and Toshiba in the field of magnetic resonance imaging. The Sector is also party to several joint ventures, including with Philips and Thales to manufacture flat panel detectors for medical

imaging. In fiscal 2010, Siemens sold its 25% stake in Dräger Medical AG & Co. KG to the majority shareholder, Drägerwerk AG & Co. KGaA. Through this joint venture Siemens provided electromedical systems, such as patient monitoring and anesthesia systems.

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The Healthcare Sector's principal competitors in medical imaging are General Electric, Philips, Toshiba, Hitachi and Hologic. Other competitors include McKesson and Cerner for healthcare information technology systems, Sonova (formerly Phonak), William Demant, GN Resound and Starkey for audiology (hearing aids), Elekta and Varian Medical for oncology care systems, and Roche, Abbott and Beckman Coulter for in vitro diagnostics. The trend toward consolidation in the Sector's industry continues. Competition among the leading companies in the field is strong, including with respect to price.

## **Equity Investments**

In general, the segment Equity Investments comprises equity stakes held by Siemens that are accounted for by the equity method, at cost or as current available-for-sale financial assets and are not allocated to a Sector, a Cross-Sector Business, Centrally managed portfolio activities, SRE, Pensions or Corporate Treasury for strategic reasons.

The main investments within Equity Investments are:

A stake of approximately 50.0% in **Nokia Siemens Networks B.V. (NSN)**, Netherlands: NSN began operations in the third quarter of fiscal 2007 and includes the carrier-related operations of Siemens and the Networks Business Group of Nokia. NSN is a leading supplier in the telecommunications infrastructure industry.

A 50.0% stake in **BSH Bosch und Siemens Hausgeräte GmbH (BSH)**, Germany: BSH is a leading manufacturer of household appliances, offering an extensive range of innovative products tailored to customer needs and global megatrends alike. BSH was founded as a joint venture in 1967 between Robert Bosch GmbH and Siemens.

A 49.0% stake in **Krauss-Maffei Wegmann GmbH & Co. KG**, Germany, which holds a leading position in the defense technology market.

A 50.0% stake in **ELIN GmbH & Co. KG**, Austria, a provider of technical building equipment and installation services.

A 49.0% stake in **Enterprise Networks Holdings B.V.**, Netherlands, a provider of open communications, network and security solutions to enterprise customers.

A 19.8% stake in **GIG Holding GmbH**, formerly named ARQUES Value Development GmbH, Germany, which owns all shares of Gigaset Communications GmbH (GC). GC focuses on cordless phones and broadband and home entertainment devices.

For additional information on investments held in Equity Investments, see Item 5: Operating and financial review and prospects Fiscal 2010 compared to fiscal 2009 Segment information analysis Equity Investments, Item 7: Major shareholders and related party transactions Related party transactions, as well as Notes to Consolidated Financial Statements.

## **Siemens IT Solutions and Services**

Siemens IT Solutions and Services designs, builds and operates both discrete and large-scale information and communications systems. As a Siemens Cross-Sector Business, Siemens IT Solutions and Services offers comprehensive information technology and communications solutions from a single source both to third parties and to other Siemens entities and their customers. While mainly performing operations related services, it also creates

solutions for customers by drawing on its management consulting resources to redesign customer processes, on its professional services to integrate, upgrade, build and install information technology systems and on its operational capabilities to run these systems on an ongoing basis. As of October 1, 2010, Siemens IT Solutions and Services was carved out of Siemens AG as a separate legal entity which is a wholly owned consolidated subsidiary of Siemens. Siemens IT Solutions and Services incurred significant charges in connection with measures to reduce its workforce by around 4,200 jobs worldwide.

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The following table provides key financial data concerning Siemens IT Solutions and Services.

	<b>Year ended September 30, 2010</b>
Total revenue	4.155 billion
External revenue	3.150 billion
External revenue as percentage of Siemens revenue	4.15%
Profit	(537) million

The following chart provides a geographic breakdown of Siemens IT Solutions and Services external revenue in fiscal 2010.

In its current form, Siemens IT Solutions and Services offers its solutions and services to external customers in the following areas:

*Industry-Energy-Healthcare*, which includes the automotive, discrete manufacturing, mobility and process industries as well as the energy and healthcare markets;

*Public sector*, which includes defense & intelligence, public security, employment services and public administration; and

*Service industries*, which includes customers in telecommunications and internet services, media, and financial and consulting services.

On a combined basis, Siemens is the largest customer of Siemens IT Solutions and Services, accounting for 24% of total revenue in fiscal 2010.

The types of services we offer include:

project-oriented consulting, design and implementation services, such as selecting, adapting and introducing new solutions to support business processes, as well as integration of systems and enterprise applications;

outsourcing services (full-scale IT operations spanning hosting, call center, network and desktop services) as well as operation of selected business processes (e.g., financial services back-office operations); and

software development such as design and implementation of software solutions for external customers.

At the beginning of fiscal 2011, software development solutions for the telecommunication industry were transferred from Siemens IT Solutions and Services to Centrally managed portfolio activities, a reconciliation item within Siemens segment information, introduced at the beginning of fiscal 2010.

Siemens IT Solutions and Services solutions and services are designed to support its customers in the following areas:

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



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

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

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

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

environmental solutions, designed to reduce the environmental impact of customers' business processes, products and services, including solutions designed to prevent pollution and to optimize energy consumption and utilization.

At the beginning of fiscal 2010, Siemens IT Solutions and Services completed the acquisition of a 60% stake in Energy4U GmbH, Elbtal, Germany, a specialist in IT consulting services for utilities.

Most of Siemens IT Solutions and Services' consulting and design services involve information technology and communications systems that Siemens also builds and operates itself. At the same time, Siemens IT Solutions and Services also designs and builds systems and provides services using the software of several companies with which it has established relationships, such as Microsoft, SAP, Fujitsu and VMware.

The largest external customers of Siemens IT Solutions and Services in fiscal 2010 included BBC, BWI Informationstechnik, National Savings & Investments and Nokia Siemens Networks (NSN).

Siemens IT Solutions and Services has its own sales force and operates worldwide in more than 40 countries.

Because Siemens IT Solutions and Services routinely enters into large-scale and sometimes long-term projects, it occasionally becomes exposed to risks related to technical performance or specific customers or countries. Therefore, risks associated with long-term contracts remain a management priority at Siemens IT Solutions and Services. For additional information on these risks, see Item 3: Key information Risk factors.

Siemens IT Solutions and Services' competitors vary by region and type of service. A few of them are global, full-service IT providers such as IBM's Global Services division, Accenture, CSC and HP Services. One of Siemens IT Solutions and Services' competitors with a more narrow focus on specific regions or customers is T-Systems, a unit of Deutsche Telekom, which is based in Germany. As a service business, Siemens IT Solutions and Services requires a strong local presence and the ability to build close customer relationships and provide customized solutions while achieving economies of scale and successfully managing risks in large projects.

The IT services market is expected, according to Gartner, Inc., to show stronger growth in 2011 than in 2010 and growth is expected to return to levels seen before the global financial crisis after 2011. The market will, however, continue to be highly competitive and fragmented. Siemens IT Solutions and Services is expected to return to annual growth rates at market level starting in 2012.

**Siemens Financial Services (SFS)**

As a Siemens Cross-Sector Business, Siemens Financial Services (SFS) provides a variety of financial services and products both to third parties and to other Siemens entities and their customers. We are comprised of six business units, which can be classified as either capital businesses (consisting of the Commercial Finance Europe/APAC

business unit (COFEA), the Commercial Finance U.S. business unit (COFUS) and the Equity component of the Equity Investment & Project Finance business unit) or fee businesses (consisting of the Treasury business unit, the Financing Services & Investment Management business unit, the Insurance business unit and the Project and Export Finance component of the Equity Investment & Project Finance business unit). The capital businesses support Siemens sales with leasing and lending programs and offer a broad range of financial solutions, including direct financing, to vendors and their business customers. Our finance products include finance leases, operating leases, hire purchases and rental contracts as well as structured loans. The capital businesses also make equity investments, mainly in infrastructure projects where Siemens acts as the principal supplier. SFS capital business is originated from Siemens as well as third party vendors and customers and is focused around Energy,

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Industry and Healthcare as areas with Siemens' domain expertise. The fee businesses support and advise Siemens in matters concerning financial risk and investment management and provide an important contribution to Siemens by arranging financing for Siemens projects. Most of SFS' fee business is generated internally (i.e., with other Siemens entities as the customer).

In its transactions with Siemens and third parties, SFS acts consistent with banking industry standards in the international financial markets that are both applicable and mandatory for these transactions. In fiscal 2010, Siemens filed an application with the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* - BaFin) for the grant of a license to conduct banking business. The authority is currently reviewing the application. With the help of a licensed credit institution, Siemens would aim to expand the product portfolio of SFS, particularly in the sales finance area, to add flexibility to Group financing and to optimize its risk management.

The following table provides key financial data concerning SFS.

	<b>Year ended September 30, 2010</b>
Total assets	12.506 billion
Total assets as percentage of Siemens assets	12.16%
Income before income taxes	447 million

**COFEA** and **COFUS** offer a comprehensive range of asset finance, leasing, rental and related financing solutions to organizations of all sizes to finance equipment purchased from Siemens or third-party providers or to finance growth and working capital needs. COFEA and COFUS leverage technical expertise and long-term relationships with other Siemens entities to create integrated financial solutions that complement the Siemens portfolio across the Healthcare, Industry and Energy Sectors and Siemens IT Solutions and Services.

Services are provided through a network of COFEA and COFUS companies, located in 16 countries throughout Europe, Asia Pacific and North America, comprising regulated, partially or non-regulated entities. COFEA plans to establish a non-banking financial company in India and is currently in the process of seeking the required regulatory approvals. Refinancing of SFS COFEA/COFUS entities is mainly conducted by Siemens treasury units.

COFEA products comprise finance and operating leases, hire purchases, rentals, structured loans and very limited forfaiting. Structured solutions range from senior secured corporate loans and structured investment financing to infrastructure and project financing and acquisition, leveraged buyouts (LBO) and growth financing, typically as syndicated loans. SFS COFUS provides similar products in asset financing with a strong focus on senior secured lending and, to a lesser extent, other debt instruments to the Energy Sector, big ticket leasing for transportation and manufacturing assets in the Industry Sector and a growing portfolio in secured acquisition financing. COFUS asset-based lending solutions are mainly secured by receivables and inventory.

COFEA serves Siemens and other domestic and international manufacturers and vendors to allow a risk-balanced portfolio based on a locally adopted mix of end customers. In addition to the vendor channel, the business unit mainly serves clients through direct origination, private equity and project sponsors as well as through the syndication market. It delivers financing solutions tailored to customers' sales objectives, distribution channels and processes and supports them through its local field sales presence in the regions Europe and APAC.

The **Equity Investments & Project Finance** business unit encompasses equity investments in infrastructure projects and small and medium-sized companies as well as the provision of advisory and other services to other Siemens entities. The business unit invests in equity of a broad range of infrastructure projects. In doing so, it concentrates on projects with a meaningful role for Siemens technology. Its investment focus is on power projects (thermal and renewable), medical projects and other infrastructure projects such as airports or railways.

In addition, the business unit conducts equity investments in small and medium-sized companies (venture and growth capital) to fund cutting-edge technologies and systems, making Siemens and its customers more competitive by expanding and improving the products and services offered by Siemens. Energy, healthcare, and industry, the core domains of Siemens technological expertise, are investment focal points. The business unit also offers

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customers advisory, analytical and selection services related to investments in private equity funds and manages a venture and growth capital fund-of-funds for institutional investors called Siemens Global Innovation Partners.

In its advisory role, the business unit supports Siemens Sectors as well as operating companies and consortia in which Siemens participates on project and sales financing transactions. To that end it is assisted by centers of competence, which provide advice on complex financing topics, including public-private partnerships as well as forfeiting and export and investment guarantees. The business unit cooperates with a global network of financial institutions at both national and international levels and maintains contacts at special international financing institutions such as development banks and export credit agencies (e.g., Euler Hermes, Coface, Sace and USExim). Other services provided are centered on the issuance and administration of bonds, guarantees, letters of credit and other sureties from banks for Siemens.

Effective May 1, 2010, the Treasury and Investment Management business unit was split into the business units Treasury and Financing Services & Investment Management. The reorganization reflects the change of responsibility for treasury activities.

The **Treasury** business unit handles all activities which fall into the sole responsibility of the Corporate Treasurer. Treasury is mandated by the Corporate Treasurer to provide treasury services to all Siemens entities. These activities comprise cash management and payment (including intercompany payments) services using group-wide tools with central controls to ensure compliance with internal and external guidelines and requirements as well as all external Siemens financing activities (especially capital market financing). In addition, it pools and manages centralized Siemens interest rate, certain commodity risk and currency risk exposure and uses derivative financial instruments in transactions with external financial institutions to offset such concentrated exposures. For more information on the use of derivatives to hedge risk, see Item 11: Quantitative and qualitative disclosure about market risk.

The **Financing Services & Investment Management** business unit consists of receivables management, third-party treasury advisory and investment management. It is engaged in the process of monitoring and warehousing short-term trade accounts receivable (tenor of up to 365 days) under the roof of Siemens Credit Warehouse. The objective is to centralize risk management for trade receivables as well as provide assets for receivables-backed financing. Treasury advisory provides consulting services and cash management systems to third-party customers. The investment management function provides investment management services relating to pension assets to Siemens as well as to external institutional clients and via mutual funds to the general public. It operates its investment business in Germany and Austria through its companies Siemens Kapitalanlagegesellschaft mbH (SKAG) and Innovest Kapitalanlage AG.

The **Insurance** business unit acts as insurance broker for Siemens and external customers, providing both industrial insurance and private finance solutions. In the area of industrial insurance solutions, the business unit supports Siemens and non-affiliated companies as a competent partner in all insurance related matters, including claims management as well as risk transfer to insurance and financial markets. It also acts as broker of Siemens-financed insurances for employees on business trips and foreign assignments. In the area of private finance solutions, the unit offers a wide range of products in the areas of insurance, retirement planning and residential construction financing for staff at Siemens and non-affiliated companies. Through RISICOM Rückversicherungs AG, SFS provides reinsurance solutions as integral part of Siemens risk financing program.

While SFS originates business in its capital business (leasing, loans, receivables financing, asset-based lending, equity investments) from external customers either directly or through the Siemens Sectors or through internal or external vendors, its fee business is mainly sourced internally from other Siemens entities. In certain cases, it uses financial intermediaries for business origination, mainly on secondary markets. Insurance services are also offered over the internet.

SFS main sources of risk are associated with external customers credit and its own equity portfolio. While the effects of the global financial market crisis are still noticeable, SFS is observing a stabilization of the credit environment.

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Most of SFS services are geared towards Europe and North America. However, SFS is also present in select Asian countries, especially China, to support Siemens regional companies with financial services. SFS competition mainly includes commercial finance operations of banks, independent commercial finance companies, captive finance companies and asset management companies. International competitors include General Electric Commercial Finance, Société General Equipment Finance, BNP Paribas Equipment Finance and De Lage Landen. Particularly in the commercial finance business, our competitors often are local financial institutions and competition therefore varies from country to country.

As of October 1, 2010, Siemens Financial Services was renamed Financial Services due to regulatory requirements in connection with Siemens application in Germany for the grant of a license to conduct banking business.

**Employees and labor relations**

The following tables show the division of our employees by segments and geographic region as of September 30 for each of the years shown. Part-time employees are included on a proportionate basis.

<b>Employees by segments<sup>(1)</sup></b>	<b>As of September 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(in thousands)</b>		
Industry	204	207	220
Energy	88	85	83
Healthcare	49	48	49
Siemens IT Solutions and Services	32	35	41
Siemens Financial Services	2	2	2
Other <sup>(2)</sup>	30	28	32
<b>Total</b>	<b>405</b>	<b>405</b>	<b>427</b>

(1) Continuing operations.

(2) Includes employees in corporate functions and services and business units not allocated to any Sector or Cross-Sector Businesses.

<b>Employees by geographic regions<sup>(1)</sup></b>	<b>As of September 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(in thousands)</b>		
Europe, C.I.S., Africa, Middle East	240	243	256
<i>therein Germany</i>	<i>128</i>	<i>128</i>	<i>132</i>
Americas	91	91	98
<i>therein U.S.</i>	<i>62</i>	<i>64</i>	<i>69</i>
Asia, Australia	74	71	73
<i>therein China</i>	<i>34</i>	<i>31</i>	<i>32</i>
<i>therein India</i>	<i>17</i>	<i>17</i>	<i>17</i>



Total	405	405	427
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(1) Continuing operations.

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

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

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

### **Environmental matters**

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

In 1994, we closed a site in Hanau, Germany, which we had used for the production of uranium and mixed-oxide fuel elements. A smaller related site in Karlstein, where we operated a nuclear research and service center, was closed in 1989. We are in the process of cleaning up both facilities in accordance with the German Atomic Energy Act. We have developed a plan to decommission the facilities that involves the following steps: clean-out, decontamination and disassembly of equipment and installations, decontamination of the facilities and buildings, sorting of radioactive materials and intermediate and final storage of radioactive waste. This process will be supported by ongoing engineering studies and radioactive sampling under the supervision of German federal and state authorities. We expect that the process of decontamination, disassembly and sorting of radioactive waste will continue until 2015. We will be responsible for storing the material until the government-developed storage facility becomes available. With respect to the Hanau facility, the process of setting up intermediate storage for radioactive waste has neared completion and the facility has been released from the scope of application of the German Atomic Energy Act so that its further use is unrestricted under that Act. However, the State of Hessen still requires us to monitor the ground water until uranium levels consistently meet targets set by the State. The ultimate costs of this project will depend, in part, on where the government-developed storage facility will be located and when it becomes available. We set up a provision with respect to this matter, which at September 30, 2010 amounted to 1,004 million. This provision is based on a number of significant estimates and assumptions as to the ultimate costs of this project. During 2010, several parameters were specified relating to the development of a final storage facility in the so-called Schacht Konrad. For additional information, see Notes to Consolidated Financial Statements.

Some of our products are subject to the Directive 2002/95/EC of the European Parliament and of the Council on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (the RoHS Directive). The RoHS Directive bans the use of certain hazardous substances in electrical and electronic equipment. We are in compliance with current requirements under the RoHS Directive. Revisions to certain exemptions from the RoHS Directive were published in September 2010. These revisions introduce certain mercury reduction requirements that will affect our subsidiary OSRAM GmbH.

The current review of the RoHS Directive and of Directive 2002/96/EC of the European Parliament and of the Council on Waste Electrical and Electronic Equipment (the WEEE Directive) by the EU Commission is expected to lead inter alia to changes in the future scope of the RoHS Directive (e.g. inclusion of medical equipment beginning in 2014). However, as the review process is still ongoing and various drafts are currently being proposed by the European Parliament, the European Council and the European Commission, a detailed assessment of the overall impact of the directives on Siemens and of any future financial obligations is as yet not possible.

Restrictions on the use of certain substances comparable to those of the RoHS Directive and of the WEEE Directive are under discussion in several other countries, such as the USA, Australia, Argentina, China and South Korea.

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We are also subject to the Regulation (EC) No. 1907/2006 of the European Parliament and of the Council concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), which entered into force in part on June 1, 2007. In the near future we do not expect any additional risks resulting from REACH because the next measures to be taken by the European Commission under REACH are expected to be limited to the imposition of further information obligations. We will take the necessary measures to comply with these future obligations.

The experience of the last two years has shown that neither the Directive 2004/35/CE of the European Parliament and of the Council on Environmental Liability with Regard to the Prevention and Remediation of Environmental Damage nor the applicable remediation measures for damage to protected species and natural habitats, have yet had any impact on Siemens. Nevertheless we continue to maintain insurance coverage for these risks, which is available in the market.

In the United States, certain of our facilities may be required to obtain operating permits under Title V of the Clean Air Act Amendments of 1990, which governs certain air quality standards. The application for permits and related compliance obligations may require us to incur future costs.

It is our policy to comply with environmental requirements and to provide workplaces for employees that are safe, environmentally sound, and which do not adversely affect the health or environment of their communities. Compliance with environmental requirements is also a focus of the environmental audits we conduct. In remediation of the results of recent environmental audits, additional cost for the implementation and operation of R&D, production and modified logistic processes may occur over the next three years. Taking such remediation measures into account, we believe that we are in substantial compliance with all environmental and health and safety laws and regulations. However, there is a risk that we may incur expenditures significantly in excess of our expectations to cover environmental liabilities, to maintain compliance with current or future environmental and health and safety laws and regulations and/or to undertake any necessary remediation.

## **Environmental Portfolio**

Our Environmental Portfolio may serve as an example of the way we strive to align our business activities with the aforementioned megatrends, in this case climate change. The portfolio contains technologies that reduce impacts on the environment and minimize carbon dioxide emissions responsible for climate change. The elements of the portfolio fall into three main categories: products and solutions with outstanding energy efficiency, such as combined cycle power plants, energy-saving light bulbs and intelligent building technologies; systems and components for renewable forms of energy, such as wind turbines and solar power; and environmental technologies for cleaner water and air.

The qualification of products and solutions for our Environmental Portfolio is based on defined processes and strict criteria. Once a year, the Siemens Sustainability Board decides upon changes in the Environmental Portfolio. This covers the inclusion of newly developed products and solutions fulfilling our qualification criteria as well as additionally qualified products and solutions for which proof for the fulfillment of the qualification criteria was previously not available. For additionally qualified products and solutions, we report their prior-year revenue and prior-year contribution to reducing customer carbon dioxide emissions on a comparable basis. Furthermore, the Sustainability Board takes decisions regarding the exclusion of products and solutions that no longer fulfill our qualification criteria from the Environmental Portfolio. To qualify for the Environmental Portfolio, a product or solution must fall into one of the three categories mentioned above. The calculation of the reduction of carbon dioxide emissions is based on a specific comparison for every relevant product and solution in the Environmental Portfolio. For this calculation, we focus on those products and solutions that have a material impact on the overall carbon dioxide emissions reduction. To determine the baseline and calculate the reduction in our customers' annual carbon dioxide emissions, we generally apply one of the following three methods: direct before-and-after comparison of the emissions; direct comparison with a reference technology; or comparison with the installed base. The described criteria and procedures are reviewed regularly and may be subject to change.

With our Environmental Portfolio we intend to help our customers to reduce their carbon dioxide footprint, cut their energy costs and improve their profitability through an increase in their productivity. Our target by 2011 is to

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help our customers reduce their annual carbon dioxide emissions by approximately 300 million tons through Siemens products and solutions that were installed at customer locations since the beginning of fiscal 2002 and remain in use today. The Siemens products and solutions installed by the end of fiscal 2010 are already reducing customer carbon dioxide emissions by approximately 267 million tons a year.

In addition to its environmental benefits, our Environmental Portfolio enables us to compete successfully in attractive markets and generate profitable growth. We had set ourselves a revenue target for the Environmental Portfolio to generate 25 billion in revenue from the portfolio by the end of fiscal 2011. We achieved that goal significantly earlier than planned. Including revenues from newly developed and additionally qualified products and solutions, revenues from the portfolio in the current year amounted to 27.6 billion and exceeded the comparable revenues of 26.8 billion in fiscal 2009. This means that in fiscal 2010 our Environmental Portfolio already accounted for about 36% of our total revenues. As we continue to see growth opportunities for our Environmental Portfolio, we have set a new target within One Siemens to exceed revenue of 40 billion from the portfolio by the end of fiscal 2014.

There is no standard system that applies across companies for qualifying products and solutions for environmental and climate protection, or for compiling and calculating the respective revenues and the quantity of reduced carbon dioxide emissions attributable to such products and solutions. Accordingly, revenues from our Environmental Portfolio and the reduction of our customers' annual carbon dioxide emissions may not be comparable with similar information reported by other companies. Furthermore, we subject revenues from our Environmental Portfolio and the reduction of our customers' annual carbon dioxide emissions to internal documentation and review requirements which are different from those applicable to our financial information. We may change our policies for recognizing revenues from our Environmental Portfolio and the reduction of our customers' annual carbon dioxide emissions in the future without previous notice.

As in previous years, we again commissioned an independent accounting firm with a limited assurance engagement to review the reported results for our Environmental Portfolio for fiscal 2010. Such review is different from the audit performed for our consolidated financial statements. The outcome of the review was favorable and the independent accounting firm reported its results, in particular, the details relating to total revenues generated by the Environmental Portfolio and the quantity of reduced carbon dioxide emissions attributable to it, in an Independent Assurance Report.

## **Property**

Siemens has in excess of 300 major production and manufacturing plants in more than 40 countries worldwide. A production and manufacturing plant is defined as a facility at a business level, in which raw or source materials are transformed into finished goods on a large scale by using equipment and production resources such as machines, tools, energy and labor. More than 160 production and manufacturing plants are located in the region Europe, C.I.S., Africa, Middle East; over 80 production and manufacturing plants are located in the Americas and over 80 production and manufacturing plants are in Asia, Australia. With more than 190 production and manufacturing plants, the Industry Sector accounts for the greatest proportion of these, followed by the Energy Sector (more than 100 facilities) and the Healthcare Sector (more than 30 facilities).

Siemens also owns or leases other properties including office buildings, warehouses, research and development facilities and sales offices.

Siemens' principal executive offices are located in Munich, Germany.

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

None of our properties are subject to mortgages and other security interests granted to secure indebtedness to financial institutions.

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### **Intellectual property**

Siemens has several thousand patents and licenses covering its products and services worldwide. Research and development is a priority throughout Siemens on a Sector, Cross-Sector Business and Division basis. For a discussion of the main focus of the current research and development efforts of each Sector, see Research and development. Siemens also owns thousands of registered trademarks worldwide. Neither the Company nor any Sector or Cross-Sector Business or Division is dependent on any single patent, license or trademark or any group of related patents, licenses or trademarks.

### **Research and development**

In fiscal 2010, our research & development (R&D) activities were targeted as before on (1) ensuring long-term future viability, (2) enhancing technological competitiveness and (3) optimizing the allocation of R&D resources.

It is our aim to continue to strengthen our innovation capability. In fiscal 2010, Siemens spent 3.846 billion on R&D. Despite the financial and economic crisis, R&D intensity was level with fiscal 2009 and above the level in fiscal 2008.

The Industry Sector invested 1.7 billion with an R&D intensity of 4.9%; the Energy Sector 0.8 billion with an R&D intensity of 3.1%; and the Healthcare Sector 1.1 billion with an R&D intensity of 9.0%. Our central research department (Corporate Technology, CT) and Siemens IT Solutions and Services accounted for additional R&D spending.

We have 12,800 R&D employees in Germany and 17,300 R&D employees in roughly 30 countries outside of Germany, including the U.S., China, Austria, India, Slovakia, Switzerland, UK, Croatia, Sweden, Denmark, Czech Republic and France.

Siemens holds roughly 58,000 patents worldwide, compared to 56,000 patents a year earlier. In terms of the number of published patent applications, Siemens ranked third in Germany and second in Europe in calendar 2009. In terms of the number of patents granted, Siemens ranked thirteenth in the U.S. in calendar 2009. For comparison, Siemens was second in Germany and in Europe, and twelfth in the U.S. in calendar 2008.

The focus of R&D for the Environmental Portfolio is on increasing the efficiency of both renewable and conventional power generation as well as further improving low-loss power transmission, new solutions for intelligent power networks (smart grids), solar energy, carbon dioxide separation in power plants and energy storage systems for volatile renewable energies. Further focus areas are to promote more efficient energy use, whether for industry, building technology, lighting (for example light emitting diodes) or transportation, including electric vehicles from drives to rapid charging stations as well as further development of water and air purification systems and drinking water purification with new membrane technologies.



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Collaborations with universities and non-university research institutes make an important contribution to Siemens capacity to innovate. The key goals of these partnerships are tapping the potential for joint research and development projects, developing and extending the network of universities or research institutes with which Siemens works and increasing communication between Siemens and these universities or institutes, and strengthening the appeal of Siemens to highly qualified young people as a potential employer.

In addition, the Company takes part in publicly funded programs sponsored by such organizations as the European Union, the German Federal Ministry of Research and Education, the German Federal Ministry of Economics and Technology, and the German Federal Ministry of the Environment, Nature Conservation and Nuclear Safety. Siemens believes that these activities not only promote an exchange with external partners in the area of innovation, but also provide access to complementary technological competence that enhances the innovative strength of the entire Company.

CT works closely with the R&D teams of the Sectors and Divisions. To facilitate this collaboration CT, which has more than 5,000 employees, is set up as a worldwide network with primary locations in Germany, the U.S., Austria, Slovakia, Russia, India, China, Japan, and Singapore.

The Sectors concentrate their R&D efforts on the next generation of their products and solutions, which they are preparing for a successful market launch. In contrast, the research and development specialists at CT are focused two generations ahead and prepare the technological basis for that generation. Due to their close collaboration with the product and customer-related parts of the Company as well as their intensive interchange with global research establishments, the CT specialists are not only able to identify technical and societal trends at an early stage, but also to analyze and actively shape these trends. CT is dedicated to the principles of Open Innovation and accordingly, continuously strives to ensure that information from the science and technology sectors is introduced at Siemens.

The roughly 50 global technology fields covered by CT include the subject areas materials and microsystems, production methods, security, software and engineering, power engineering, sensors, automation, medical information systems and imaging methods, information and communication technologies, the extraction and processing of raw materials, and off-grid power generation. The technology portfolio also includes lighthouse projects which are designed to create new business opportunities for Siemens. They cover areas such as electromobility and smart grid for example, solutions for major strategic challenges. The combination of the latest technologies and intensive cooperation with the Sectors has the potential to produce entirely new solutions. Our SMART (Simplicity, Maintenance friendly, Affordable, Reliable and Timely to market) solutions implement new technologies in a manner that renders them competitive in low-price markets. These affordable solutions are aligned with the needs of the relevant markets and are characterized by their simplicity, ease of maintenance, and reliability. SMART solutions, such as those developed in the fields of healthcare and decentralized power generation, are under development at CT and at the Sectors. In fact, a number of them are already being used successfully today.

R&D priorities of the **Industry** Sector include the IT-based integration of product planning and production processes into product lifecycle management. The objective is to accelerate processes at each point of the value-added chain with the aim of reducing the time to market by as much as 50%. The further development of automation technology, including, in particular software, is of crucial importance in this respect. In addition, the Industry Sector is striving to achieve greater energy efficiency, lower consumption of raw materials, and lower emissions. The same goals are pursued in connection with the development of high-performance lighting solutions for example with light-emitting diodes building control systems or transportation systems featuring energy-saving drives and of our complete mobility approach which aims to integrate various transportation systems in order to bring people and goods to their destination more efficiently, more rapidly, and more comfortably.

Our R&D activities in the **Energy** Sector are focused on developing methods for the efficient generation, transmission, and distribution of electrical energy. In this regard, the conversion of existing power grids to smart grids, in particular, is expected to play a major role. Intelligent grids are not only the prerequisite for sustainable energy systems but also for achieving an optimal integration of increasingly large amounts of renewable energies and future electric vehicles into the energy mix. Another area of research addressed by the Energy Sector involves optimized solutions for solar thermal power plants. Other focal points include floating wind power turbines on high seas, innovative technologies for the low-loss transmission of electricity, the use of new materials for turbine blades

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to enhance power plant efficiency, and technologies for separating carbon dioxide a greenhouse gas from the fuel gas produced at fossil fuel-fired power plants.

The reversal of the age pyramid, together with growing population figures, is leading to increasing demand for efficient healthcare, which offers people the best possible care at an affordable price. Accordingly, the R&D activities of the **Healthcare** Sector focus particularly on innovations that assist customers in meeting this challenge. This primarily involves the combination of various imaging methods which provide increasingly detailed and faster three-dimensional insights into the body of a patient, while subjecting him or her to less discomfort with modern therapeutic measures, diagnostics, and information technology to create vastly improved, coordinated workflows. In response to market demands, product innovations that automate clinical work processes and optimize laboratory diagnostics are also a priority for the Healthcare Sector. As a result of the information provided by the various diagnostic methods, doctors are in a position to better identify diseases earlier. They are also able to tailor therapies more closely to a patient's needs by monitoring the effect of medication more accurately and exploiting the evaluation and analytical capabilities of modern computer technology. The Sector is also involved in the targeted development of products that meet the specific requirements of healthcare systems of emerging countries, which enables us to assist in developing primary medical care in these countries.

## **Supply chain management**

In fiscal 2009, we had launched a Supply Chain Management Initiative with the objective of working with our suppliers to establish a leading global procurement network, promote the development of technologies, and accelerate innovation cycles. In fiscal 2010, this initiative was transferred into a new and permanent organization for supply chain management within Siemens, having already generated substantial and sustainable savings for Siemens. Supply chain management at Siemens aims to ensure the availability and quality of the materials we require to serve our customers. This can only be achieved by means of a globally balanced, localized and close-knit network with our supply base and a very close link and strategic alignment with the Siemens businesses.

A cornerstone of our new organization for supply chain management is the global and centralized responsibility for all indirect materials, as well as all Siemens-wide managed direct materials. This approach constitutes a major step towards one of the key objectives of the former initiative, to significantly increase the share of Siemens-wide managed materials, in order to leverage bundling effects across Siemens more effectively.

The second central component of our Supply Chain Management Initiative was global value sourcing, which entails the development of a competitive global supply network and joint product development and innovations with our key suppliers as well as an increased share of sourcing in developing markets (global value sourcing countries), in order to achieve a better regional balance between sales and procurement volume. The final measure within our initiative was to optimize our supply base by reducing the number of our suppliers and to intensify our cooperation with those suppliers that contribute most to our value creation.

Another important topic for supply chain management at Siemens is sustainability in our supply chain. We made further progress with this topic in the current fiscal year and will continue to pursue it in fiscal 2011. Siemens requires all its suppliers to comply with the principles of the Code of Conduct for Siemens Suppliers and to support its implementation in their own supply chains as well. We also initiate worldwide on-site sustainability audits by external experts to ensure the fulfillment of our standards and to encourage a sustainable business conduct throughout our entire global supply chain. Further, we are striving to optimize the continuous feedback from our suppliers by taking a new approach to feedbacks. In particular, we want to find out from our suppliers how Siemens can better support and integrate them in implementing sustainability topics.

In addition, we have designed an Energy Efficiency Program for our suppliers. By conducting environmental and energy efficiency checks, we work with our suppliers to identify any potential for reducing the consumption of energy and resources. In this regard, we draw upon the expertise and know-how gained in connection with our own environmental program and our Environmental Portfolio. For further information, see Environmental Portfolio. We are planning to roll out this program to the first 1,000 suppliers over the next two fiscal years.

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**Legal proceedings**

**Public corruption proceedings**

**Governmental and related proceedings**

Public prosecutors and other government authorities in jurisdictions around the world are conducting investigations of Siemens and certain of our current and former employees regarding allegations of public corruption, including criminal breaches of fiduciary duty such as embezzlement, as well as bribery, money laundering and tax evasion, among others. These investigations involve allegations of corruption at a number of Siemens business units.

On December 15, 2008, Siemens announced that legal proceedings against it arising from allegations of bribing public officials were concluded on the same day in Munich, Germany, and in Washington, DC. The Munich public prosecutor announced the termination of legal proceedings alleging the failure of the former Managing Board of Siemens AG to fulfill its supervisory duties. The investigations of former members of the Managing Board, employees of the Company and other individuals remain unaffected by this resolution. In Washington, DC, Siemens pleaded guilty in federal court to criminal charges of knowingly circumventing and failing to maintain adequate internal controls and failing to comply with the books and records provisions of the U.S. Foreign Corrupt Practices Act (FCPA). In related cases, three Siemens foreign subsidiaries, Siemens S.A. (Argentina), Siemens Bangladesh Ltd. and Siemens S.A. (Venezuela), pleaded guilty to individual counts of conspiracy to violate the FCPA. At the same time, Siemens settled a civil action against it brought by the U.S. Securities and Exchange Commission (SEC) for violations of the FCPA. The agreement reflects the U.S. prosecutors' express recognition of Siemens' extraordinary cooperation as well as Siemens' new and comprehensive compliance program and extensive remediation efforts. Based on these facts, the lead agency for U.S. federal government contracts, the Defense Logistics Agency, issued a formal determination that Siemens remains a responsible contractor for U.S. government business.

Under the terms of the plea and settlement agreements reached in the United States, Siemens has engaged Dr. Theo Waigel, former German federal minister of finance, as compliance monitor to evaluate and report, for a period of up to four years, on the Company's progress in implementing and operating its new compliance program.

In the fourth quarter of fiscal 2008, the Company accrued a provision in the amount of approximately 1 billion in connection with the discussions with the Munich public prosecutor, the SEC and the United States Department of Justice for the purpose of resolving their respective investigations. Cash outflows relating to the fines and disgorgements referred to above during the first quarter of fiscal 2009 amounted to 1.008 billion.

As previously reported, in October 2007, the Munich public prosecutor terminated a similar investigation relating to Siemens' former Communications Group. Siemens paid 201 million in connection with the termination of this investigation. This brings the total amount paid to authorities in Germany in connection with these legal proceedings to 596 million.

As previously reported, the public prosecutor in Wuppertal, Germany, is conducting an investigation against Siemens employees regarding allegations that they participated in bribery related to the awarding of an EU contract for the refurbishment of a power plant in Serbia in 2002. In April 2010, the public prosecutor discontinued the investigation.

As previously reported, Siemens Zrt. Hungary and certain of its employees are being investigated by Hungarian authorities in connection with allegations concerning suspicious payments in connection with consulting agreements with a variety of shell corporations and bribery relating to the awarding of a contract for the delivery of

communication equipment to the Hungarian Armed Forces.

As previously reported, the Vienna, Austria, public prosecutor is conducting an investigation into payments between 1999 and 2006 relating to Siemens AG Austria and its subsidiary Siemens VAI Metal Technologies GmbH & Co. for which valid consideration could not be identified.

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As previously reported, authorities in Russia are conducting an investigation into alleged misappropriation of public funds in connection with the award of contracts to Siemens for the delivery of medical equipment to public authorities in Yekaterinburg in the years 2003 to 2005. Siemens is cooperating with the authorities.

As previously reported, in August 2007, the Nuremberg-Fuerth public prosecutor began an investigation into possible violations of law in connection with the United Nations Oil-for-Food Programme. In December 2008, the public prosecutor discontinued the investigation with respect to all persons accused.

As previously reported, the Sao Paulo, Brazil, public prosecutor conducted certain investigations of Siemens relating to the use of business consultants and suspicious payments in connection with the former Transportation Systems Group in or after 2000. In 2009, the authority discontinued the investigation.

On March 9, 2009, Siemens AG received a decision by the Vendor Review Committee of the United Nations Secretariat Procurement Division (UNPD) suspending Siemens AG from the UNPD vendor database for a minimum period of six months. The suspension applies to contracts with the UN Secretariat and stems from Siemens AG's guilty plea in December 2008 to violations of the U.S. Foreign Corrupt Practices Act. Siemens AG does not expect a significant impact on its business, results of operations or financial condition from this decision. On December 22, 2009, Siemens AG filed a request to lift the existing suspension to which it has not yet received a response.

In April 2009, Siemens AG received a Notice of Commencement of Administrative Proceedings and Recommendations of the Evaluation and Suspension Officer from the World Bank, which comprises the International Bank for Reconstruction and Development as well as the International Development Association, in connection with allegations of sanctionable practices during the period 2004-2006 relating to a World Bank-financed project in Russia. On July 2, 2009, the Company entered into a global settlement agreement with the International Bank for Reconstruction and Development, the International Development Association, the International Finance Corporation and the Multilateral Investment Guarantee Agency (collectively, the World Bank Group) to resolve World Bank Group investigations involving allegations of corruption by Siemens. In the agreement, Siemens voluntarily undertakes to refrain from bidding in connection with any project, program, or other investment financed or guaranteed by the World Bank Group (Bank Group Projects) for a period of two years, commencing on January 1, 2009 and ending on December 31, 2010. Siemens is not prohibited by the voluntary restraint from continuing work on existing contracts under Bank Group Projects or concluded in connection with World Bank Group corporate procurement provided such contracts were signed by Siemens and all other parties thereto prior to January 1, 2009. The agreement provides for exemptions to the voluntary restraint in exceptional circumstances upon approval of the World Bank Group. Siemens also had to withdraw all pending bids, including proposals for consulting contracts, in connection with Bank Group Projects and World Bank Group corporate procurement where the World Bank Group has not provided its approval prior to July 2, 2009. Furthermore, Siemens is also required to voluntarily disclose to the World Bank Group any potential misconduct in connection with any Bank Group Projects. Finally, Siemens has undertaken to pay U.S.\$100 million to agreed anti-corruption organizations over a period of not more than 15 years. In fiscal 2009, the Company took a charge to Other operating expense to accrue a provision in the amount of \$53 million relating to the global settlement agreement with the World Bank Group. In November 2009, Siemens Russia OOO and all its controlled subsidiaries were, in a separate proceeding before the World Bank Group, debarred for four years from participating in Bank Group Projects. Siemens Russia OOO did not contest the debarment.

As previously reported, the Norwegian anti-corruption unit, Oekokrim, conducted an investigation against Siemens AS Norway and two of its former employees related to payments made for golf trips in 2003 and 2004, which were attended by members of the Norwegian Department of Defense. On July 3, 2009, the trial court in Oslo, Norway, found the two former employees not guilty. Oekokrim stated on July 16, 2009, that the proceedings against Siemens AS Norway have also been discontinued.

In November 2009 and in February 2010, a subsidiary of Siemens AG voluntarily self-reported possible violations of South African anti-corruption regulations in the period before 2007 to the responsible South African authorities.



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As previously reported, the public prosecutor in Milan, Italy, had filed charges against a current and a former employee of Siemens S.p.A., Siemens S.p.A., and one of its subsidiaries in November 2007, alleging that the two individuals made illegal payments to employees of the state-owned gas and power group ENI. Charges were also filed against other individuals and companies not affiliated with Siemens. The two individuals, Siemens S.p.A., and its subsidiary entered into a *patteggiamento* (plea bargaining agreement without the recognition of any guilt or responsibility) with the Milan public prosecutor which was confirmed by the Milan court on April 27, 2009. Under the terms of the *patteggiamento*, Siemens S.p.A. and the subsidiary were each fined 40,000 and ordered to disgorge profits in the amount of 315,562 and 502,370, respectively. The individuals accepted suspended prison sentences. The decision is final and the proceedings are closed.

As previously reported, the Argentinean Anti-Corruption Authority is conducting an investigation into corruption of government officials in connection with the award of a contract to Siemens in 1998 for the development and operation of a system for the production of identity cards, border control, collection of data and voters registers. Searches were undertaken at the premises of Siemens Argentina and Siemens IT Services S.A. in Buenos Aires in August 2008 and in February 2009. The Company is cooperating with the Argentinean Authorities. The Argentinean investigative judge also requested judicial assistance from the Munich public prosecutor and the federal court in New York repeatedly.

On August 17, 2009, the Anti-Corruption Commission of Bangladesh (ACC) filed criminal charges against two current and one former employee of Siemens Bangladesh's Healthcare business. It is alleged that the employees colluded with employees of a public hospital to overcharge for the delivery of medical equipment in the period before 2007.

On December 30, 2009, the ACC sent a request for information to Siemens Bangladesh Ltd. (Siemens Bangladesh) related to telecommunications projects of Siemens former Communications (Com) Group undertaken prior to 2007. On January 4, 2010, Siemens Bangladesh was informed that in a related move the Anti Money Laundering Department of the Central Bank of Bangladesh is conducting a special investigation into certain accounts of Siemens Bangladesh and of former employees of Siemens Bangladesh in connection with transactions for Com projects undertaken in the period from 2002 to 2006. On February 16, 2010, the ACC sent a request for additional information.

On June 23, 2010, the Frankfurt public prosecutor searched premises of Siemens in Germany in response to allegations of questionable payments relating to an Industry project in Thailand. Siemens is cooperating with the authority.

In August 2010, the Inter-American Development Bank (IADB) issued a notice of administrative proceedings against, among others, Siemens IT Solutions and Services Argentina alleging fraudulent misstatements and antitrust violations in connection with a public invitation to tender for a project in the province of Cordoba, Argentina, in 2003. Siemens is cooperating with the IADB.

Also in August 2010, the IADB issued a notice of administrative proceedings against, among others, Siemens Venezuela alleging fraudulent misstatements and public corruption in connection with a public invitation to tender for healthcare projects in the Venezuelan provinces of Anzoategui and Merida in 2003. Siemens is cooperating with the IADB.

As previously reported, in February 2010 a Greek Parliamentary Investigation Committee (GPIC) was established to investigate whether any politicians or other state officials in Greece were involved in alleged wrong-doing of Siemens in Greece. GPIC's investigation is focused on possible criminal liability of politicians and other state officials. Greek public prosecutors are separately investigating certain fraud and bribery allegations involving among others former board members and former executives of Siemens A.E. Greece (Siemens A.E.) and Siemens AG. Both investigations may have a negative impact on civil proceedings currently pending against Siemens AG and Siemens A.E. and may

affect the future business activities of Siemens in Greece. In September 2010, the GPIC assumed in a preliminary estimate that the alleged damages suffered by the Greek state from contracts signed with Siemens might reach up to 2 billion. At present, it is unclear to Siemens what the basis of the alleged damages is or how the alleged amount of damages was computed.

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As previously reported, the Nigerian Economic and Financial Crimes Commission (EFCC) was conducting an investigation into alleged illegal payments by Siemens to Nigerian public officials between 2002 and 2005. In October 2010, the EFCC filed charges with the Federal High Court in Abuja and the High Court of the Federal Capital Territory against among others Siemens Ltd. Nigeria (Siemens Nigeria), Siemens AG and former board members of Siemens Nigeria. On November 22, 2010, the Nigerian Government and Siemens Nigeria entered into an out of court settlement, obligating Siemens Nigeria to make a payment in the mid double-digit Euro million range to Nigeria in exchange for the Nigerian Government withdrawing these criminal charges and refraining from the initiation of any criminal, civil or other actions such as a debarment against Siemens Nigeria, Siemens AG, and Siemens employees.

The Company remains subject to corruption-related investigations in several jurisdictions around the world. As a result, additional criminal or civil sanctions could be brought against the Company itself or against certain of its employees in connection with possible violations of law. In addition, the scope of pending investigations may be expanded and new investigations commenced in connection with allegations of bribery and other illegal acts. The Company's operating activities, financial results and reputation may also be negatively affected, particularly as a result of penalties, fines, disgorgements, compensatory damages, third-party litigation, including with competitors, the formal or informal exclusion from public invitations to tender, or the loss of business licenses or permits. Additional expenses and provisions, which could be material, may need to be recorded in the future for penalties, fines, damages or other charges in connection with the investigations.

As previously reported, the Company is following up on evidence of bank accounts and the amounts of the funds deposited therein in various locations. Certain funds have been frozen by authorities. During fiscal 2010, the Company recognized an amount of 40 million in *Other operating income* from the agreed recovery of funds from one of these accounts.

**Civil litigation**

As already disclosed by the Company in press releases, Siemens AG asserted claims for damages against former members of the Managing and Supervisory Board. The Company based its claims on breaches of organizational and supervisory duties in view of the accusations of illegal business practices that occurred in the course of international business transactions in the years 2003 to 2006 and the resulting financial burdens for the Company. On December 2, 2009 Siemens reached a settlement with nine out of eleven former members of the Managing and Supervisory Board. As required by law, the settlements between the Company and individual board members were subject to approval by the Annual Shareholders Meeting. The Company reached a settlement agreement with its directors and officers (D&O) insurers regarding claims in connection with the D&O insurance of up to 100 million. The Annual Shareholders Meeting approved all nine settlements between the Company and the former members of the Managing and Supervisory Board on January 26, 2010. The shareholders also agreed to the settlement with respect to claims under the D&O insurance. During the second quarter of fiscal 2010, Siemens AG received certain benefits as required under the aforementioned settlement agreements with the result that an amount of 96 million net of related cost was recognized primarily in *Other operating income*. Thereof 84 million resulted from the settlement agreement with the D&O insurers and 12 million resulted from settlement agreements with former board members. The former board members used claims they had against the Company to offset a portion of their obligations under the aforementioned settlement agreements. The remaining amount was or will be settled by the former board members in cash. On January 25, 2010, Siemens AG filed a lawsuit with the Munich District Court I against the two former board members who were not willing to settle, Thomas Ganswindt and Heinz-Joachim Neubürger. The complaint was served upon the defendants. The defendants asked Siemens AG to produce certain documents.

As previously reported, an alleged holder of Siemens American Depositary Shares filed a derivative lawsuit in February 2007 with the Supreme Court of the State of New York against certain current and former members of Siemens Managing and Supervisory Boards as well as against Siemens as a nominal defendant, seeking various forms

of relief relating to the allegations of corruption and related violations at Siemens. The alleged holder of Siemens American Depository Shares voluntarily withdrew the derivative action in September 2009.

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As previously disclosed, in June 2008, the Republic of Iraq filed an action requesting unspecified damages against 93 named defendants with the United States District Court for the Southern District of New York on the basis of findings made in the Report of the Independent Inquiry Committee into the United Nations Oil-for-Food Programme. Siemens S.A.S. France, Siemens A. Ş. Turkey and OSRAM Middle East FZE, Dubai, are among the 93 named defendants. Process was served upon all three Siemens subsidiaries. The three Siemens subsidiaries will defend themselves against the action.

As previously reported, Siemens AG had filed a request for arbitration against the Republic of Argentina (Argentina) with the International Center for Settlement of Investment Disputes (ICSID) of the World Bank. Siemens AG claimed that Argentina had unlawfully terminated its contract with Siemens for the development and operation of a system for the production of identity cards, border control, collection of data and voters registers (DNI project) and thereby violated the Bilateral Investment Protection Treaty between Argentina and Germany (BIT). Siemens AG sought damages for expropriation and violation of the BIT of approximately U.S.\$500 million. A unanimous decision on the merits was rendered by the ICSID arbitration tribunal on February 6, 2007, awarding Siemens AG compensation in the amount of U.S.\$217.8 million, plus compound interest thereon at a rate of 2.66% since May 18, 2001. The tribunal also ruled that Argentina is obligated to indemnify Siemens AG against any claims of subcontractors in relation to the project (amounting to approximately U.S.\$44 million) and, furthermore, that Argentina would be obligated to pay Siemens AG the full amount of the contract performance bond (U.S.\$20 million) in the event this bond was not returned. The time period set by the tribunal for returning the contract performance bond subsequently elapsed without delivery. As previously reported, Argentina subsequently filed applications with the ICSID aiming at the annulment and reversal of the decision and a stay of enforcement of the arbitral award. On August 12, 2009, Argentina and Siemens AG reached an agreement to mutually settle the case and discontinue any and all civil proceedings in connection with the case without acknowledging any legal obligations or claims. No payment was made by either party.

As previously reported, Siemens has been approached by a competitor to discuss claims it believes it has against the Company. The alleged claims relate to allegedly improper payments by the Company in connection with the procurement of public and private contracts. Siemens is assessing whether any basis exists for such claims. Siemens and the competitor have engaged in discussions; the outcome of these discussions is open.

As previously disclosed, a securities class action was filed in December 2009 against Siemens AG with the United States District Court for the Eastern District of New York seeking damages for alleged violations of U.S. securities laws. The Company is defending itself against the action.

## **Antitrust proceedings**

As previously reported, in June 2007, the Turkish Antitrust Agency confirmed its earlier decision to impose a fine in an amount equivalent to 6 million on Siemens A.S. Turkey based on alleged antitrust violations in the traffic lights market. Siemens A.S. Turkey has appealed this decision and this appeal is still pending.

As previously reported, in February 2007, the Norwegian Competition Authority launched an investigation into possible antitrust violations involving Norwegian companies active in the field of fire security, including Siemens Building Technologies AS. In December 2008, the Norwegian Competition Authority issued a final decision that Siemens Building Technologies AS had not violated antitrust regulations.

As previously reported, in February 2007, the European Commission launched an investigation into possible antitrust violations involving European producers of power transformers, including Siemens AG and VA Technologie AG (VA Tech), which Siemens acquired in July 2005. The German Antitrust Authority (*Bundeskartellamt*) has become involved in the proceeding and is responsible for investigating those allegations that relate to the German market.

Power transformers are electrical equipment used as major components in electric transmission systems in order to adapt voltages. The Company is cooperating in the ongoing investigation with the European Commission and the German Antitrust Authority. On October 7, 2009, the European Commission imposed fines totaling 67.644 million on seven companies with regard to a territorial market sharing agreement related to Japan and Europe. Siemens was not fined because it had voluntarily disclosed this aspect of the case to the authorities. The German Antitrust Authority continues its investigation with regard to the German market.

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As previously reported, in April 2007, Siemens AG and VA Tech filed actions before the European Court of First Instance in Luxemburg against the decisions of the European Commission dated January 24, 2007, to fine Siemens and VA Tech for alleged antitrust violations in the European Market of high-voltage gas-insulated switchgear between 1988 and 2004. Gas-insulated switchgear is electrical equipment used as a major component for turnkey power substations. The fine imposed on Siemens amounted to 396.6 million and was paid by the Company in 2007. The fine imposed on VA Tech, which Siemens AG acquired in July 2005, amounted to 22.1 million. VA Tech was declared jointly liable with Schneider Electric for a separate fine of 4.5 million. The European Court of First Instance has not yet issued a decision. In addition to the proceedings mentioned in this document, authorities in Brazil, the Czech Republic and Slovakia are conducting investigations into comparable possible antitrust violations. In October 2010, the High Court of New Zealand dismissed corresponding charges against Siemens. The decision is still appealable.

As previously reported, on October 25, 2007, upon the Company's appeal, a Hungarian competition court reduced administrative fines imposed on Siemens AG for alleged antitrust violations in the market of high-voltage gas-insulated switchgear from 0.320 million to 0.120 million and from 0.640 million to 0.110 million regarding VA Technologie AG. The Company and the Competition Authority both appealed the decision. In November 2008, the Court of Appeal confirmed the reduction of the fines. On December 5, 2008, the Competition Authority filed an extraordinary appeal with the Supreme Court. In December 2009, Siemens AG was notified that the Supreme Court had remanded the case to the Court of Appeal, with instructions to take a new decision on the amount of the fines. The extraordinary appeal from the Competition Authority was rejected with legally binding effect by the Court of Appeal on January 27, 2010. On April 6, 2010, the Competition Authority filed another extraordinary appeal with the Supreme Court.

In connection with the January 24, 2007 decision of the European Commission regarding alleged antitrust violations in the high-voltage gas-insulated switchgear market, claims are being made against Siemens. Among others, a claim was filed by National Grid Electricity Transmission Plc. (National Grid) with the High Court of England and Wales in November 2008. Twenty-one companies have been named as defendants, including Siemens AG and various of its subsidiaries. National Grid asserts claims in the aggregate amount of approximately £249 million for damages and compound interest. Siemens believes National Grid's claim to be without merit. As discussed, the European Commission's decision has been appealed to the European Court of First Instance. On June 12, 2009, the High Court granted a stay of the proceedings pending before it until three months after the outcome of the appeal to the European Court of First Instance and any subsequent appeals to the European Court of Justice. On June 26, 2009, the Siemens defendants filed their answers to the complaint and requested National Grid's claim to be rejected. Discovery is ongoing.

As previously reported, the South African Competition Commission investigated alleged antitrust violations in the market of high-voltage gas-isolated switchgear. In May 2009, the Company was notified that the Competition Commission will not pursue the prosecution of this matter.

As previously reported, a suit and motion for approval of a class action was filed in Israel in December 2007 to commence a class action based on the fines imposed by the European Commission for alleged antitrust violations in the high-voltage gas-insulated switchgear market. Thirteen companies were named as defendants in the suit and motion, among them Siemens AG Germany, Siemens AG Austria and Siemens Israel Ltd. The class action alleged damages to electricity consumers in Israel in the amount of approximately 575 million related to higher electricity prices claimed to have been paid because of the alleged antitrust violations. At a hearing on December 11, 2008, the plaintiff requested to withdraw from the action and from the motion to certify the action as a class action. The court approved the request and dismissed the action and the motion to certify.

In January 2010, the European Commission launched an investigation related to previously reported investigations into potential antitrust violations involving producers of flexible current transmission systems in New Zealand and the

USA including, among others, Siemens AG. In April 2010, authorities in Korea and Mexico informed the Company that similar proceedings had been initiated. Siemens AG is cooperating with the authorities. On June 1, 2010, the New Zealand Commerce Commission notified Siemens AG that their investigation had been closed. On September 13, 2010, the European Commission notified Siemens AG that their investigation had been



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closed. On November 17, 2010, the Korean antitrust authority notified Siemens AG that their investigation had been closed.

On February 11, 2010, the Italian Antitrust Authority searched the premises of several healthcare companies, including Siemens Healthcare Diagnostics S.r.l. and Siemens S.p.A., in response to allegations of anti-competitive agreements relating to a 2009 public tender process for the supply of medical equipment to the procurement entity for the public healthcare sector in the Italian region of Campania, So.Re.Sa. Siemens is cooperating with the authority.

## **Other proceedings**

As previously reported, starting in December 2006, the Company and Qisda Corp. (formerly named BenQ Corp.), a Taiwanese company, were parties in an arbitration proceeding before the International Chamber of Commerce (ICC) relating to the purchase by Qisda of the Company's mobile devices business in 2005. The parties subsequently resolved their disputes and, upon joint request of the parties, the ICC issued an Award by Consent in March 2009.

On November 25, 2008, Siemens AG and the insolvency administration of BenQ Mobile GmbH & Co. OHG announced that they had reached a settlement after constructive discussions that began in 2006. In the settlement agreement, Siemens AG agreed to a gross payment of 300 million, which was made in December 2008. However, ultimately, the settlement is expected to result in a total net payment of approximately 255 million after taking into account the claims against the debtor's estate, which were filed by Siemens AG and acknowledged by the insolvency administrator. Since Siemens AG had made sufficient provisions for the expected settlement, the settlement did not have a material negative impact on Siemens AG's results of operations for fiscal 2009.

As previously reported, Siemens AG is a member of a supplier consortium that has contracted to construct the nuclear power plant Olkiluoto 3 in Finland for Teollisuuden Voima Oyj (TVO) on a turnkey basis. Siemens AG's share of the consideration to be paid to the supplier consortium under the contract is approximately 27%. The other member of the supplier consortium is a further consortium consisting of Areva NP S.A.S. and its wholly-owned subsidiary, Areva NP GmbH. The agreed completion date for the nuclear power plant was April 30, 2009. Completion of the power plant has been delayed for reasons which are in dispute. In December 2008, the supplier consortium filed a request for arbitration against TVO demanding an extension of the construction time, additional compensation and damages in the amount of now approximately 1.23 billion. TVO rejected the demand for an extension of time and made counterclaims against the supplier consortium. These consist primarily of damages due to the delay, claimed to amount to approximately 1.43 billion based on estimated completion of the plant in June 2012 with a delay of 38 months. Assuming the full cooperation of all parties involved, nuclear fuel is expected to be loaded into the reactor at the end of 2012 commencing the commissioning phase of the overall plant. This testing phase will last several months. As of today, completion is expected to occur by the end of the 2013 calendar year.

In early 2009 Siemens AG terminated its joint venture with Areva S.A. (Areva). Thereafter Siemens AG entered into negotiations with the State Atomic Energy Corporation Rosatom (Rosatom) with a view to forming a new partnership active in the construction of nuclear power plants, in which it would be a minority shareholder. In April 2009, Areva filed a request for arbitration with the ICC against Siemens AG. Areva seeks an order enjoining Siemens AG from pursuing such negotiations with Rosatom, a declaration that Siemens AG is in material breach of its contractual obligations, a reduction of the price payable to Siemens AG for its stake in the Areva NP S.A.S. joint venture and damages in an amount to be ascertained. Siemens AG filed its answer in June 2009, primarily seeking a dismissal of Areva's claims and a price increase. The arbitral tribunal has been constituted and the main proceedings have commenced. On November 17, 2009, the arbitral tribunal issued an interim order which imposes certain provisional restrictions on Siemens AG with respect to the negotiation process and the planned partnership with Rosatom; the order does not preclude Siemens AG from continuing its discussions with Rosatom during the arbitration. In its last submissions Areva did not uphold its request for damages. In September 2010 the hearing on the merits was held. The

outcome of the main proceedings remains open.

As previously reported, a Mexican governmental control authority had barred Siemens S.A. de C.V. Mexico (Siemens Mexico) from bidding on public contracts for a period of three years and nine months beginning

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November 30, 2005. This proceeding arose from allegations that Siemens Mexico did not disclose alleged minor tax discrepancies when it was signing a public contract in 2002. Upon several appeals by Siemens Mexico, the execution of the debarment was stayed, the debarment subsequently reduced to a period of four months, and in June 2009 the Company was finally informed by the relevant administrative court that the debarment was completely annulled.

In July 2008, Mr. Abolfath Mahvi filed a request for arbitration with the ICC seeking an award of damages against Siemens AG in the amount of DM150 million (or the equivalent in euro, which is approximately 77 million) plus interest. Mr. Mahvi's claim is based on a contract concluded in 1974 between a company that was then a subsidiary of Siemens and two other companies, one domiciled in the Bermudas and the other in Liberia. Mr. Mahvi alleged that he is the successor in interest to the Bermudan and Liberian companies and that the companies assisted Siemens AG in the acquisition of a power plant project in Bushehr, Iran. On August 24, 2010, the arbitration award was served upon Siemens AG. All claims of Mr. Mahvi were rejected. The plaintiff must bear the costs of the arbitration proceeding.

In July 2008, Hellenic Telecommunications Organization Société Anonyme (OTE) filed a lawsuit against Siemens AG with the district court of Munich, Germany, seeking to compel Siemens AG to disclose the outcome of its internal investigations with respect to OTE. OTE seeks to obtain information with respect to allegations of undue influence and/or acts of bribery in connection with contracts concluded between Siemens AG and OTE from 1992 to 2006. In May 2009, OTE was granted access to the public prosecutor's files in Greece. At the end of July 2010, OTE expanded its claim and requested payment of damages by Siemens AG of at least 57.07 million to OTE for alleged bribery payments to OTE-employees. Siemens AG is currently preparing its written statement of defense relating to the expansion of the claim. The oral hearing has been scheduled for February 2011.

Siemens A.E. entered into a subcontract agreement with Science Applications International Corporation, Delaware, USA, (SAIC) in May of 2003 to deliver and install a significant portion of a security surveillance system (the C4I project) in advance of the Olympic Games in Athens, Greece. Siemens A.E. fulfilled its obligations pursuant to the subcontract agreement. Nonetheless, the Greek government claimed errors related to the C4I-system and withheld amounts for abatement in the double-digit million euro range. Furthermore the Greek government withheld final payment in the double-digit million euro range, only recently claiming that the system has not been finally accepted. Although Siemens A.E. is not a contractual party of the Greek government, under Siemens A.E.'s subcontract agreement with SAIC non-payment by the Greek government economically affects Siemens A.E. as well. SAIC has filed for arbitration contesting all the Greek government's claims and ability to withhold payments. The Greek State filed inter alia a motion to stay the arbitration pursuant to the ongoing criminal investigations conducted by the Greek public prosecutor. Resolution of this dispute has been complicated by bribery and fraud allegations against Siemens A.E. in Greece, which have resulted in extensive negative media coverage concerning the C4I-system.

The Greek tax authorities have audited Siemens A.E.'s books for the 1997 to 2003 and 2004 to 2007 tax years. In the third quarter of fiscal 2010, based on a preliminary communication of the findings of the tax audits, Siemens A.E. made payments under a tax law enacted in April 2010 to settle certain matters for which provisions had been established. Siemens A.E. does not expect any further material findings by the Greek tax authorities which would require Siemens A.E. to make additional material payments.

In December 2008, the Polish Agency of Internal Security (AWB) remanded into custody an employee of Siemens Healthcare Poland, in connection with an investigation regarding a public tender issued by the hospital of Wroclaw in 2008. According to the AWB, the Siemens employee and the deputy hospital director are accused of having manipulated the tender procedure. In October 2010, the investigation was closed.

In April 2009, the Defense Criminal Investigative Service of the U.S. Department of Defense conducted a search at the premises of Siemens Medical Solutions USA, Inc. in Malvern, Pennsylvania, in connection with an investigation relating to a Siemens contract with the U.S. Department of Defense for the provision of medical equipment.

In June 2009, Siemens AG and two of its subsidiaries voluntarily self-reported, among others, possible violations of U.S. Export Administration Regulations to the responsible U.S. authorities.

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As previously reported, since July 2009 the EU Anti-Fraud Office OLAF, its Romanian equivalent DELAF and the Romanian public prosecutor DNA have been investigating allegations of fraud in connection with the 2007 award of a contract to FORTE Business Services (now Siemens IT Solutions and Services Romania) to modernize the IT infrastructure of the Romanian judiciary. On September 2, 2010, OLAF put the matter on monitoring status and decided not to open formal proceedings. DELAF referred the matter to DNA and closed its investigations.

In addition to the investigations and legal proceedings described above, Siemens AG and its subsidiaries have been named as defendants in various other legal actions and proceedings arising in connection with their activities as a global diversified group. Some of these pending proceedings have been previously disclosed. Some of the legal actions include claims or potential claims for punitive damages or claims for indeterminate amounts of damages. Siemens is from time to time also involved in regulatory investigations beyond those described above. Siemens is cooperating with the relevant authorities in several jurisdictions and, where appropriate, conducts internal investigations regarding potential wrongdoing with the assistance of in-house and external counsel. Given the number of legal actions and other proceedings to which Siemens is subject, some may result in adverse decisions. Siemens contests actions and proceedings when it considers it appropriate. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek indeterminate damages, Siemens may not be able to predict what the eventual loss or range of loss related to such matters will be. The final resolution of the matters discussed in this paragraph could have a material effect on Siemens' business, results of operations and financial condition for any reporting period in which an adverse decision is rendered. However, Siemens currently does not expect its business, results of operations and financial condition to be materially affected by the additional legal matters not separately discussed in this paragraph.

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**ITEM 4A: UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

**Introduction**

This Form 20-F contains forward-looking statements and information that is, statements related to future, not past, events. These statements may be identified by words such as expects, looks forward to, anticipates, intends, plans, believes, seeks, estimates, will, project or words of similar meaning. Such statements are based on the current expectations and certain assumptions of Siemens management, and are, therefore, subject to certain risks and uncertainties. A variety of factors, many of which are beyond Siemens control, affect Siemens operations, performance, business strategy and results and could cause the actual results, performance or achievements of Siemens to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. In particular, Siemens is strongly affected by changes in general economic and business conditions as these directly impact its processes, customers and suppliers. This may negatively impact our revenue development and the realization of greater capacity utilization as a result of growth. Yet due to their diversity, not all of Siemens businesses are equally affected by changes in economic conditions; considerable differences exist in the timing and magnitude of the effects of such changes. This effect is amplified by the fact that, as a global company, Siemens is active in countries with economies that vary widely in terms of growth rate. Uncertainties arise from, among other things, the risk of customers delaying the conversion of recognized orders into revenue or cancellations of recognized orders, of prices declining as a result of continued adverse market conditions by more than is currently anticipated by Siemens management or of functional costs increasing in anticipation of growth that is not realized as expected. Other factors that may cause Siemens results to deviate from expectations include developments in the financial markets, including fluctuations in interest and exchange rates (in particular in relation to the U.S. dollar), in commodity and equity prices, in debt prices (credit spreads) and in the value of financial assets generally. Any changes in interest rates or other assumptions used in calculating pension obligations may impact Siemens defined benefit obligations and the anticipated performance of pension plan assets resulting in unexpected changes in the funded status of Siemens pension and post-employment benefit plans. Any increase in market volatility, further deterioration in the capital markets, decline in the conditions for the credit business, continued uncertainty related to the subprime, financial market and liquidity crises, or fluctuations in the future financial performance of the major industries served by Siemens may have unexpected effects on Siemens results. Furthermore, Siemens faces risks and uncertainties in connection with certain strategic reorientation measures; the performance of its equity interests and strategic alliances; the challenge of integrating major acquisitions and implementing joint ventures and other significant portfolio measures; the introduction of competing products or technologies by other companies or market entries by new competitors; changing competitive dynamics (particularly in developing markets); the risk that new products or services will not be accepted by customers targeted by Siemens; changes in business strategy; the outcome of pending investigations, legal proceedings and actions resulting from the findings of, or related to the subject matter of, such investigations; the potential impact of such investigations and proceedings on Siemens business, including its relationships with governments and other customers; the potential impact of such matters on Siemens financial statements, and various other factors. More detailed information about certain of the risk factors affecting Siemens is contained throughout this report and in Siemens other filings with the SEC, which are available on the Siemens website, [www.siemens.com](http://www.siemens.com), and on the SEC's website, [www.sec.gov](http://www.sec.gov). Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the relevant forward-looking statement as expected, anticipated, intended, planned, believed, sought, estimated or projected. Siemens neither intends to, nor assumes any obligation to, update or revise these forward-looking statements in light of developments which differ from those anticipated.

The following discussion of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and the related Notes prepared in accordance with IFRS, as issued by

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the IASB and as adopted by the EU, as described in Notes to Consolidated Financial Statements as of, and for the years ended, September 30, 2010, 2009 and 2008.

In this report, we present a number of supplemental financial measures that are or may be non-GAAP financial measures as defined in the rules of the SEC. For definitions of these financial measures and a discussion of the most directly comparable IFRS financial measures, the usefulness of Siemens supplemental financial measures, the limitations associated with these measures and reconciliations to the most comparable IFRS financial measures, see Supplemental financial measures.

## **Business and operating environment**

### **The Siemens Group Organization and basis of presentation**

We are a globally operating, integrated technology company with core activities in the fields of industry, energy and healthcare, and we occupy leading market positions worldwide in the majority of our businesses. We can look back on a successful history spanning more than 160 years, with groundbreaking and revolutionary innovations such as the invention of the dynamo, the first commercial light bulb, the first electric streetcar, the construction of the first public power plant, and the first images of the inside of the human body. We have more than 400,000 employees and business activities in around 190 countries, and reported consolidated revenue of 75.978 billion in fiscal 2010. Our production capacity is distributed across more than 300 production and manufacturing plants worldwide. In addition, we have office buildings, warehouses, research and development facilities or sales offices in almost every country in the world.

Siemens comprises Siemens AG, a stock corporation under the Federal laws of Germany, as the parent company and a total of about 1,000 legal entities, including minority investments. Our Company is incorporated in Germany, with our corporate headquarters situated in Munich. Siemens operates under the leadership of its Managing Board, which comprises the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of Siemens as well as the heads of selected corporate functions and the CEOs of the three Sectors.

Our fundamental organizational principles are:

the CEO principle,

end-to-end business responsibility of the Sectors, Divisions and Business Units and

the unrestricted right of selected corporate functions to issue instructions in relation to a function as far as legally possible.

The Siemens Managing Board is the sole management body and has overall business responsibility in accordance with the German Stock Corporation Act (*Aktiengesetz*, AktG). At all other organizational levels within our Company, management responsibility is assigned to individuals who make decisions and assume personal responsibility (CEO principle). This principle establishes clear and direct responsibilities and fosters efficient decision-making.

Our Sectors, Divisions, Business Units and Cross-Sector Businesses are global entrepreneurs and have end-to-end business responsibility worldwide, including with regard to their operating results. They therefore have right of way over the Clusters and Countries in business matters. The regional units (Clusters and Countries) are responsible for the local Customer Relationship Management and for implementing the business strategies of the Sectors and Cross-Sector Businesses as well as the requirements set by the corporate functions.



In addition to their particular authority to issue binding company-wide guidelines and to their monitoring and coordinating responsibilities, the heads of selected corporate functions (Finance and Controlling, Legal and Compliance, Human Resources and Supply Chain Management, for example) have an unrestricted right to issue instructions in relation to a function across all parts of the company as far as legally possible.

Below the Managing Board, Siemens is structured organizationally into three Sectors, two Cross-Sector Businesses that act as business partners for the Sectors and also conduct their own business with external customers,

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Cross-Sector Services that support other Siemens units, Corporate Units with specific corporate functions, and Regional Clusters. The Sectors are broken down into Divisions and these in turn into Business Units.

Our business activities focus on our three Sectors, Industry, Energy and Healthcare, which form three of our reportable segments. In addition to our three Sectors, we have three additional reportable segments: Equity Investments and our two Cross-Sector Businesses Siemens IT Solutions and Services and Siemens Financial Services (SFS).

During fiscal 2010, Siemens initiated a change in the organizational structure of its Healthcare Sector which became effective October 1, 2010 as described in greater detail in Item 4: Information on the Company Description of business Healthcare. Financial reporting for fiscal 2010 continued to be based on the organizational structure effective until September 30, 2010. The Diagnostics Division was not affected by the reorganization.

Our **Industry** Sector offers a complete spectrum of products, services and solutions for the efficient use of resources and energy, and improvements of productivity in industry and infrastructure. Its integrated technologies and holistic solutions address primarily industrial customers, such as process and manufacturing industries, and infrastructure customers, especially in the areas of transport, buildings and utilities. The portfolio spans industry automation and drives products and services, building, lighting and mobility solutions and services, and system integration and solutions for plant businesses. Our Industry Sector comprises the six Divisions, Industry Automation, Drive Technologies, Building Technologies, OSRAM, Industry Solutions and Mobility. Many of the business activities of Industry Automation and OSRAM are characterized by relatively short business cycles and as such are influenced by prevailing economic conditions. In contrast, the longer-cycle business activities of the Mobility Division are less affected by short-term trends. The Industry Sector currently has 204,000 employees, and in fiscal 2010 reported external revenue of 33.728 billion. Of this figure, 54% was attributable to the region comprising Europe, the Commonwealth of Independent States (C.I.S.), Africa and the Middle East, 24% to the Americas, and 22% to Asia, Australia. The largest single national market for the Industry Sector is Germany, with 20% of external revenue for the Sector during fiscal 2010.

Our **Energy** Sector offers a wide spectrum of products, services and solutions for the generation, transmission and distribution of power, and the extraction, conversion and transport of oil and gas. It primarily addresses the needs of energy providers, but also serves industrial companies, particularly in the oil and gas industry. The Energy Sector covers the whole energy conversion chain. Our Energy Sector is made up of the six Divisions, Fossil Power Generation, Renewable Energy, Oil & Gas, Energy Service, Power Transmission and Power Distribution. Financial results relating to the Energy Service Division are reported in the Divisions Fossil Power Generation and Oil & Gas. Many of the business activities of our Energy Sector are characterized by relatively long-term projects and as such are relatively independent of short-term economic conditions. The Energy Sector currently has 88,000 employees and reported external revenue of 25.204 billion for fiscal 2010. Thereof, 59% was attributable to Europe, C.I.S.,

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Africa, Middle East, 26% to the Americas, and 15% to Asia, Australia. The United States (U.S.) was the largest single national market for Energy in fiscal 2010, accounting for 14% of external revenue for the Sector.

Our **Healthcare** Sector offers customers a comprehensive portfolio of medical solutions across the value-added chain ranging from medical imaging to in vitro diagnostics to interventional systems and clinical information technology systems all from a single source. In addition, the Sector provides technical maintenance, professional and consulting services, and, together with SFS, financing to assist customers in purchasing the Sector's products. Until September 30, 2010, our Healthcare Sector was composed of the three Divisions, Imaging & IT, Workflow & Solutions and Diagnostics. In fiscal 2010, we initiated a change of the organizational structure of our Healthcare Sector effective as of October 1, 2010, which led to changes at the divisional level. Following the reorganization, the Sector comprises the three Divisions Imaging and Therapy Systems, Clinical Products and Diagnostics. The Diagnostics Division was not affected by the organizational change. Financial reporting for fiscal 2010 continued to be based on the organizational structure effective until September 30, 2010. The Sector's business activities are relatively unaffected by short-term economic trends but are dependent on regulatory and policy developments around the world, particularly including the healthcare reform in the U.S. The Healthcare Sector currently has 49,000 employees, and in fiscal 2010 reported external revenues of 12.280 billion. Of this figure, 38% was attributable to the region comprising Europe, C.I.S., Africa and the Middle East, 42% to the Americas, and 20% to Asia, Australia. By far the largest single national market for Healthcare is the U.S., with 36% of external revenue for the Sector during fiscal 2010.

In general, **Equity Investments** comprises equity stakes held by Siemens that are accounted for by the equity method, at cost or as current available-for-sale financial assets and which are not allocated to a Sector, a Cross-Sector Business, Siemens Real Estate (SRE), Pensions or Corporate Treasury for strategic reasons. Our main investments within Equity Investments are our stake of approximately 50.0% in Nokia Siemens Networks B.V. (NSN), our 50.0% stake in BSH Bosch und Siemens Hausgeräte GmbH (BSH), our 49.0% stake in Krauss-Maffei Wegmann GmbH & Co. KG (KMW), our 50.0% stake in ELIN GmbH & Co. KG, our 49.0% stake in Enterprise Networks Holdings B.V. (EN) as well as our 19.8% stake in GIG Holding GmbH (formerly named ARQUES Value Development GmbH).

**Siemens IT Solutions and Services** designs, builds and operates both discrete and large scale information and communications systems and offers comprehensive information technology and communications solutions from a single source both to third parties and to other Siemens entities. Siemens IT Solutions and Services currently has 32,000 employees and reported external revenue of 3.150 billion for fiscal 2010.

**Siemens Financial Services** is an international provider of financial solutions in the business-to-business area. SFS supports Siemens as well as third parties in the three industry areas of industry, energy, and healthcare. SFS finances infrastructure, equipment and working capital and supports and advises Siemens concerning financial risk and investment management. By integrating financing expertise and industrial know-how, SFS creates value for its customers and helps them strengthen their competitiveness. SFS currently has 2,000 employees. As of October 1, 2010, Siemens Financial Services was renamed Financial Services in connection with an application Siemens filed in Germany for a license to conduct banking business.

Within this report, we provide financial measures for our three Sectors, our Cross-Sector Business Siemens IT Solutions and Services and for 14 Divisions of our Sectors. These financial measures include: new orders, revenue, profit and profit margin. For Equity Investments we report profit, and for SFS we report profit and total assets. Free cash flow and further information is reported for each reportable segment in the Notes to Consolidated Financial Statements. For information related to the definition of these financial measures and to the reconciliation of segment financial measures to the consolidated financial statements, see Supplemental financial measures as well as Notes to Consolidated Financial Statements.



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On a geographic basis, Siemens is subdivided into 17 Regional Clusters, which are in turn assigned to one of our three reporting regions. We report financial measures for these three regions:

In addition, we report financial information at group level for certain major countries within each region, including Germany (within the region Europe, C.I.S., Africa, Middle East), the U.S. (within the region Americas), and China and India (within the region Asia, Australia).

### **Financial performance measures**

The section **Financial performance measures** includes several measures that are or may be non-GAAP financial measures. For further information about these measures, please see **Supplemental financial measures**.

Other companies that report or describe similarly titled financial measures may calculate them differently.

### **Fit<sub>4</sub>2010 program**

In fiscal 2007, we initiated our Fit<sub>4</sub>2010 program, which continued through fiscal 2010. Beginning with fiscal 2011, One Siemens will be our framework for capital-efficient growth and sustainable value creation. For further information, see Item 4: **Information on the Company Strategy** **Strategy of the Siemens Group**.

Our Fit<sub>4</sub>2010 program entailed financial performance measures focused on growth, profitability, capital efficiency, cash conversion, and optimization of our capital structure. These measures were selected to help us drive the value and competitiveness of our Company and strengthen our leadership positions or close the gap to our competitors. We had set ambitious targets for all our financial performance measures that we aimed to achieve by the end of fiscal 2010. These targets were established with normal business cycles in mind, i.e., without taking into account the global recession caused by the financial crisis and its aftereffects on our business over the past two fiscal years. Our ability to achieve these targets in the current fiscal year was further affected by fourth quarter pre-tax impairment charges of 1.204 billion at our diagnostics business and pre-tax charges of 460 million related to the strategic reorientation of Siemens IT Solutions and Services. For comparison, the prior-year period was influenced by pre-tax impairment charges totaling 1.850 billion related to NSN.

### **Operational performance measures**

The first Fit<sub>4</sub>2010 operational performance measure focused on growth in order to ensure the revenue development required to produce income growth. Our goal was to grow annual revenue on an organic basis, excluding currency translation and portfolio effects, at twice the rate of global gross domestic product (GDP) growth. In fiscal 2010, revenue declined 3% on an organic basis compared to the prior-year period. For the calendar year 2010, IHS Global Insight is predicting that real global GDP will grow by 3.8%. During the aggregate period in

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which we applied Fit<sub>4</sub>2010, we achieved a compound annual growth rate for organic revenue of 4%, which is two times the level of real global GDP growth reported by IHS Global Insight, Inc. for this period.

Under Fit<sub>4</sub>2010, our primary measure for the conversion of revenue to income was profit margin, applied and reported at the Sector, Division and Cross-Sector Business levels. For our Sectors, Divisions and for Siemens IT Solutions and Services, profit margin was calculated as the ratio of profit to revenue; except as indicated below, profit for these businesses was defined consistently with the segment measure for profitability in the Notes to Consolidated Financial Statements, i.e., earnings before financing interest, certain pension costs, and income taxes, and also may exclude various categories of items, which are not allocated to these businesses since management does not regard such items as indicative of their performance. For purposes of comparison with the target margin ranges, profit for the Diagnostics Division and the Healthcare Sector was adjusted for purchase price allocation (PPA) effects and integration costs.

In contrast, and in line with common practice in the financial services industry, the Fit<sub>4</sub>2010 capital efficiency measure for SFS was return on equity (ROE), defined as Income before income taxes (i.e., the segment measure for profitability) divided by the average allocated equity for SFS.

Our Fit<sub>4</sub>2010 target ranges and the fiscal 2010 performance results of our Sectors, Divisions and Cross-Sector Businesses are shown below. The impairment charges mentioned above in relation to Diagnostics reduced profit margin for the Healthcare Sector by 9.7 percentage points and profit margin for the Diagnostics Division by 32.8 percentage points in the current fiscal year.

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Our Fit<sub>4</sub>2010 capital efficiency measure was return on capital employed (ROCE). This measure assesses our income generation from the point of view of our shareholders and creditors, who provide us with capital. Siemens' weighted average cost of capital (WACC) is currently estimated at approximately 7.5%.

ROCE under Fit<sub>4</sub>2010 was defined as Income from continuing operations (before interest) divided by average capital employed. For further information, see Supplemental financial measures. Our 2010 target was to achieve ROCE in the range of 14-16%. ROCE in the fiscal years 2010, 2009 and 2008 was 10.4%, 6.1% and 4.8%, respectively. The total of the above-mentioned impairment charges related to Diagnostics and the above-mentioned charges related to the strategic reorientation of Siemens IT Solutions and Services reduced ROCE by 3.6 percentage points in fiscal 2010. For comparison, the above-mentioned impairment charges related to NSN reduced ROCE by 4.6 percentage points in fiscal 2009.

Cash conversion rate was our liquidity measure in our Fit<sub>4</sub>2010 program. It showed us how much of our income we were converting to Free cash flow. The calculation of the cash conversion rate is shown below. Free cash flow, as presented in the Notes to Consolidated Financial Statements, is defined as Net cash provided by (used in) operating activities (continuing operations) minus Additions to intangible assets and property, plant and equipment (continuing operations). Our target for the cash conversion rate was 1 minus our annual organic revenue growth rate. Our cash conversion rate was 1.73 in fiscal 2010, above the target of 1.03. The total of the above-mentioned impairment charges related to Diagnostics and the above-mentioned charges related to the strategic reorientation of Siemens IT Solutions and Services increased the cash conversion rate by 0.44 in fiscal 2010. For comparison, the above-mentioned impairment charges related to NSN increased the cash conversion rate by 0.66 in fiscal 2009. During the aggregate period in which we applied Fit<sub>4</sub>2010, we achieved a cash conversion rate of 1.50. Considering a compound annual growth rate for organic revenue of 4%, our target for cash conversion rate was 0.96 for this period.

**Capital structure management**

As part of the Fit<sub>4</sub>2010 program, we also adopted a measure to assess our capital structure management and complement our operational performance measures. A key consideration for us in this regard is maintenance of

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ready access to the capital markets through various debt products and preservation of our ability to repay and service our debt obligations over time.

For purposes of the Fit<sub>4</sub>2010 program, we calculated our capital structure measure as the ratio of adjusted industrial net debt to adjusted EBITDA. For further information on this calculation and the respective components, see Liquidity and capital resources Capital structure and Supplemental financial measures. We aimed to achieve a ratio in the range of 0.8 - 1.0. However, in light of the global economic crisis we consciously chose to not adjust our capital structure by increasing our debt to the extent originally planned. Our capital structure ratio for fiscal 2010 was 0.08.

## **One Siemens**

As of fiscal 2011, we introduced **One Siemens** our **framework for sustainable value creation** (for further information, see Item 4: Information on the Company Strategy Strategy of the Siemens Group ). As part of One Siemens, we have developed a financial target system for capital-efficient growth that we believe will drive the value of our Company. Our goal is to achieve continuous improvement relative to the market and our competitors. The financial target system of One Siemens defines indicators for revenue growth, capital efficiency and profitability, the optimization of our capital structure, and our dividend policy. In addition, we set hurdle rates that generally need to be considered before acquisitions are executed.

## **Revenue growth**

We believe that an important driver for increasing our Company's value over the long term is profitable **revenue growth**. Specifically, our goal is to grow our revenue faster than the average revenue growth of our most relevant competitors. For purposes of comparison to the revenue growth of our competitors, our revenue growth is calculated as the growth rate of reported revenue (as presented in the Consolidated Financial Statements ) over a rolling twelve-month period compared to the same period a year earlier.

## **Capital efficiency and profitability**

Our aim is to work profitably and as efficiently as possible with the capital of our shareholders and lenders. We previously monitored our capital efficiency using the indicator return on capital employed (ROCE). As part of One Siemens, we are introducing an advanced financial indicator, **ROCE (adjusted)**, which is reported on a continuing basis, that adjusts ROCE primarily to consider pension underfunding as financing, to increase comparability of the metric with competitors, particularly with respect to the finance business, and to align with our definition of adjusted industrial net debt. For information on the calculation of ROCE (adjusted), see Supplemental financial measures. Our target is to achieve ROCE (adjusted) in the range of 15 - 20%. For comparison, our ROCE (adjusted) on the basis of reported figures was 13.0% in fiscal 2010 and 7.9% in fiscal 2009.

In line with common practice in the financial services industry, return on equity or **ROE (after tax)** will be our advanced financial indicator for measuring capital efficiency at SFS. Starting with fiscal 2011, we will define ROE (after tax) as SFS Profit after tax (annualized for purposes of interim reporting), divided by SFS average allocated equity. Taxes will be calculated based on a flat tax rate of 30% of the Profit of SFS, excluding Income (loss) from investments accounted for using the equity method, net allocated to SFS, as well as tax-free income components. Our target is to achieve ROE (after tax) at SFS in the range of 15 - 20%.



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We intend to maintain and further improve the profitability of our businesses. Our goal is to achieve margins on the level of the best competitors in our industries throughout the complete business cycle. Our adjusted EBITDA margins will be defined as the ratio of adjusted EBITDA (as presented in Reconciliation to adjusted EBITDA (continuing operations) ) to revenue (as presented in the Notes to Consolidated Financial Statements ). We have defined adjusted EBITDA margin ranges for the respective industries of our three Sectors. These margin ranges are 10-15% for the industries that our Sectors Industry and Energy operate in, and 15-20% in the healthcare industry. Starting with fiscal 2011, central infrastructure costs will be allocated primarily to our Sectors and will impact our adjusted EBITDA margins (for further information, see Notes to Consolidated Financial Statements ).

**Capital structure**

Sustainable profit and revenue can only be achieved on the basis of a healthy capital structure. Therefore, we continue to use our Fit<sub>4</sub>2010 indicator for optimizing our capital structure, defined as the ratio of adjusted industrial net debt to adjusted EBITDA. For One Siemens, we advanced our definition of adjusted industrial net debt as compared to the definition used under Fit<sub>4</sub>2010. Going forward, the calculation of adjusted industrial net debt will include an adjustment for Pension plans and similar commitments (as presented in the Consolidated Financial Statements ), in order to consider our total pension liability. Accordingly, adjustments will no longer be made only for the Funded status of principal pension benefit plans and for the Funded status of principal other post-employment benefit plans which only represented a part of our total pension liability. For further information on this calculation, see

Supplemental financial measures. Our future target is to achieve a ratio in the range of 0.5-1.0. For comparison, our One Siemens capital structure ratio was 0.22 in fiscal 2010 and 0.45 in fiscal 2009.

**Dividend policy**

With One Siemens, we want to provide an attractive dividend payout to our investors. We have therefore set a target for our dividend payout ratio, defined as the ratio of the total dividend payout to Net income (as presented in the Consolidated Financial Statements ). In future, we aim to propose an annual dividend payout ratio of 30-50% of Net income to our shareholders. For these purposes, the percentage calculation will take into account exceptional non-cash effects within income. We intend to fund the dividend payout from our Free cash flow.

**Additional indicators**

In addition to the financial indicators discussed above, we use several other metrics to assess the economic success of our business activities. To determine whether a particular investment is likely to generate value for Siemens, we use net present value or economic value added (EVA<sup>tm</sup>). EVA<sup>tm</sup> considers the cost of capital in calculating value creation by comparing the expected earnings of an investment against the cost of capital employed. EVA<sup>tm</sup> will also be an indicator for measuring capital efficiency in our Sectors and Cross-Sector Businesses. To measure our liquidity management, we analyze the net working capital turns of our operating activities, as well as the capital expenditure rate, defined as Additions to intangible assets and property, plant and equipment as a percentage of amortization and depreciation. For our capital expenditure rate, we have set a target range of 95-115% (for further information, see Liquidity and capital resources Capital resources and requirements ). In addition, we set hurdle rates that generally need to be considered before acquisitions are executed. In general, acquisitions need to be EVA<sup>tm</sup> accretive within two years after the closing of the transaction and need to be in line with our ROCE (adjusted) target within three years after the closing of the transaction.

**Table of Contents****Economic environment****Worldwide economic environment**

Following the most serious economic downturn since the end of the Second World War which in 2009 led to a contraction of 1.8% in global **gross domestic product (GDP)** in real terms according to figures from IHS Global Insight the global economy saw a recovery in the first half of 2010 that was faster and more dynamic than forecasted. The pace of growth is slowing slightly in the second half of the year as government fiscal stimulus packages are winding down and the boost from the restocking of inventories tails off. IHS Global Insight is predicting overall growth of 3.8% in global GDP for 2010.

From a regional perspective, the **Europe, Commonwealth of Independent States (C.I.S.), Africa, Middle East** region which among our three reporting regions reported the sharpest downturn in gross domestic product in 2009 is also experiencing the slowest growth in 2010 with a forecasted increase in GDP of 2.4%. Within this region, Middle Eastern and African countries are seeing the most rapid growth. In 2010, many of these countries are benefiting from a recovery in commodity prices. The countries in our Russia/Central Asia Cluster were hit particularly hard by the economic downturn and are recovering gradually. In the case of Russia, IHS Global Insight is forecasting growth of 4.2% in 2010 following a 7.9% drop in GDP in 2009. However, the positive impact from commodity price gains compared with 2009 is being tempered by the delayed consequences of the financial crisis and the effects of an extended period of exceptionally high temperatures and drought. Within Europe, there is a significant divergence in economic trends. Whereas most of the countries in central and eastern Europe are slowly recovering from the economic downturn, economies in some of the southern and western European countries impacted by the sovereign debt crisis are stagnating or contracting. IHS Global Insight is expecting German GDP to grow by 3.3% this year compared with a fall of 4.7% in 2009. The German economy, which last year suffered from the sharp downturn in global trade, is benefiting in 2010 from strong international demand for high-quality capital equipment. Despite the end of economic stimulus packages, automotive exports have also seen a substantial upturn in 2010, driven particularly by strong demand from Asia. A number of other European countries that are closely linked to the German export industry are likewise benefiting from the economic expansion in Germany.

In the **Americas** region, IHS Global Insight is forecasting GDP growth of 3.2% in 2010 compared with a contraction of 2.4% in 2009. GDP is expected to climb substantially in the majority of Latin American countries during 2010. Brazil, which is forecast to achieve GDP growth of 7.4% in 2010 compared with a slight fall of 0.2% in 2009, represents a significant growth driver. The U.S. is providing a somewhat weaker stimulus for growth. After a 2.6% contraction in U.S. GDP in 2009, IHS Global Insight predicts that the situation will reverse in 2010 with growth of the same percentage, with growth slowing noticeably during the second half of the year compared to the first half. Any upward trend in consumer spending has been extremely muted owing to rising unemployment and a

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greater proportion of disposable income allocated to savings. The problems in real estate markets which triggered the global economic downturn have been exacerbated again by the end of tax breaks. Growth in the U.S. is also being held back by a substantial current-account deficit as imports rise faster than exports.

GDP in the **Asia, Australia** region, which managed to expand even during the economic downturn, is expected to climb sharply in 2010 with growth forecast at 6.5%. This boost to growth was initially driven by fiscal stimulus packages. However, exports have also picked up again as the global economy has recovered. In addition, economic growth is being given further momentum by rising consumer demand in the emerging markets in this region. With regard to China, IHS Global Insight is predicting growth of 10.3% for 2010, which is above the 9.1% GDP growth achieved in 2009. China is therefore proving to be an engine of growth for the global economy, although the significant growth in the first half of 2010 is expected to ease off during the second half of the year as the boost from economic stimulus packages fades, the rise in lending is curbed by central banks, and growth in key export markets remains weak. The rise in growth in India, which has the benefit of a large domestic market and low dependency on exports, continues unabated. IHS Global Insight predicts GDP growth of 8.2% for 2010 following the 6.8% growth achieved in 2009.

A key factor for Siemens as a manufacturer is **manufacturing value added**, a component used in calculating gross domestic product by means of the production approach. Following a fall in manufacturing value added of 6.5% in 2009, IHS Global Insight forecasts an increase of 10.1% in real terms in 2010. The Asia, Australia region is the driver for this growth with an expected year-on-year increase of 15.4%.

A key factor for Siemens, as a plant and infrastructure provider, is the trend in **gross fixed investments**, one of the ways in which gross domestic product is used. This trend is heavily influenced by fluctuations in the economic cycle. IHS Global Insight is predicting growth of 5.0% in gross fixed investments for 2010 following a fall of 7.1% in real terms in 2009. For **Europe, C.I.S., Africa, Middle East**, the region that accounts for the greatest proportion of Siemens revenue, IHS Global Insight is forecasting that gross fixed investments will increase by only 0.6% in 2010 compared with a contraction of 11.2% in 2009. Gross fixed investments in the **Americas** region are expected to grow by 4.7% in 2010, whereas the metric fell by 13.3% in 2009. Within this region, it is the trend in Brazil that is the most notable. IHS Global Insight is forecasting that Brazil will see growth of 16.9% in gross fixed investments in 2010, a turnaround from the contraction of 9.9% in 2009. In the U.S., where there was a dramatic fall in gross fixed investments in 2009, such investments are expected to grow by just 2.5% in 2010. In 2009, the only region with growth in gross fixed investments was the **Asia, Australia** region where the metric was up by 4.3%. According to IHS Global Insight forecasts, growth in Asia, Australia will accelerate to 9.8% in 2010. Within the region, the growth in gross fixed investments in China is expected to fall from 17.7% in 2009 to 15.4%, although this figure still remains very high. Growth in gross fixed investments in India is predicted to gain significant momentum from 5.2% in 2009 to 10.1% in 2010.

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The figures presented here for gross domestic product and gross fixed investments are drawn from an IHS Global Insight report dated October 15, 2010. The figures on manufacturing value added are drawn from an IHS Global Insight report dated October 22, 2010. Siemens has not independently verified this data.

In addition to the common currency of the European Monetary Union (the euro) other key currencies for Siemens include the U.S. dollar and the British pound. The start of the first quarter of fiscal 2010 saw a continuation of the trend that began during the middle of the 2009 fiscal year in which the euro strengthened against both the U.S. dollar and the British pound. The end of the first quarter of fiscal 2010 was marked by the start of a significant drop in the value of the euro, although the weakening was greater against the U.S. dollar than against the British pound. The main reason for this fall in the euro's value was the worsening of the sovereign debt crisis in the spring of 2010 in a number of southern and western European member states of the European Monetary Union, which required support programs from the International Monetary Fund and the European Union. Increasing concerns about the sustainability of the economic upturn in the U.S. and the U.K., together with simultaneous robust economic growth in key European countries, resulted in a rise in the value of the euro against the currencies of both countries beginning in June 2010. This trend was reinforced at the end of fiscal 2010 by expectations that the central banks in the U.S. and the U.K. would undertake additional expansionary monetary policy measures.

Our businesses are also dependent on the development of raw material prices. Key materials to which we have significant cost exposure include copper, various grades and formats of steel, and aluminum. In addition, within stainless steel we have considerable exposure related to nickel and chrome alloy materials.

The price of copper (denominated in EUR per metric ton) gained approximately 41% since the beginning of fiscal 2010, and nearly 200% compared to the lowest values in December 2008. Prices for copper are pushed both by supply and demand fundamentals and by speculative influences in the commodity markets. Prices anticipate that the supply of copper is tightening. Nevertheless, as copper is produced in multiple locations and traded, such as across the London metal exchange, the risk to Siemens is primarily a price risk rather than a supply risk.

Aluminum prices rose approximately 33% over the past fiscal year and approximately 73% since the low values of December 2008. Aluminum prices have been driven mainly by fundamentals, i.e., higher demand and especially rising energy costs, while speculative elements had only transitional effects on aluminum prices. As with copper, we see developments in the aluminum market as posing a price risk, rather than a supply risk.

Steel prices gained approximately 27% on rising production in the current fiscal year and approximately 53% since the low levels reported by CRU (an independent business analysis and consultancy group focused on, among other things, the mining and metals sectors) for April 2009 while demand grew at a slower pace. Prices in general are pushed upwards by rising raw material costs, for example, significantly higher costs for iron ore. The market has seen a series of mini-cycles due to the combined effects from real demand, restocking in the supply chain and various premature attempts from steel mills to raise prices. A new pricing scheme between iron ore producers and

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steel mills (switching from annual pricing to quarterly pricing) is expected to add more flexibility and volatility to steel prices in the future.

Our main exposure to the prices of copper and related products, and to steel and stainless steel, is in the Industry and Energy Sectors. Our main price exposure to aluminum is in the Industry Sector. Additionally Siemens is generally exposed to energy prices, both directly (electricity, gas, oil) and indirectly (energy used in the manufacturing processes of suppliers).

Siemens uses several options in order to reduce the price-risk in its project and product businesses, such as long-term contracting with suppliers, physical and financial hedging and price escalation clauses with customers.

## **Market development**

According to market research published by IHS Global Insight in July 2010, nominal capital expenditures are rising in 2010 in almost all market segments that are significant for our Sectors and for Siemens IT Solutions and Services. In most of these markets, the growth in investments is more than offsetting the (in some cases sharp) decline in investing activities in the previous year. This trend is driven to a significant extent by the dynamic development in emerging markets, especially China, while the investment volumes in a number of industrialized nations continue to decline in 2010.

In the markets that are significant for our **Industry** Sector, gross capital expenditure is rising sharply in most segments in 2010, following the downturn of the previous year, which had been impacted by the economic downturn. The highest year-on-year growth rate is expected to be achieved in the metals and mining sector, where investments are forecasted to grow by a mid-double-digit percentage, after a contraction of around 5% in the previous year. Stimulated by the economic recovery, rising demand for commodities is having a positive impact on investments in both extraction and processing in this sector. For the machine-building and the oil and gas industries, lower-double-digit growth rates are expected for 2010. Investments in machine-building expanded by around 9% in 2009, driven by China, which has the world's largest machine-building sector. For 2010, growth in China's capital expenditure is expected to slow somewhat to what will still be a very high level. At the same time, investments in machine-building are stabilizing in a number of other countries. By contrast, capital expenditure in the oil and gas industry declined sharply in the previous year. The increase forecast for 2010 is not expected to be large enough to compensate for the previous year's decline. Growth rates of around 10% are expected for the automotive and chemical industries in 2010. Investments in the automotive industry declined by some 8% in the previous year, primarily due to developments in industrialized nations. In 2010, replacement investments are forecasted to stabilize the situation in a number of industrialized economies. Brazil appears to be set to expand at a very buoyant pace, while China's growth rate will decline slightly but still remain at a very high level. In the chemical industry, where investments rose marginally in 2009, growth has likewise been spurred by emerging economies, while investments in some industrialized countries such as Japan and the U.S. are increasing modestly or stagnating in 2010 following significant declines in the previous year. Investments in the transportation services, post and logistics, electrical and electronics, and the pulp and paper industries, which contracted by mid-single-digit percentages in the previous year, are expected to grow by around 9% in each case in 2010. The food and beverage industry, which is impacted to a lesser extent by economic downturns, recorded stable investments in 2009 and is also forecast to expand its capital expenditure by around 9% in 2010. A return to rising consumer confidence has a

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positive effect. Investments in the transportation and infrastructure industry are anticipated to rise by around 7% in 2010, following a decline of around 4% in 2009. For the transport equipment sector, which stagnated in the previous year, capital expenditure is expected to rise by around 5% in 2010. The retail industry, which is benefiting from increased consumer confidence, is also expected to invest around 5% more in capital goods this year, although this rise likely will not be able to offset the previous year's decline of around 6%. Investments are expected to decline further in the construction and real estate industry. After a decline of around 10% in 2009, IHS Global Insight forecasts another 2% fall in investments for the current year. This is driven by significant further reductions in investment activity in the established markets, especially in Europe, while sustained buoyant growth is expected in the emerging economies.

Our **Energy Sector** is likewise benefiting in 2010 from improved conditions in a number of markets mentioned for the Industry Sector above. These include the chemical industry, the post and logistics sector, the wholesale and retail sector, transportation services, and the oil and gas industry. In addition, the expected recovery in investment activities in the utilities sector is having a positive impact in 2010. After a decline of some 6% in 2009, IHS Global Insight forecasts an increase of around 10% for the current year, driven in particular by the encouraging development of Asia's emerging economies.

Gross capital expenditures within the international healthcare markets, served by our **Healthcare Sector**, are expected to increase by around 4% in 2010, following a decline of around 6% in the year before. Once again, this growth is driven by significant increases in capital expenditures in emerging economies, while investments in some of our most significant markets, such as the U.S. or Germany, are showing only modest gains or continue to contract.

The public sector, a major customer of **Siemens IT Solutions and Services**, is expected to increase its gross capital investment by about 5% year-on-year. For financial services, another key sector for Siemens IT Solutions and Services, gross capital expenditure is forecasted to expand by around 6% in 2010.

## **Fiscal 2010 compared to fiscal 2009**

### **Fiscal 2010 Financial summary**

In fiscal 2010, we emerged from the economic downturn as a more focused company with strong operating momentum. Net income and Total Sectors profit climbed above the prior-year levels, and all three Sectors generated strong increases in Free cash flow which resulted in a substantial increase in Free cash flow for Siemens compared to the prior year. We also restored order growth following the economic downturn, particularly in our shorter-cycle businesses, and kept revenue almost level with the prior year in part by steadily converting orders from our strong order backlog into current business. Order development was clearly more robust in the second half of fiscal 2010 than in the first half, as our Sectors took advantage of improving market conditions.

Among other portfolio activities during fiscal 2010, we launched a strategic reorientation of our IT business aimed at improving its competitive strength. Furthermore, we reassessed the growth potential of the businesses we previously acquired to form our Diagnostics Division. Both steps led to burdens on reported income for the fiscal year. Charges for completion of staff reduction measures resulted in a loss at Siemens IT Solutions and Services, and a substantial goodwill impairment at Diagnostics resulted in lower profit for the Healthcare Sector compared to fiscal 2009.

**We kept revenue stable year-over-year.** At the Sector level, revenue was nearly unchanged compared to fiscal 2009. Industry, our largest Sector by volume, offset declines in its longer-cycle businesses with revenue growth in faster-recovering, shorter-cycle businesses. Healthcare revenue increased steadily throughout the year, and came in above the prior-year level. Revenue at Energy was down in the first half of the fiscal year, but recovered well in the second half. The modest revenue decline for Siemens overall was due mainly to lower revenue at Siemens IT

Solutions and Services and streamlining of Centrally managed portfolio activities. Revenue in fiscal 2010 benefited from positive currency translation effects. On a geographic basis, revenue rose 10% in Asia, Australia. This offset much of the decline in revenue in the much larger region Europe, C.I.S., Africa, and the

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Middle East. Revenue in the Americas was nearly unchanged, as double-digit growth in the region's emerging markets largely offset a decrease in the U.S.

**We restored order growth.** The patterns described above for revenue development in the Sectors were also evident in order development. Industry's shorter-cycle businesses delivered the majority of the Sector's order growth year-over-year, and Energy's strong second half included high double-digit growth in the fourth quarter compared to the prior-year quarter. Healthcare orders rose steadily through the year. Order development differed somewhat from revenue on a geographic basis. Orders climbed 18% in the Americas, with both the U.S. and emerging markets showing double-digit increases. Asia, Australia saw solid order growth, and together these regions offset lower orders in Europe, C.I.S., Africa, Middle East.

**We increased Total Sectors profit to 7.789 billion.** The Sectors' combined profit came in 4% higher than the prior year, even after 1.204 billion in impairment charges at Healthcare's Diagnostics Division in the fourth quarter. Industry took its profit up 29% year-over-year, as successful profitability initiatives improved capacity utilization and reduced costs. Energy generated a 7% profit increase compared to the prior fiscal year on strong project execution. Profit at Healthcare was significantly lower due to the impairment charges mentioned above.

During the fourth quarter of fiscal 2010 we completed a strategic review that reassessed the medium-term growth prospects and long-term market development of the laboratory diagnostics business, and subsequently announced a preliminary estimate of goodwill impairment charges. Following completion of the annual impairment test, Diagnostics took impairment charges at the close of the fourth quarter of 1.204 billion, including 1.145 billion for goodwill, below the previously announced estimate primarily due to currency translation effects.



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In fiscal 2010, Corporate items included expenses of 310 million related to special remuneration for non-management employees. Once the allocation of the remuneration is determined in the first quarter of fiscal 2011, the expenses will be allocated primarily to the Sectors in fiscal 2011.

**Income from continuing operations rose substantially.** Total Sectors profit in fiscal 2010 came in higher despite the above-mentioned impairment charges related to Healthcare's Diagnostics Division while burdens below the Sectors were lower in the current fiscal year than in fiscal 2009. These factors combined to increase income from continuing operations to 4.112 billion. Basic earnings per share (EPS) from continuing operations rose to 4.54. A year earlier, income from continuing operations was 2.457 billion and basic EPS from continuing operations was 2.60. The difference year-over-year was due mainly to Equity Investments, which had a loss of 191 million in fiscal 2010 compared to a loss of 1.851 billion in fiscal 2009. The loss in the prior-year period included impairment charges related to NSN of 1.850 billion, primarily involving the 1.634 billion impairment of our stake in NSN. The lower loss from Equity Investments in fiscal 2010 was partly offset by a loss of 537 million (pre-tax) at Siemens IT Solutions and Services, which posted a profit of 90 million (pre-tax) a year earlier. The loss in the current period stemmed from a strategic reorientation aimed at strengthening the competitive position of the business in preparation for operating on a standalone basis, including reorganization of solutions, outsourcing and software activities. Completing previously announced staff reductions occasioned charges of 399 million (pre-tax) in fiscal 2010, and we also took charges of 61 million (pre-tax) within Corporate items, primarily relating to the carve-out of Siemens IT Solutions and Services as a separate legal entity which is a wholly owned consolidated subsidiary of Siemens as of October 1, 2010. Net Income rose to 4.068 billion, up from 2.497 billion. Basic EPS was 4.49 compared to 2.65 in fiscal 2009.

**We generated substantial cash flow from continuing operations.** A strong cash performance in the Sectors, particularly in the second half of the fiscal year, drove Free cash flow from continuing operations up to 7.111 billion. Besides a strong operating performance in the Sectors, cash flow from operating activities also benefited from positive changes in net working capital including substantially higher billings in excess of costs, particularly in the Energy Sector, compared to a decrease in these payments in fiscal 2009. In contrast, fiscal 2010 included higher cash outflows related to income taxes and pension plans. For comparison, negative changes in net working capital in fiscal 2009 included 1.008 billion in cash outflows for payments to authorities in the U.S. and Germany following resolution of legal proceedings, and substantial cash outflows stemming from project charges at

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Fossil Power Generation, Mobility and Siemens IT Solutions and Services. The impairment charges at Diagnostics and NSN mentioned above had no cash impact in the periods under review. Free cash flow in both periods included approximately 0.8 billion in outflows related to staff reduction measures.

**We increased our capital efficiency.** Return on capital employed (ROCE) improved on a continuing basis to 10.4% from 6.1% in the prior year. The difference was due primarily to higher income from continuing operations and, to a lesser extent, to a decline in average capital employed year-over-year. ROCE in both fiscal years was held back by the burdens already mentioned above for income from continuing operations. In the current year, the pre-tax impairment charges of 1.204 billion at Diagnostics and the 460 million in pre-tax charges related to Siemens IT Solutions and Services represented 3.6 percentage points of ROCE, while the 1.850 billion in pre-tax impairment charges related to NSN in the prior year represented 4.6 percentage points.

**We propose to increase the dividend.** The Siemens Managing Board and Supervisory Board propose a dividend of 2.70 per share. The prior-year dividend was 1.60 per share.

## **Results of Siemens**

The following discussion presents selected information for Siemens for the fiscal year ended September 30, 2010:

### **Orders and revenue**

In fiscal 2010, revenue declined 1% year-over-year, to 75.978 billion, while orders rose 3% compared to the prior-year period, to 81.163 billion. This resulted in a book-to-bill ratio of 1.07. On an organic basis, excluding the net effect of currency translation and portfolio transactions, revenue decreased 3%, while orders came in 1% above fiscal 2009. Within the full-year trend, the development of orders and revenue was strongly influenced by the recovery in the global economy. While order intake fell 15% year-over-year for the first six months, we reported order growth of 23% for the second half of fiscal 2010 compared to the prior-year period. Revenue development followed a similar pattern through the year, though with less pronounced fluctuations due to the stabilizing effect of our strong order backlog. The total order backlog for our Sectors was 87 billion as of September 30, 2010, up from

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81 billion a year earlier, including positive currency translation effects. Out of the current backlog, orders of 39 billion are expected to be converted into revenue during fiscal 2011, orders of 19 billion during 2012, and the remainder in the periods thereafter.

	New Orders (location of customer)					
	Year ended		% Change		therein	
	September 30, 2010	2009	vs. previous year Actual	Adjusted <sup>(1)</sup>	Currency	Portfolio
	(in millions of )					
Europe, C.I.S. <sup>(2)</sup> , Africa, Middle East	43,478	45,696	(5)%	(5)%	1%	(1)%
therein Germany	11,985	12,307	(3)%	(2)%	0%	0%
Americas	23,454	19,935	18%	15%	3%	0%
therein U.S.	16,640	14,691	13%	12%	2%	0%
Asia, Australia	14,231	13,360	7%	2%	5%	0%
therein China	5,599	5,525	1%	0%	2%	0%
therein India	2,368	2,309	3%	(2)%	4%	0%
<b>Siemens</b>	<b>81,163</b>	<b>78,991</b>	<b>3%</b>	<b>1%</b>	<b>2%</b>	<b>(1)%</b>

(1) Excluding currency translation and portfolio effects.

(2) Commonwealth of Independent States.

**Orders related to external customers** increased 3% in fiscal 2010 on higher demand in Industry and Healthcare, and including positive currency translation effects in all Sectors. The Industry Sector our largest Sector by revenue saw orders rise 5% on growth in five of its six Divisions, led by double-digit increases at Industry Automation and OSRAM. Orders at Mobility came in lower year-over-year, due primarily to a lower volume from major orders. Order intake in the Energy Sector came in level with the prior-year period, as lower orders at Fossil Power Generation were offset by growth in the other Divisions of the Sector, led by higher demand at Renewable Energy. The order decline at Fossil Power Generation was due primarily to a lower volume from major orders in the first three quarters of fiscal 2010, a trend which reversed in the fourth quarter. Order growth in the Healthcare Sector was driven by strong order intake at Imaging & IT.

On a geographic basis, orders rose by double digits in the Americas and also rose in Asia, Australia, more than offsetting an order decline in Europe, C.I.S., Africa, Middle East. Order development in emerging markets, as these markets are defined by the International Monetary Fund, was consistent with the overall order trend in each of our three reporting regions. In **Europe, C.I.S., Africa, Middle East** our largest reporting region by revenue orders fell 5%, largely due to a decline in the Energy Sector, where orders were 11% lower year-over-year. This was largely the result of a lower volume from major orders at Fossil Power Generation. Healthcare orders remained stable in the region and Industry orders came in 2% above the prior-year period, as growth at Drive Technologies, Industry Automation and OSRAM more than offset lower demand at other Divisions, including a lower volume from major orders at Mobility. Large prior-year contract wins at Mobility were the primary factor in a 3% order decline for Siemens in Germany. In the **Americas**, orders rose 18% on double-digit growth in all Sectors. The largest increase

was a 28% rise in the Energy Sector, driven by a number of large onshore wind-farm orders at Renewable Energy. Industry orders rose 15% in the region, with contributions from all Divisions. Healthcare reported a 12% order increase in the Americas, due primarily to strong demand at Imaging & IT. Within the region, order growth in the U.S. included a higher volume from major orders in all Sectors. In **Asia, Australia**, order intake benefited from positive currency translation effects and came in 7% higher year-over-year, despite significantly lower volume from major orders. Order intake in the region rose by double digits in the Healthcare Sector and to a lesser extent in Energy and Industry. The lower volume from major orders mentioned above for the region limited order growth in China and India. For comparison, the prior year included a large contract win for high-speed trains in China and major orders for Industry Solutions in India.

As previously disclosed, we have decided that, subject to the exceptions outlined below, we will not enter into new contracts with customers in Iran. Accordingly, we have issued group-wide policies that establish the details of

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our general decision. Under these policies, Siemens shall not tender further bids for direct deliveries to customers in Iran. Furthermore, indirect deliveries from Siemens to Iran via external third parties, including companies in which Siemens holds a minority stake, are generally prohibited unless an exception is specifically approved under certain circumstances. Notwithstanding the foregoing, products and services for humanitarian purposes, including the products and services supplied by our Healthcare Sector, and products and services required to service the installed base (e.g., spare parts and maintenance and assembly services) may still be provided under the policies. Finally, pre-existing commitments to customers in Iran may be honored, i.e., legally binding obligations resulting from agreements that existed, or bids that were submitted, before the aforementioned policies were announced and adopted. Although, over time, we expect our business activities in Iran to decline as a result of the implementation of the new policies and the related reduction of the number of new contracts, the actual development of our revenues in the future will largely depend on the timing and scope of customer requests to fulfill pre-existing commitments. For additional information, see Item 3: Key information Risk factors.

	Revenue (location of customer)					
	Year ended		% Change		therein	
	September 30, 2010	September 30, 2009	vs. previous year Actual	vs. previous year Adjusted <sup>(1)</sup>	Currency	Portfolio
	(in millions of )					
Europe, C.I.S. <sup>(2)</sup> , Africa, Middle East	41,426	43,288	(4)%	(5)%	1%	(1)%
therein Germany	11,432	11,525	(1)%	(1)%	0%	0%
Americas	20,643	20,754	(1)%	(3)%	3%	0%
therein U.S.	14,772	15,684	(6)%	(6)%	1%	0%
Asia, Australia	13,909	12,609	10%	5%	5%	0%
therein China	5,841	5,218	12%	10%	2%	0%
therein India	1,961	1,680	17%	9%	7%	0%
<b>Siemens</b>	<b>75,978</b>	<b>76,651</b>	<b>(1)%</b>	<b>(3)%</b>	<b>2%</b>	<b>0%</b>

(1) Excluding currency translation and portfolio effects.

(2) Commonwealth of Independent States.

**Revenue related to external customers** declined 1% in fiscal 2010, including a double-digit drop at Siemens IT Solutions and Services. Sales in all Sectors benefited from positive currency translation effects. Revenue in Industry came in just below the prior-year level, including lower sales at Industry Solutions and Drive Technologies. In contrast, revenue at OSRAM rose by double digits year-over-year. Within a 1% decline in Energy, a double-digit increase in revenue at Renewable Energy nearly offset declines in other Divisions. Healthcare revenue came in 4% above the prior-year level, including growth at all Divisions and a steady revenue increase throughout the year. Below the Sectors, lower revenue at Siemens IT Solutions and Services and portfolio streamlining activities at Centrally managed portfolio activities were major drivers of the overall revenue decline for Siemens.

Revenue from **emerging markets** rose 7%, to 23.142 billion, accounting for 30% of Siemens overall revenue in fiscal 2010, compared to 28% in fiscal 2009.

On a geographic basis, growth in Asia, Australia was more than offset by declines in other regions. In **Europe, C.I.S., Africa, Middle East**, revenue decreased 4% year-over-year due primarily to lower sales in the Industry Sector and at Siemens IT Solutions and Services. Revenue in Industry decreased 6% in the region, as double-digit declines at Drive Technologies and Industry Solutions more than offset strong growth at OSRAM. Revenue for Energy and Healthcare came in near the level of the prior fiscal year. In Germany, a double-digit revenue increase in Energy was nearly offset by a revenue decline at Siemens IT Solutions and Services. In the **Americas**, revenue fell 1% year-over-year, as lower sales in the U.S. were largely offset by double-digit growth in the region's emerging markets. Among the Sectors, revenue in the Americas slightly decreased in Industry and came in level with the prior year in Energy and Healthcare. Benefiting from positive currency translation effects, revenue rose 10% in **Asia, Australia** in fiscal 2010 on double-digit growth in Industry and Healthcare. Revenue came in higher at five of the Industry Sector's six Divisions, and all Healthcare Divisions reported double-digit revenue increases

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year-over-year. The Energy Sector recorded a revenue decline in the region. Higher revenue in India included double-digit increases in all Sectors.

**Consolidated Statements of Income**

	<b>Year ended September 30,</b>		<b>% Change</b>
	<b>2010</b>	<b>2009</b>	
	<b>(in millions of )</b>		
Gross profit	21,647	20,710	5%
<i>as percentage of revenue</i>	<i>28.5%</i>	<i>27.0%</i>	

**Gross profit** for fiscal 2010 came in 5% above the prior year on higher gross profit margins in all Sectors. Even though Industry and Energy recorded revenues slightly below the prior-year level, both Sectors reported higher gross profits. The increase in Industry included higher capacity utilization at OSRAM, and to a lesser extent at Industry Automation, as well as higher gross profit at Mobility. These factors more than offset a significant gross profit decline at Industry Solutions, which took 205 million in charges related to current cost estimates for a project engagement with a local partner in the U.S., and also saw a significant drop in revenue year-over-year. Gross profit in the Energy Sector rose on a more favorable revenue mix and strong project performance, particularly at Fossil Power Generation. The gross profit increase in the Healthcare Sector was due in part to higher revenues and included improved gross profits and margins in all Divisions. In addition to a favorable product mix at Imaging & IT, Healthcare benefited from positive effects related to currency developments and from comparison with the prior-year period, which included an unfavorable currency hedge and was burdened by higher charges related to particle therapy contracts at Workflow & Solutions. These charges were 96 million in the current year and 169 million a year earlier. Gross profit in all three Sectors benefited from their respective portions of a previously disclosed pension curtailment gain in the second quarter of fiscal 2010. Further, gross profit was negatively influenced by charges for staff reduction measures related to a strategic reorientation of Siemens IT Solutions and Services, the majority of which were recorded as Cost of goods sold and services rendered. In addition, gross profit in fiscal 2010 included 201 million of the expenses related to the special remuneration for non-management employees. The above factors, together with savings related to our supply chain management efforts, resulted in a gross profit margin of 28.5% for Siemens overall, up from 27.0% in fiscal 2009.

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	Year ended September 30,		% Change
	2010 (in millions of )	2009 (in millions of )	
Research and development expenses	(3,846)	(3,900)	(1)%
<i>as percentage of revenue</i>	<i>5.1%</i>	<i>5.1%</i>	
Marketing, selling and general administrative expenses	(11,130)	(10,896)	2%
<i>as percentage of revenue</i>	<i>14.6%</i>	<i>14.2%</i>	
Other operating income	856	1,065	(20)%
Other operating expense	(1,611)	(632)	155%
Loss from investments accounted for using the equity method, net	(40)	(1,946)	(98)%
Interest income	2,161	2,136	1%
Interest expense	(1,890)	(2,213)	(15)%
Other financial income (expense), net	(336)	(433)	(22)%

**Research and development (R&D) expenses** decreased slightly, to 3.846 billion, due primarily to lower expenses in the Industry Sector. R&D expenses as a percentage of revenue remained at the prior-year level of 5.1%. **Marketing, selling and general administrative (SG&A) expenses** rose slightly to 11.130 billion or 14.6% of revenues in fiscal 2010, from 10.896 billion or 14.2% of revenues a year earlier. The increase was due primarily to higher expenses in the Energy Sector associated with growth in the second half of fiscal 2010, and to the above-mentioned charges at Siemens IT Solutions and Services, a portion of which was recorded as SG&A expense. SG&A expenses in fiscal 2010 also included a portion of the expenses related to the special remuneration for non-management employees.

**Other operating income** was 856 million in fiscal 2010. The current period included higher gains in connection with compliance-related matters, including a gain of 84 million related to an agreement with the provider of the Siemens directors and officers liability insurance, a net gain related to settlements with former members of Siemens Managing Board and Supervisory Board, and total gains of 40 million related to the recovery of funds frozen by authorities. In addition, the current period included a gain of 47 million on the sale of the Mobility Division's airfield lighting business, and a gain of 35 million from the sale of our Roke Manor activities in the U.K. that were reported in Corporate items. Further, Siemens ceased to consolidate a subsidiary in the third quarter of fiscal 2010 due to loss of control, and recorded a related gain of 40 million. For comparison, Other operating income of 1.065 billion in the prior-year period included a gain of 327 million on the sale of our stake in Fujitsu Siemens Computers (Holding) B.V. (FSC); higher gains related to the disposal of real estate, most notably a gain of 224 million from the sale of Siemens residential real estate holdings; and income related to legal and regulatory matters.

**Other operating expense** increased substantially in fiscal 2010, to 1.611 billion, compared to 632 million a year earlier. The difference was due primarily to impairment charges at the Diagnostics Division in the fourth quarter of fiscal 2010, including 1.145 billion for goodwill and 39 million for real estate. In addition, the current period included 106 million provided for in connection with an expected loss from the announced sale of our electronics assembly systems business, held in Centrally managed portfolio activities, to ASM Pacific Technology. Further, fiscal 2010 included charges related to legal and regulatory matters. For comparison, the prior year included expenses for outside advisors engaged in connection with investigations into alleged violations of anti-corruption laws and related matters as well as remediation activities, which amounted to 95 million. Fiscal 2009 also included a charge of 53 million related to a global settlement agreement with the World Bank Group and expenses related to the divestment of an industrial manufacturing unit in Austria, which was held in Centrally managed portfolio activities. Further, the prior fiscal year included valuation allowances on loans.



**Income from investments accounted for using the equity method, net** was a negative 40 million, compared to a negative 1.946 billion in fiscal 2009. The difference was due primarily to an equity investment loss of 2.177 billion in the prior year related to NSN. This equity investment loss included an impairment of 1.634 billion on our stake in NSN recorded in the fourth quarter and a loss of 543 million, including a charge of 216 million related to an impairment of deferred tax assets at NSN as well as our share of restructuring and integration costs. In addition, the prior year included an equity investment loss of 171 million related to Enterprise

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Networks Holdings B.V. (EN). For comparison, Income from investments accounted for using the equity method, net in fiscal 2010 included an investment loss of 533 million related to NSN. Further, equity investment income related to our stakes in BSH and KMW improved to a total of 277 million in fiscal 2010 from a total of 195 million a year earlier.

**Interest income** increased slightly to 2.161 billion in fiscal 2010, from 2.136 billion a year earlier. **Interest expense** was 1.890 billion, down from 2.213 billion in fiscal 2009. The decline in interest expense was due in part to lower interest rates compared to the prior year.

**Other financial income (expense), net** was a negative 336 million in fiscal 2010 compared to a negative 433 million in the prior-year period. The difference was due primarily to higher expenses in fiscal 2009 as a result of allowances and write-offs of finance receivables, net of reversals. These net expenses amounted to 63 million in fiscal 2010, compared to 162 million a year earlier. In addition, fiscal 2010 included higher income from available-for-sale financial assets, including a gain of 47 million from the sale of a stake in an investment at SFS. These factors were partly offset by higher losses year-over-year related to interest rate derivatives not qualifying for hedge accounting.

	<b>Year ended September 30,</b>		<b>% Change</b>
	<b>2010</b>	<b>2009</b>	
	<b>(in millions of )</b>		
Income from continuing operations before income taxes	5,811	3,891	49%
Income taxes	(1,699)	(1,434)	18%
<i>as percentage of income from continuing operations before income taxes</i>	<i>29%</i>	<i>37%</i>	
Income from continuing operations	4,112	2,457	67%
Income (loss) from discontinued operations, net of income taxes	(44)	40	
Net income	4,068	2,497	63%
Net income attributable to non-controlling interests	169	205	
Net income attributable to shareholders of Siemens AG	3,899	2,292	70%

**Income from continuing operations before income taxes** was 5.811 billion for the current fiscal year, compared to 3.891 billion a year earlier. The improvement year-over-year was due to the factors mentioned above, primarily including higher gross profit in all Sectors and an improved financial result in fiscal 2010, partly offset by charges related to the strategic reorientation of Siemens IT Solutions and Services. While both periods included major impairments as noted above, the impact on income from continuing operations was lower in fiscal 2010. The effective tax rate was 29% in fiscal 2010, down from 37% in the prior year. The current-year rate was adversely affected by the goodwill impairment charges at the Diagnostics Division, a majority of which was not deductible for tax purposes. This effect was more than offset by the release of tax provisions after the conclusion of tax audits, and the release of tax liabilities after the positive decision on appeal related to non-deductible expenses in connection with certain foreign dividends. For comparison, the prior-year rate was adversely affected by the significant Loss from investments accounted for using the equity method, net, primarily due to NSN, partly offset by the tax-free gain on the sale of our stake in FSC. As a result, Income from continuing operations after taxes was 4.112 billion in fiscal 2010, up from 2.457 billion in the prior-year period.

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**Discontinued operations** primarily include former Com activities, comprising telecommunications carrier activities transferred into NSN in the third quarter of fiscal 2007; the enterprise networks business, 51% of which was divested during the fourth quarter of fiscal 2008; and the mobile devices business sold to BenQ Corporation in fiscal 2005. Income from discontinued operations in fiscal 2010 was a negative 44 million, including charges related to legal and regulatory matters, compared to a positive 40 million a year earlier. For additional information regarding discontinued operations, see Notes to Consolidated Financial Statements.

**Net income** for Siemens in fiscal 2010 was 4.068 billion compared to 2.497 billion a year earlier. Net income attributable to shareholders of Siemens AG was 3.899 billion, up from 2.292 billion in fiscal 2009.

**Segment information analysis****Sectors****Industry**

<b>Sector</b>	<b>Year ended</b>		<b>% Change</b>		<b>therein</b>	
	<b>2010</b>	<b>2009</b>	<b>Actual</b>	<b>Adjusted<sup>(1)</sup></b>	<b>Currency</b>	<b>Portfolio</b>
	<b>(in millions of )</b>					
Profit	3,478	2,701	29%			
Profit margin	10.0 %	7.7 %				
New orders	34,908	33,284	5%	3%	2 %	(1)%
Total revenue	34,869	35,043	0%	(2)%	2 %	(1)%
External revenue	33,728	33,915	(1)%			
<i>therein:</i>						
<i>Europe, C.I.S.<sup>(2)</sup>, Africa, Middle East</i>	<i>18,127</i>	<i>19,243</i>	<i>(6)%</i>			
<i>therein Germany</i>	<i>6,652</i>	<i>6,636</i>	<i>0%</i>			
<i>Americas</i>	<i>8,215</i>	<i>8,323</i>	<i>(1)%</i>			
<i>Asia, Australia</i>	<i>7,386</i>	<i>6,349</i>	<i>16%</i>			

(1) Excluding currency translation and portfolio effects.

(2) Commonwealth of Independent States.

The **Industry** Sector increased its profit 29% year-over-year, to 3.478 billion, as successful profitability initiatives resulted in improved capacity utilization and cost management. These factors were particularly evident in the Sector's shorter-cycle businesses, which began recovering from the downturn in the first half of the fiscal year. All Divisions except Industry Solutions produced higher profit year-over-year, with the strongest increases coming at OSRAM and Industry Automation. A number of factors burdened Sector profit in both periods. The current period includes

200 million in charges for staff reduction measures, 205 million in charges related to current cost estimates for a project engagement with a local partner in the U.S., and a provision for a supplier-related warranty. These factors were only partly offset by 76 million in gains related to curtailment of pension plans in the U.S., which benefited results at all Divisions, and a 47 million net gain at Mobility on the sale of its airfield lighting business. Profit in fiscal 2009 was

held back by 173 million in charges for staff reduction measures in the fourth quarter and by charges of 40 million at OSRAM for major impairments and inventory write-downs.

Revenue in Industry came in level year-over-year. While the recovery in shorter-cycle business mentioned above helped lift revenues for OSRAM and Industry Automation, market conditions for the Sector's longer-cycle businesses showed signs of stabilization later in the fiscal year. On a regional basis, double-digit growth in Asia, Australia offset lower revenue in Europe, C.I.S., Africa, Middle East. Orders rose 5% compared to the prior fiscal year on increases at all Divisions except Mobility, which saw lower volume from major orders. The improvement was due to higher demand in the Americas, as orders in other regions came in almost level with the prior year. Industry's order backlog was 28 billion at the end of fiscal 2010, unchanged from a year earlier. Out of the current

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backlog, orders of 14 billion are expected to be converted into revenue during fiscal 2011, orders of 7 billion during fiscal 2012, and the remainder in the periods thereafter.

	Year ended		New Orders			
	September 30,		% Change		therein	
	2010	2009	Actual	Adjusted <sup>(1)</sup>	Currency	Portfolio
	(in millions of )					
<b>Divisions</b>						
Industry Automation <sup>(2)(3)</sup>	6,421	5,571	15%	13%	2%	0%
Drive Technologies	6,981	6,511	7%	5%	2%	0%
Building Technologies <sup>(2)</sup>	7,132	6,910	3%	1%	3%	0%
OSRAM	4,681	4,036	16%	14%	3%	(1)%
Industry Solutions	6,203	6,101	2%	(1)%	3%	0%
Mobility	5,885	6,766	(13)%	(14)%	2%	(1)%

(1) Excluding currency translation and portfolio effects.

(2) At the beginning of fiscal 2010, the low-voltage switchgear business was transferred from Industry Automation to Building Technologies. Prior-year amounts were reclassified for comparison purposes.

(3) At the beginning of fiscal 2010, a production site was transferred from Industry Automation to Drive Technologies. Prior-year amounts were reclassified for comparison purposes.

	Year ended		Revenue			
	September 30,		% Change		therein	
	2010	2009	Actual	Adjusted <sup>(1)</sup>	Currency	Portfolio
	(in millions of )					
<b>Divisions</b>						
Industry Automation <sup>(2)(3)</sup>	6,226	5,763	8%	6%	2%	0%
Drive Technologies	6,960	7,526	(8)%	(9)%	2%	0%
Building Technologies <sup>(2)</sup>	6,903	7,007	(1)%	(3)%	2%	0%
OSRAM	4,681	4,036	16%	14%	3%	(1)%
Industry Solutions	6,040	6,804	(11)%	(13)%	2%	0%
Mobility	6,508	6,442	1%	1%	2%	(2)%

(1) Excluding currency translation and portfolio effects.

(2) At the beginning of fiscal 2010, the low-voltage switchgear business was transferred from Industry Automation to Building Technologies. Prior-year amounts were reclassified for comparison purposes.

(3)

At the beginning of fiscal 2010, a production site was transferred from Industry Automation to Drive Technologies. Prior-year amounts were reclassified for comparison purposes.

	Profit			Profit margin	
	Year ended		%	Year ended	
	September 30,			September 30,	
	2010	2009	Change	2010	2009
	(in millions of €)				
<b>Divisions</b>					
Industry Automation <sup>(1)</sup>	1,048	681	54%	16.8%	11.8%
Drive Technologies	855	836	2%	12.3%	11.1%
Building Technologies <sup>(1)</sup>	456	340	34%	6.6%	4.9%
OSRAM	569	89	>200%	12.2%	2.2%
Industry Solutions	39	360	(89)%	0.7%	5.3%
Mobility	513	390	32%	7.9%	6.1%

(1) At the beginning of fiscal 2010, the low-voltage switchgear business was transferred from Industry Automation to Building Technologies. Prior-year amounts were reclassified for comparison purposes.

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Profit at **Industry Automation** increased 54% year-over-year on an improved business mix, higher capacity utilization and measures to improve profitability. The Division took 25 million in charges for staff reduction measures, compared to net charges of 22 million in the fourth quarter of fiscal 2009. Profit in the current period benefited from a 19 million gain from the sale of a business. Both fiscal years under review included purchase price allocation (PPA) effects from the acquisition of UGS Corp., acquired in fiscal 2007. PPA effects were 142 million in fiscal 2010 and 138 million a year earlier. Revenue and orders both grew year-over-year, in part due to a restoration of customer demand in the factory automation markets, including short-term restocking effects. Orders grew in all three regions, led by Asia, Australia. Revenue grew strongly in Asia, Australia while revenue in other regions remained stable year-over-year.

Profit at **Drive Technologies** improved quarter by quarter throughout the fiscal year, and came in at 855 million for the full year. Charges for staff reduction measures were 37 million compared to charges of 30 million in the fourth quarter of fiscal 2009. The increase in profit year-over-year was driven by the Division's shorter-cycle businesses, which saw steady recovery of their markets during the year following a sharp downturn in fiscal 2009. This trend included strong demand from the machine-building industry. In contrast, the Division's longer-cycle businesses did not see signs of more stable market conditions until late in fiscal 2010. Revenue was lower year-over-year notably including a decline in Europe, C.I.S., Africa, Middle East. Orders increased 7% year-over-year, driven by the improvement year-over-year in shorter-cycle businesses.

**Building Technologies** contributed 456 million to Sector profit in fiscal 2010. The sharp increase compared to fiscal 2009 included a strong performance in control products and systems and a turn-around in the low voltage distribution business. Charges for staff reduction measures were 24 million in the current fiscal year compared to 29 million in the fourth quarter of fiscal 2009. The provision for a supplier-related warranty mentioned above was largely offset by the Division's portion of the pension curtailment gain, also mentioned above. Revenue came in 1% lower than a year earlier, as higher revenue in Asia, Australia was more than offset by lower revenue in other regions. Orders rose 3% on higher demand in Asia, Australia and the Americas.

Results at **OSRAM** improved more substantially year-over-year than at other Divisions within Industry, as the successful implementation of structural initiatives coincided with a significant improvement in market conditions. As a result, profit climbed to 569 million on higher revenues, increased capacity utilization and an improved business mix as well as an improved cost structure. Profit in the current period benefited from 23 million of the pension gain mentioned above, while profit in the prior fiscal year was burdened by 18 million in charges for staff reduction measures as well as 40 million for major impairments and inventory write-downs taken in the fourth quarter. Double-digit volume growth included strong demand for OSRAM's LED and automotive solutions. The Division intends to continue investing in market expansion and production capacity in coming quarters.

**Industry Solutions** reported profit of 39 million in fiscal 2010, well below the prior-year level. The Division took 205 million in charges related to current cost estimates for a project engagement with a local partner in the U.S. mentioned above. Furthermore, charges for staff reduction measures were higher, totaling 101 million in the current period compared to 69 million in fiscal 2009. To a lesser extent, profit also fell on lower capacity utilization. Revenue declined 11% year-over-year, due primarily to a sharp drop year-over-year at the Division's large metal technologies business. A high double-digit increase in order intake in the fourth quarter in the Americas and Europe, C.I.S., Africa, Middle East lifted full-year orders above the prior-year level.

**Mobility** contributed 513 million to Sector profit in fiscal 2010, well above the prior-year level due in part to selective order intake in prior periods as well as execution of programs to improve performance in its project business. Profit benefited from the 47 million gain from the sale of the Division's airfield lighting business and the Division's portion of the pension curtailment gain, both mentioned above. Revenue for Mobility was stable year-over-year, as growth in

Asia, Australia offset declines in other regions. Orders came in lower compared to the prior-year, when a higher volume from major orders included a particularly large train order in China.



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<b>Sector</b>	<b>Year ended</b>		<b>% Change</b>		<b>therein</b>	
	<b>2010</b>	<b>September 30, 2009</b>	<b>Actual</b>	<b>Adjusted<sup>(1)</sup></b>	<b>Currency</b>	<b>Portfolio</b>
	<b>(in millions of )</b>					
Profit	3,562	3,315	7%			
Profit margin	14.0 %	12.9 %				
New orders	30,122	30,076	0%	(2)%	2 %	0%
Total revenue	25,520	25,793	(1)%	(4)%	2 %	0%
External revenue	25,204	25,405	(1)%			
<i>therein:</i>						
<i>Europe, C.I.S.<sup>(2)</sup>, Africa,</i>						
<i>Middle East</i>	14,800	14,715	1%			
<i>therein Germany</i>	2,118	1,905	11%			
<i>Americas</i>	6,558	6,552	0%			
<i>Asia, Australia</i>	3,847	4,138	(7)%			

(1) Excluding currency translation and portfolio effects.

(2) Commonwealth of Independent States.

The **Energy** Sector executed particularly well in fiscal 2010, increasing Sector profit 7% year-over-year, to 3.562 billion, despite a slight decline in full-year revenue compared to fiscal 2009 and increased expenses for R&D, marketing and selling associated with growth in the second half of fiscal 2010. Profit growth came primarily from Fossil Power Generation, due mainly to strong project execution and a more favorable revenue mix, and to a lesser extent from Power Transmission. The Sector's other Divisions each posted a modest profit decline year-over-year.

Market conditions for Energy were difficult in the first half of the current fiscal year, as customer postponements of large infrastructure projects that began in fiscal 2009 continued into fiscal 2010. Conditions improved in the second half, particularly including a strong pick-up in major orders. As a result, fiscal 2010 orders for the Sector came in just above the prior-year level, at 30.122 billion. Orders climbed at all Divisions except Fossil Power Generation, which saw significantly lower volume from major orders in the first three quarters of the fiscal year. On a geographic basis, higher orders in the Americas and Asia, Australia offset lower demand in Europe, C.I.S., Africa, Middle East. Revenue of 25.520 billion was 1% lower than the fiscal 2009 level, as a double-digit increase in revenue at Renewable Energy nearly offset declines in the other Divisions. On a geographic basis, revenue was up slightly in Europe, C.I.S., Africa, Middle East, level in the Americas and lower in Asia, Australia. On a book-to-bill ratio of 1.18, the Sector's order backlog rose to 53 billion at the end of fiscal 2010, up from 47 billion a year earlier. Out of the current backlog, orders of 21 billion are expected to be converted into revenue during fiscal 2011, orders of 11 billion during 2012, and the remainder in the periods thereafter.

<b>Year ended</b>	<b>New Orders</b>	
	<b>September 30,</b>	<b>% Change</b>
		<b>therein</b>

	<b>2010</b>	<b>2009</b>	<b>Actual</b>	<b>Adjusted<sup>(1)</sup></b>	<b>Currency</b>	<b>Portfolio</b>
	<b>(in millions of €)</b>					
<b>Divisions</b>						
Fossil Power Generation	9,920	12,135	(18)%	(20)%	2 %	0%
Renewable Energy	5,929	4,823	23%	22%	1 %	0%
Oil & Gas	4,943	4,450	11%	7%	4 %	0%
Power Transmission	6,770	6,324	7%	5%	2 %	0%
Power Distribution	3,231	3,018	7%	4%	3 %	0%

(1) Excluding currency translation and portfolio effects.

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	Year ended		Revenue		therein	
	September 30,		% Change		Currency	Portfolio
	2010	2009	Actual	Adjusted <sup>(1)</sup>		
	(in millions of )					
<b>Divisions</b>						
Fossil Power Generation	9,550	9,802	(3)%	(3)%	1 %	0%
Renewable Energy	3,272	2,935	11%	5%	3 %	3%
Oil & Gas	4,156	4,276	(3)%	(6)%	4 %	0%
Power Transmission	6,143	6,172	0%	(4)%	3 %	0%
Power Distribution	3,039	3,284	(7)%	(10)%	3 %	0%

(1) Excluding currency translation and portfolio effects.

	Profit		% Change	Profit margin	
	Year ended			Year ended	
	2010	2009		2010	2009
	(in millions of )				
<b>Divisions</b>					
Fossil Power Generation	1,516	1,275	19%	15.9%	13.0%
Renewable Energy	368	382	(4)%	11.3%	13.0%
Oil & Gas	487	499	(2)%	11.7%	11.7%
Power Transmission	763	725	5%	12.4%	11.7%
Power Distribution	422	435	(3)%	13.9%	13.2%

**Fossil Power Generation** again led all Siemens Divisions with 1.516 billion in profit in fiscal 2010. Drivers of the 19% increase year-over-year included strong project execution and a more favorable revenue mix, including a higher contribution from the service business. Charges of 57 million for capacity adjustments related to a shift of production capacity within the Americas region were partly offset by the Division's share in the pension curtailment gain. Order development at Fossil Power Generation was heavily influenced by market contraction in the first three quarters of the fiscal year, including the drop in major orders mentioned above. Strong demand in the fourth quarter limited the Division's order decline to 18% for the full year. In contrast, revenue development throughout the year remained relatively stable due to Fossil Power Generation's strong order backlog, and revenue came in 3% below the prior-year period.

Profit at **Renewable Energy** declined 4% compared to fiscal 2009, to 368 million, after significant expenses and investments to expand the Division's wind business and build up its solar business, including transaction and integration costs related to consolidation of the solar company Solel. These transaction and integration costs, in combination with negative operating results, resulted in a net loss related to the acquired Solel business in fiscal 2010. After a seasonally low first quarter, revenue rose in each of the next three quarters, both year-over-year and on a consecutive basis, resulting in an 11% increase for the full year. As in past years, order development was more volatile from quarter to quarter than revenue growth. The Division continued to win large wind-farm orders in Europe

and the Americas and generated a 23% increase in new orders for the full fiscal year. Renewable Energy expects impacts on profitability in the first half of fiscal 2011 related to the build-up of its solar business and seasonal effects in the wind business.

Profit at **Oil & Gas** came in 2% lower year-over-year, at 487 million. The main factor in the change was a 3% decline in revenue coming primarily from the Division's compression and solutions business. Orders rose steadily throughout the fiscal year and came in 11% higher year-over-year, including strong demand at the industrial turbines business.

**Power Transmission** recorded a 5% increase in profit, to 763 million. While profit was held back in part by pricing pressure due mainly to new market entrants, the Division benefited from a positive swing in effects from commodity hedging and also improved its project performance compared to the prior year. Starting from a relatively low level in the first quarter of fiscal 2010, the Division increased its revenue steadily throughout the year. Due to a particularly strong fourth quarter in the transformers business, full-year revenue came in just below the prior-year

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level. Orders at Power Transmission rose 7% compared to the prior fiscal year, due to a higher volume from major orders, including large contracts for grid access to off-shore wind-farms.

Profit at **Power Distribution** was 422 million, down 3% from the prior-year level, due mainly to a 7% decline in revenue. Both results were driven by the Division's medium voltage business, which saw double-digit percentage drops in revenue and profit compared to fiscal 2009. Orders for the Division were up 7% year-over-year, due to a strong fourth quarter that more than offset weaker demand earlier in the fiscal year.

**Healthcare**

Sector	Year ended September 30,		% Change		therein	
	2010	2009	Actual	Adjusted <sup>(1)</sup>	Currency	Portfolio
	(in millions of €)					
Profit	748	1,450	(48)%			
Profit margin	6.1 %	12.2 %				
New orders	12,872	11,950	8%	5%	3 %	0%
Total revenue	12,364	11,927	4%	1%	3 %	0%
External revenue	12,280	11,864	4%			
<i>therein:</i>						
<i>Europe, C.I.S.<sup>(2)</sup>, Africa, Middle East</i>	4,680	4,724	(1)%			
<i>therein Germany</i>	1,056	1,072	(1)%			
<i>Americas</i>	5,141	5,153	0%			
<i>Asia, Australia</i>	2,459	1,986	24%			

(1) Excluding currency translation and portfolio effects.

(2) Commonwealth of Independent States.

Conditions in the global healthcare market improved in fiscal 2010, particularly including significant increases in healthcare equipment spending in emerging markets. In addition, passage of healthcare reform legislation in the U.S. removed some uncertainty in the market and contributed to an easing of customer restraint regarding capital expenditures.

In fiscal 2010, orders for the **Healthcare** Sector came in 8% higher compared to the prior fiscal year. The Sector recorded higher orders for Imaging & IT and Diagnostics in the Americas, particularly including the U.S., and in Asia, Australia. Revenue in fiscal 2010 increased 4% compared to fiscal 2009, particularly on a double-digit increase for all Divisions in Asia, Australia. Both orders and revenue were stable in Europe, C.I.S., Africa, Middle East. On an organic basis, excluding strong positive currency translation effects, orders came in 5% higher and revenue rose 1% compared to fiscal 2009. Healthcare's book-to-bill ratio was 1.04 for fiscal 2010, and its order backlog at the end of the year stood at 7 billion compared to 6 billion a year earlier. Of the Sector's current backlog, orders of 3.5 billion are expected to be converted into revenue during fiscal 2011, orders of 1.3 billion during fiscal 2012, and the remainder in the periods thereafter.

Sector profit of 748 million in fiscal 2010 was burdened by impairment charges of 1.204 billion at Diagnostics during the fourth quarter, including a goodwill impairment. These impairments more than offset positive effects during the year. These included a gain of 79 million related to the curtailment of pension plans in the U.S. and a gain of 40 million, taken at the Sector level, as the Sector ceased to consolidate a subsidiary due to loss of control. The change in profit year-over-year included positive effects related to currency development, notably an unfavorable currency hedge in the prior year. Both years under review include charges at Workflow & Solutions related to particle therapy contracts. In fiscal 2010, Diagnostics recorded 178 million in PPA effects related to past acquisitions. A year earlier Diagnostics recorded a total of 248 million in PPA and integration costs. In fiscal 2010, the Sector recorded 90 million in costs for integrating activities at Diagnostics.

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	Year ended		New Orders		therein	
	September 30,		% Change		Currency	Portfolio
	2010	2009	Actual	Adjusted <sup>(1)</sup>		
	(in millions of )					
<b>Divisions</b>						
Imaging & IT	7,961	7,143	11%	9%	3%	0%
Workflow & Solutions	1,498	1,553	(4)%	(6)%	3%	0%
Diagnostics	3,664	3,479	5%	3%	3%	0%

(1) Excluding currency translation and portfolio effects.

	Year ended		Revenue		therein	
	September 30,		% Change		Currency	Portfolio
	2010	2009	Actual	Adjusted <sup>(1)</sup>		
	(in millions of )					
<b>Divisions</b>						
Imaging & IT	7,419	7,152	4%	2%	2%	0%
Workflow & Solutions	1,522	1,515	0%	(2)%	2%	0%
Diagnostics	3,667	3,490	5%	2%	3%	0%

(1) Excluding currency translation and portfolio effects.

	Profit		% Change	Profit margin	
	Year ended			Year ended	
	September 30,			September 30,	
	2010	2009		2010	2009
	(in millions of )				
<b>Divisions</b>					
Imaging & IT	1,452	1,161	25%	19.6%	16.2%
Workflow & Solutions	27	(53)		1.8%	(3.5)%
Diagnostics	(776)	338		(21.2)%	9.7%

Profit at **Imaging & IT** increased 25% to 1.452 billion in the prior year, on higher revenue, a favorable product mix and continued cost savings. The increase in profit year-over-year benefited from positive effects related to currency development, including an unfavorable currency hedge in the prior year. In addition, profit in the current period benefited from 44 million of the pension gain mentioned above for the Sector. Orders climbed 11% year-over-year and revenue increased 4%. As for the whole Sector, orders at Imaging & IT showed strong growth in the Americas and Asia, Australia, while orders at Europe, C.I.S., Africa, Middle East remained stable. Double-digit revenue growth

in Asia, Australia included strong increases in Japan, China and India. On an organic basis, orders climbed 9% and revenue rose 2%.

**Workflow & Solutions** generated 27 million in profit compared to a loss of 53 million a year earlier. Both periods under review included charges associated with particle therapy contracts mentioned above, totaling 96 million in fiscal 2010 and 169 million in fiscal 2009. The charges stemmed from tests of prototype technology, resulting in a revised assessment of the additional costs required to complete the projects. Orders in fiscal 2010 came in 4% below the prior-year level. Revenue was stable year-over-year.

**Diagnostics** posted a loss of 776 million in fiscal 2010 compared to profit of 338 million a year earlier, due primarily to the impairment charges mentioned above. During the fourth quarter, Siemens completed a strategic review which reassessed the medium-term growth prospects and long-term market development of the laboratory diagnostics business, and also conducted correspondingly an annual impairment test. The impairment charges of 1.204 billion included 1.145 billion for goodwill and 39 million for real estate. For further information regarding goodwill at Diagnostics, refer to Net Assets Position and see also Notes to Consolidated Financial Statements. The Division recorded lower expenses related to SG&A, and results also benefited from 22 million of the pension curtailment gain mentioned above. PPA effects related to past acquisitions were 178 million in fiscal 2010. In



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addition, the Division recorded 90 million of integration costs. A year earlier, PPA effects and integration costs totaled 248 million. Fiscal 2010 orders and revenue rose 5% year-over-year, benefiting strongly from positive currency translation effects. On a geographic basis, revenue and order growth in the Americas and Asia, Australia more than offset slight declines in Europe, C.I.S., Africa, Middle East. On an organic basis, orders and revenue rose 3% and 2%, respectively, compared to the prior-year levels.

**Equity Investments**

In fiscal 2010, **Equity Investments** recorded a loss of 191 million compared to a loss of 1.851 billion a year earlier. The difference is due mainly to a significantly higher loss related to our stake in Nokia Siemens Networks B.V. (NSN) in the prior fiscal year. In fiscal 2009, we took an impairment of 1.634 billion on our investment in NSN. The prior-year loss from our stake in NSN also included a charge of 216 million related to an impairment of deferred tax assets at NSN. Furthermore, NSN took restructuring charges and incurred integration costs of 507 million. These factors led to an equity investment loss related to our stake in NSN of 2.177 billion in fiscal 2009. Also in fiscal 2009 Enterprise Networks Holdings B.V. (EN) incurred an operating loss and took restructuring charges. As a result, we incurred a loss of 171 million from our investment in EN in the prior fiscal year. These losses were only partly offset by a gain of 327 million from the sale of our stake in FSC as well as equity investment income of 195 million related to our stakes in BSH Bosch und Siemens Hausgeräte GmbH (BSH) and Krauss-Maffei Wegmann GmbH & Co. KG (KMW). For comparison, in fiscal 2010, the loss related to our stake in NSN was 533 million. NSN recorded restructuring charges and integration costs of 378 million in the current fiscal year. Also in fiscal 2010, Equity investment income from our stakes in BSH and KMW improved to a total of 277 million. Siemens results from Equity Investments are expected to be volatile in coming quarters.

**Cross-Sector Businesses****Siemens IT Solutions and Services**

	Year ended		% Change		therein	
	2010	2009	Actual	Adjusted <sup>(1)</sup>	Currency	Portfolio
	(in millions of )					
Profit	(537)	90				
Profit margin	(12.9) %	1.9 %				
New orders	4,226	4,501	(6)%	(7)%	1 %	0%
Total revenue	4,155	4,686	(11)%	(12)%	1 %	0%
External revenue	3,150	3,580	(12)%			
<i>therein:</i>						
<i>Europe, C.I.S.<sup>(2)</sup>, Africa, Middle East</i>	2,725	3,129	(13)%			
<i>therein Germany</i>	1,118	1,307	(14)%			
<i>Americas</i>	366	399	(8)%			
<i>Asia, Australia</i>	59	52	13%			

(1) Excluding currency translation and portfolio effects.

(2) Commonwealth of Independent States.

In fiscal 2010, **Siemens IT Solutions and Services** faced operational challenges while operating in a highly competitive environment. As a result, orders and revenue declined 6% and 11%, respectively compared to fiscal 2009 and profit turned negative. The loss of \$ 537 million was primarily due to charges of \$ 399 million related to the completion of previously announced staff reduction measures related to a strategic reorientation aimed at strengthening the competitive position of the business. For further information see Item 4: Information on the company Strategy Segment strategies. Charges for staff reduction measures in fiscal 2009 were \$ 22 million. Profit in both fiscal years was also burdened by project related charges, which were significantly higher in the current fiscal year. As of October 1, 2010, Siemens IT Solutions and Services was carved out of Siemens AG as a separate legal entity which is a wholly owned, consolidated subsidiary of Siemens AG. For further information on

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charges related to the strategic reorientation of Siemens IT Solutions and Services see Reconciliation to Consolidated Financial Statements Corporate items and pensions.

**Siemens Financial Services (SFS)**

	<b>Year ended September 30,</b>		<b>% Change</b>
	<b>2010</b>	<b>2009</b>	
	<b>(in millions of )</b>		
Income before income taxes	447	304	47%
Total assets	12,506	11,704	7%

SFS raised its profit (defined as income before income taxes) in fiscal 2010 to 447 million from 304 million a year earlier. The increase in profit compared to fiscal 2009 came mainly from higher results in the commercial finance business, driven by significantly lower additions to loss reserves and higher interest results. Fiscal 2010 profit benefited also from positive net effects related to various investments, including a gain of 47 million on the sale of an investment. These factors more than offset lower income from SFS's internal services business. Total assets rose to 12.506 billion, due primarily to currency translation effects.

The following table provides further information on the capital structure of SFS as of September 30, 2010 and 2009:

	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(in millions of )</b>	
Allocated equity	1,458	1,243
Total debt	10,028	9,521
<i>therein intragroup financing</i>	<i>10,004</i>	<i>9,455</i>
<i>therein debt from external sources</i>	<i>24</i>	<i>66</i>
Debt to equity ratio	6.88	7.66
Cash and cash equivalents	90	136

Both Moody's and Standard & Poor's view SFS as a captive finance company. These rating agencies generally recognize and accept higher levels of debt attributable to captive finance subsidiaries in determining long-term and short-term credit ratings.

The allocated equity for SFS is primarily determined and influenced by the size and quality of its portfolio of commercial finance assets (primarily leases and loans) and equity investments. This allocation is designed to cover the risks of the underlying business and is oriented toward common credit risk management standards in banking. The actual risk profile of the SFS portfolio is evaluated and controlled monthly and is reflected in the quarterly (commercial finance) and annual (equity investments) adjustments of allocated equity.

**Reconciliation to Consolidated Financial Statements**

Reconciliation to Consolidated Financial Statements includes Centrally managed portfolio activities, SRE and various categories of items which are not allocated to the Sectors and Cross-Sector Businesses because the Company's

management has determined that such items are not indicative of the Sectors and Cross-Sector Businesses' respective performance. For fiscal 2010, Company's management approved special remuneration presented in Corporate Items which will be allocated primarily to the Sectors in fiscal 2011.

Siemens completed the streamlining of Other Operations in fiscal 2009. Beginning with fiscal 2010, Segment Information includes a new line item for centrally managed activities intended for divestment or closure, which at present primarily include the electronics assembly systems business and activities remaining from the divestment of the former Com activities. Results for the new line item, Centrally managed portfolio activities, are stated on a retrospective basis.

**Table of Contents****Centrally managed portfolio activities**

For fiscal 2010, the result of Centrally managed portfolio activities was a loss of 139 million compared to a loss of 371 million a year earlier. Within this improvement, the loss related to Electronics Assembly Systems declined to 141 million in fiscal 2010, including 106 million provided for in connection with an expected loss from the announced sale to ASM Pacific Technology. For comparison, the prior-year period included a higher loss related to Electronics Assembly Systems, primarily including 201 million related to the business due to operating losses and charges for impairments and staff reduction measures. In addition, fiscal 2009 included a loss related to the divestment of an industrial manufacturing unit in Austria, as well as higher net expenses related to divested businesses. Due primarily to portfolio streamlining activities, revenue from Centrally managed portfolio activities fell to 345 million from 503 million a year earlier, despite higher sales from the electronics assembly systems business.

**Siemens Real Estate**

Income before income taxes at SRE was 250 million in fiscal 2010, down from 341 million a year earlier, due in part to lower income related to the disposal of real estate. For comparison, the prior-year period included a gain of 224 million on the disposal of Siemens residential real estate holdings. Both periods included costs associated with Siemens program to bundle its real estate assets into SRE and to initiate further efficiency measures, including impairments. In fiscal 2010, these costs totaled 75 million and came in above the prior-year period. Assets with a book value of 872 million were transferred to SRE during the current fiscal year as part of the real estate bundling program. SRE will continue to incur costs associated with the program in coming quarters, and expects to continue with real estate disposals depending on market conditions.

**Corporate items and pensions**

In fiscal 2010, Corporate items and pensions totaled a negative 1.479 billion compared to a negative 1.715 billion a year earlier.

Included therein, Corporate items improved from a negative 1.343 billion to a negative 1.292 billion. Corporate items in fiscal 2010 included higher gains in connection with compliance-related matters, including a gain of 84 million related to an agreement with the provider of the Siemens directors and officers liability insurance, a net gain related to settlements with former members of Siemens Managing Board and Supervisory Board, and total gains of 40 million related to the recovery of funds frozen by authorities. Compared to fiscal 2009, the current period included higher personnel-related expenses, including expenses of 310 million related to special remuneration for non-management employees. After determining the allocation of this remuneration in the first quarter of fiscal 2011, the expenses will be allocated primarily to the Sectors in fiscal 2011. Fiscal 2010 also included higher expenses associated with streamlining IT costs for Siemens as a whole, as well as charges of 61 million related to the strategic reorientation of Siemens IT Solutions and Services, primarily including carve-out costs. Further, the current fiscal year included net charges related to legal and regulatory matters as well as a gain of 35 million from the sale of our Roke Manor activities in the U.K. In addition, fiscal 2010 included a net loss of 13 million related to a major asset retirement obligation, compared to a higher net loss in the prior year. In both periods, the net result related to the asset retirement obligation included negative interest-related effects from the measurement of the obligation and positive effects from related hedging activities not qualifying for hedge accounting. In addition, the net result related to the asset retirement obligation included a gain of 60 million in fiscal 2010 due to revised assumptions. For additional information, see Notes to Consolidated Financial Statements.

For comparison, Corporate items in fiscal 2009 included net charges of 235 million related to the global SG&A program and other personnel-related restructuring measures. Expenses for outside advisors engaged in connection with investigations into alleged violations of anti-corruption laws and related matters as well as remediation activities

amounted to 95 million in fiscal 2009. In addition, the prior-year period included a positive effect related to shifting an employment bonus program from cash-based to share-based payment, which was offset by a charge of 53 million related to a global settlement agreement with the World Bank Group.

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Centrally carried pension expense was 188 million in fiscal 2010, compared to 372 million a year earlier. The change year-over-year was due to higher expected return on plan assets and lower interest cost in the current period, as well as higher insurance costs in the prior-year period related to our mandatory membership in the Pensionsversicherungsverein (PSV), the German pension insurance association.

Beginning with fiscal 2011, central infrastructure costs currently included in Corporate items will be allocated primarily to the Sectors. Financial information for prior periods will be reported on a comparable basis. For example, comparable fiscal 2010 results will show allocated central infrastructure costs of 585 million.

Centrally managed activities related to establishing Siemens IT Solutions and Services as a separate legal entity and wholly owned subsidiary of Siemens are expected to result in substantial charges in coming quarters.

**Eliminations, Corporate Treasury and other reconciling items**

In fiscal 2010, income before income taxes from Eliminations, Corporate Treasury and other reconciling items was a negative 328 million compared to a negative 373 million a year earlier. The current period benefited primarily from a decline in refinancing costs due to lower interest rates, partly offset by changes in fair market value from interest rate derivatives.

**Fiscal 2009 compared to fiscal 2008****Results of Siemens**

The following discussion presents selected information for Siemens for the fiscal year ended September 30, 2009:

**Orders and revenue**

In fiscal 2009, revenue declined 1% year-over-year, to 76.651 billion, while orders came in at 78.991 billion, down 16% from the prior-year period. This resulted in a book-to-bill ratio of 1.03. On an organic basis, excluding the net effect of currency translation and portfolio transactions, revenue came in level with fiscal 2008, while orders decreased 14%. Within the full-year trend, we saw order intake declining in the second half of fiscal 2009 compared to the first half due to adverse trends in the global macroeconomic and financing environment, while revenue development was significantly stabilized by our strong order backlog. Accordingly, our book-to-bill ratio fell from 1.12 in the first six months to 0.94 in the second half of fiscal 2009. The total order backlog for our three Sectors was 81.2 billion as of September 30, 2009, slightly down from 83.1 billion a year earlier, due primarily to negative currency translation effects. Out of the backlog at the end of fiscal 2009, orders of 36 billion were expected to be converted into revenue during fiscal 2010, orders of 17 billion during 2011, and the remainder in the periods thereafter.

	New Orders (location of customer)					
	Year ended		% Change		therein	
	September 30, 2009	2008	Actual	Adjusted <sup>(1)</sup>	Currency	Portfolio
	(in millions of )					
Europe, C.I.S. <sup>(2)</sup> , Africa, Middle East	45,696	55,229	(17)%	(13)%	(2)%	(2)%
therein Germany	12,307	14,434	(15)%	(13)%	0%	(2)%

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Americas	19,935	24,010	(17)%	(21)%	5%	(1)%
<i>therein U.S.</i>	<i>14,691</i>	<i>17,437</i>	<i>(16)%</i>	<i>(23)%</i>	<i>8%</i>	<i>(1)%</i>
Asia, Australia	13,360	14,256	(6)%	(9)%	3%	0%
<i>therein China</i>	<i>5,525</i>	<i>5,446</i>	<i>1%</i>	<i>(7)%</i>	<i>8%</i>	<i>0%</i>
<i>therein India</i>	<i>2,309</i>	<i>2,268</i>	<i>2%</i>	<i>7%</i>	<i>(5)%</i>	<i>0%</i>
<b>Siemens</b>	<b>78,991</b>	<b>93,495</b>	<b>(16)%</b>	<b>(14)%</b>	<b>0%</b>	<b>(2)%</b>

(1) Excluding currency translation and portfolio effects.

(2) Commonwealth of Independent States.



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**Orders related to external customers** decreased 16% in fiscal 2009, driven by sharp declines in Industry and to a lesser extent in Energy. In the Industry Sector our largest Sector by revenue order intake decreased more than 20% compared to the high level a year earlier. All Industry Divisions reported lower orders, led by declines at Drive Technologies, Industry Solutions and Industry Automation. Due in part to customer postponements of potential new projects, the Energy Sector saw orders fall 10% from the high level of fiscal 2008, driven primarily by lower demand at Oil & Gas, Power Transmission and Fossil Power Generation. In contrast, order intake increased at Renewable Energy, as the Division won large contracts for offshore wind-farm projects. Orders rose modestly in Healthcare, benefiting from positive currency translation effects from the U.S. In addition, orders at Centrally managed portfolio activities declined significantly in fiscal 2009 due primarily to substantial dispositions and other streamlining actions.

In the region **Europe, C.I.S., Africa, Middle East** our largest reporting region orders declined 17%, including sharply lower order intake in Industry on decreases in all Divisions. In most cases, the declines were driven by macroeconomic conditions. Lower order intake at Mobility in the region was due to lower volume from major orders compared to fiscal 2008, which included Siemens largest-ever rolling stock order, a 1.4 billion contract for more than 300 trains from the Belgian state railway system. Higher demand at Renewable Energy, driven by a number of large orders in fiscal 2009, limited the drop in order intake in the Energy Sector in Europe, C.I.S., Africa, Middle East to 4%. Healthcare orders came in near the level of fiscal 2008 in this region. In Germany, major contract wins at Mobility and Renewable Energy softened the impact of a broad based decline in other Divisions and streamlining actions at Centrally managed portfolio activities. In the **Americas**, orders decreased 17% despite strong positive currency translation effects from the U.S. Within the region, the contraction of order intake was strongest in Energy, due mainly to a lower volume from major orders at Renewable Energy compared to fiscal 2008. Orders in Industry also declined by double digits, due in part to higher volume from large orders at Mobility in the prior-year period. Healthcare orders came in just below the level of fiscal 2008. In **Asia, Australia**, orders decreased 6%, as a higher order intake in Healthcare was more than offset by declines in Industry and Energy, particularly at Industry Solutions, Drive Technologies, Oil & Gas and Power Distribution. Order intake in China rose 1% compared to the prior-year period, including a number of major contract wins at Mobility as well as significant positive currency translation effects. In India, lower demand in Industry was offset by a higher volume from major orders at Power Transmission and Fossil Power Generation in fiscal 2009.

	<b>Revenue (location of customer)</b>					
			<b>% Change</b>			
	<b>Year ended</b>		<b>vs. previous year</b>		<b>therein</b>	
<b>September 30,</b>		<b>Actual</b>	<b>Adjusted<sup>(1)</sup></b>	<b>Currency</b>	<b>Portfolio</b>	
<b>2009</b>	<b>2008</b>					
<b>(in millions of )</b>						
Europe, C.I.S. <sup>(2)</sup> , Africa, Middle East	43,288	44,895	(4)%	1%	(2)%	(3)%
<i>therein Germany</i>	<i>11,525</i>	<i>12,797</i>	<i>(10)%</i>	<i>(8)%</i>	<i>0%</i>	<i>(2)%</i>
Americas	20,754	20,107	3%	(3)%	7%	(1)%
<i>therein U.S.</i>	<i>15,684</i>	<i>14,847</i>	<i>6%</i>	<i>(4)%</i>	<i>11%</i>	<i>(1)%</i>
Asia, Australia	12,609	12,325	2%	(1)%	3%	0%
<i>therein China</i>	<i>5,218</i>	<i>4,878</i>	<i>7%</i>	<i>(1)%</i>	<i>8%</i>	<i>0%</i>
<i>therein India</i>	<i>1,680</i>	<i>1,885</i>	<i>(11)%</i>	<i>(7)%</i>	<i>(5)%</i>	<i>1%</i>
<b>Siemens</b>	<b>76,651</b>	<b>77,327</b>	<b>(1)%</b>	<b>0%</b>	<b>1%</b>	<b>(2)%</b>

(1) Excluding currency translation and portfolio effects.

(2) Commonwealth of Independent States.

**Revenue related to external customers** declined 1% in fiscal 2009, as lower revenue in Industry and streamlining actions at Centrally managed portfolio activities offset increases in Energy and Healthcare. The Industry Sector reported a revenue decrease of 7% on lower sales in five of its six Divisions, led by double-digit declines at Industry Automation, Drive Technologies and OSRAM. In contrast, revenue at Mobility rose 10% on increases in all regions. Fossil Power Generation and Renewable Energy were the primary drivers for a 14% revenue increase in Energy, as the

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Sector executed projects in its substantial order backlog. Healthcare revenue rose 7% compared to fiscal 2008, due primarily to growth at Imaging & IT and Diagnostics as well as substantial positive currency translation effects.

In **Europe, C.I.S., Africa, Middle East**, revenue declined 4% year-over-year, held back by negative currency translation and portfolio effects, the latter due mainly to streamlining at Centrally managed portfolio activities. Revenue in the region rose by double digits in Energy and at a lower rate in Healthcare, and decreased in the Industry Sector. Revenue in Germany declined 10% in fiscal 2009, due primarily to lower demand in the Industry Sector, particularly in its short-cycle businesses, and streamlining actions at Centrally managed portfolio activities. In the **Americas**, revenue rose 3% due to significant positive currency translation effects from the U.S. Revenue growth in the region was strongest in the Energy Sector, including double-digit increases at Renewable Energy, Fossil Power Generation and Power Transmission. Healthcare also reported higher revenues in the Americas, while Industry came in below the level of fiscal 2008, driven by declines at OSRAM and Industry Solutions. **Asia, Australia** saw a 2% expansion in revenue on growth in Healthcare and Energy. Revenue in Industry in this region declined 2% compared to the prior-year level. Revenue growth in China was due primarily to positive currency translation effects. Revenue declined in India driven by lower sales at Drive Technologies and Oil & Gas.

**Consolidated Statements of Income**

	<b>Year ended</b>		<b>% Change</b>
	<b>September 30,</b>		
	<b>2009</b>	<b>2008</b>	
	<b>(in millions of )</b>		
Gross profit	20,710	21,043	(2)%
<i>as percentage of revenue</i>	<i>27.0%</i>	<i>27.2%</i>	

**Gross profit** for fiscal 2009 decreased 2% compared to the prior-year period, as a strong gross profit increase in the Energy Sector was more than offset by other factors, including substantially lower gross profit in Industry and a sharp drop at Centrally managed portfolio activities due to the streamlining actions. Higher gross profit in the Energy Sector was due primarily to Fossil Power Generation where gross profit in fiscal 2008 was reduced by substantial project charges, and also included volume-driven growth in gross profit at the majority of Divisions. Lower gross profit in Industry was due primarily to volume-driven declines at Industry Automation, Drive Technologies and OSRAM as well as substantial severance charges in fiscal 2009. For comparison, in fiscal 2008, gross profit in Industry was held back by project charges at Mobility and charges related to structural initiatives at Mobility and OSRAM. Gross profit in Healthcare rose modestly year-over-year, despite further charges of 169 million related to particle therapy contracts in fiscal 2009. For comparison, in the prior-year period gross profit in Healthcare was held back by substantial costs associated primarily with refocusing of certain business activities at Imaging & IT and charges related to particle therapy contracts at Workflow & Solutions. In combination, these factors led to a slight decline in gross profit margin for Siemens overall, which came in at 27.0% in fiscal 2009 compared to 27.2% a year earlier.

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	<b>Year ended September 30,</b>		<b>% Change</b>
	<b>2009</b>	<b>2008</b>	
	<b>(in millions of )</b>		
Research and development expenses	(3,900)	(3,784)	3%
<i>as percentage of revenue</i>	<i>5.1%</i>	<i>4.9%</i>	
Marketing, selling and general administrative expenses	(10,896)	(13,586)	(20)%
<i>as percentage of revenue</i>	<i>14.2%</i>	<i>17.6%</i>	
Other operating income	1,065	1,047	2%
Other operating expense	(632)	(2,228)	(72)%
Income (loss) from investments accounted for using the equity method, net	(1,946)	260	
Interest income	2,136	2,404	(11)%
Interest expense	(2,213)	(2,208)	0%
Other financial income (expense), net	(433)	(74)	>200%

**R&D expenses** increased to 3.900 billion, or 5.1% of revenue, from 3.784 billion, or 4.9% of revenue a year earlier, due primarily to higher outlays in Energy. **SG&A expenses** declined substantially to 10.896 billion, or 14.2% of revenue, from 13.586 billion, or 17.6% of revenue in fiscal 2008, including lower expenses in all Sectors. The change year-over-year also includes substantial expenses in the prior-year period related to our global SG&A program, as the majority of the 1.081 billion in severance charges related to this program were recorded as SG&A expenses in fiscal 2008. During fiscal 2009, we already achieved the annual savings target under our global SG&A program originally set for fiscal 2010, despite additional severance charges recorded in fiscal 2009.

**Other operating income** for fiscal 2009 was 1.065 billion, compared to 1.047 billion in the prior-year period. Fiscal 2009 included a gain of 327 million on the sale of our stake in FSC. In addition, gains from sales of real estate were also slightly higher year-over-year, including a gain of 224 million from the sale of residential real estate holdings. For comparison, fiscal 2008 included a pre-tax net gain of 131 million on the sale of the wireless modules business at Industry Automation and a 130 million pre-tax net gain on the sale of the Global Tungsten & Powders unit at OSRAM. In addition, fiscal 2008 benefited from the release of an accrual of 38 million related to the Italian electrical utility Enel.

**Other operating expense** in fiscal 2009 came in substantially below the level of the prior-year period. The difference year-over-year is due primarily to a provision of approximately 1 billion in fiscal 2008 related to legal proceedings in the U.S. and Germany that were resolved during fiscal 2009. The prior-year period also included a one-time endowment of 390 million coinciding with the establishment of the Siemens Stiftung (Foundation). Expenses for outside advisors engaged in connection with investigations into alleged violations of anti-corruption laws and related matters as well as remediation activities fell sharply year-over-year to 95 million from 430 million a year earlier. Impairments of goodwill were also lower in fiscal 2009, as the prior-year period included a goodwill impairment of 70 million related to a building and infrastructure business, 50% of which was divested in fiscal 2008. In contrast, fiscal 2009 included a charge of 53 million related to a global settlement agreement with the World Bank Group, valuation allowances on loans and expenses related to the divestment of an industrial manufacturing unit in Austria, which was included in Centrally managed portfolio activities.

**Income from investments accounted for using the equity method, net** was a negative 1.946 billion in fiscal 2009, down from a positive 260 million in the prior-year period. The difference was due primarily to an equity investment loss of 2.177 billion in fiscal 2009 related to NSN, compared to a loss of 119 million a year earlier. This equity

investment loss in fiscal 2009 includes an impairment of 1.634 billion on our stake in NSN recorded in the fourth quarter, as well as a loss of 543 million, including our share in restructuring and integration costs as well as a significant impairment of deferred tax assets at NSN. Fiscal 2009 also included an equity investment loss of 171 million related to EN. In addition, equity investment income related to our stakes in BSH and KMW was 195 million in fiscal 2009, down from 242 million a year earlier.

**Interest income** decreased to 2.136 billion in fiscal 2009, from 2.404 billion a year earlier, due primarily to lower expected return on plan assets. **Interest expense** was nearly unchanged at 2.213 billion, compared to 2.208 billion in fiscal 2008.

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**Other financial income (expense), net** decreased to a negative 433 million in fiscal 2009, down from a negative 74 million a year earlier. Fiscal 2009 included higher expenses related to the interest component associated with the measurement of provisions as well as higher expenses resulting from allowances and write-offs of finance receivables.

	<b>Year ended September 30,</b>		<b>% Change</b>
	<b>2009</b>	<b>2008</b>	
	<b>(in millions of )</b>		
Income from continuing operations before income taxes	3,891	2,874	35%
Income taxes	(1,434)	(1,015)	41%
<i>as percentage of income from continuing operations before income taxes</i>	<i>37%</i>	<i>35%</i>	
Income from continuing operations	2,457	1,859	32%
Income from discontinued operations, net of income taxes	40	4,027	(99)%
Net income	2,497	5,886	(58)%
Net income attributable to minority interest	205	161	
Net income attributable to shareholders of Siemens AG	2,292	5,725	(60)%

**Income from continuing operations before income taxes** was 3.891 billion for fiscal 2009, compared to 2.874 billion a year earlier. The change year-over-year was due to the factors mentioned above, primarily the broad-based reduction in SG&A expenses and the provision accrued in fiscal 2008 for legal and regulatory matters, partly offset by our fiscal 2009 equity investment loss related to NSN and a negative swing in Financial income. The effective tax rate on income from continuing operations was 37% in fiscal 2009, up from 35% in the prior-year period. The current-year rate was adversely affected by the significant negative swing in Income (loss) from investments accounted for using the equity method, net, primarily due to NSN, partly offset by the tax-free gain on the sale of our stake in FSC. For comparison, the tax rate in fiscal 2008 was adversely affected by the provision for legal and regulatory matters mentioned above. As a result, income from continuing operations after taxes was 2.457 billion, up from 1.859 billion in fiscal 2008.

**Discontinued operations** include former Com activities as well as Siemens VDO Automotive (SV), which was sold to Continental AG in the first quarter of fiscal 2008. The former Com activities comprise the telecommunications carrier activities transferred into Nokia Siemens Networks B.V. (NSN) in the third quarter of fiscal 2007; the enterprise networks business, 51% of which was divested during the fourth quarter of fiscal 2008; and the mobile devices business sold to BenQ Corporation in fiscal 2005. Income from discontinued operations in fiscal 2009 was 40 million, compared to 4.027 billion a year earlier. The difference is due mainly to 5.5 billion in the prior-year period related to SV, including operating results along with a substantial gain on the sale of the business. This positive contribution in fiscal 2008 was partly offset by negative effects related to former Com activities amounting to 1.433 billion, including a preliminary loss related to the divestment of the enterprise networks business of approximately 1.0 billion and severance charges and impairments of long-lived assets at the enterprise networks business. For additional information regarding discontinued operations, see Notes to Consolidated Financial Statements.

**Net income** for Siemens in fiscal 2009 was 2.497 billion, compared to 5.886 billion a year earlier, with the difference due primarily to discontinued operations as discussed above. Net income attributable to shareholders of Siemens AG was 2.292 billion, down from 5.725 billion in the prior-year period.



**Table of Contents****Segment information analysis****Sectors****Industry**

<b>Sector</b>	<b>Year ended</b>		<b>% Change</b>		<b>therein</b>	
	<b>2009</b>	<b>2008</b>	<b>Actual</b>	<b>Adjusted<sup>(1)</sup></b>	<b>Currency</b>	<b>Portfolio</b>
	<b>September 30,</b>					
	<b>(in millions of )</b>					
Profit	2,701	3,947	(32)%			
Profit margin	7.7 %	10.5 %				
New orders	33,284	42,374	(21)%	(22)%	1 %	0%
Total revenue	35,043	37,653	(7)%	(8)%	1 %	0%
External revenue	33,915	36,526	(7)%			
<i>therein:</i>						
<i>Europe, C.I.S.<sup>(2)</sup>, Africa, Middle East</i>						
<i>therein Germany</i>	19,243	21,301	(10)%			
<i>Americas</i>	6,636	7,434	(11)%			
<i>Asia, Australia</i>	8,323	8,763	(5)%			
	6,349	6,462	(2)%			

(1) Excluding currency translation and portfolio effects.

(2) Commonwealth of Independent States.

In fiscal 2009, **Industry** faced severe challenges from the worldwide economic downturn, including significant slowdowns in major markets, such as factory automation, machine-building, automotive, construction, and various process industries. Shorter-cycle manufacturing-related markets were the first to show demand declines from the recession, with corresponding adverse affects for the Industry Automation, Drive Technologies and OSRAM Divisions. By the end of fiscal 2009, the recession's effects began to reach Industry's longer-cycle businesses as well, with the exception of Mobility. The Sector's order backlog had a stabilizing effect, yet revenue for Industry overall was 7% lower year-over-year. Orders declined 21% on reduced customer demand at all Divisions particularly including Drive Technologies, Industry Solutions and Industry Automation. On a geographic basis, both orders and revenue declined in all regions, with the sharpest drops coming in the Sector's largest region, Europe, C.I.S., Africa, Middle East. Industry's order backlog was 27.8 billion at the end of fiscal 2009, down from 31.7 billion a year earlier. Out of the order backlog at the end of fiscal 2009, orders of 13 billion were expected to be converted into revenue during fiscal 2010, orders of 6 billion during 2011, and the remainder in the periods thereafter.

Falling revenue and corresponding adverse effects on capacity utilization and revenue mix took Industry's profit down by a third compared to fiscal 2008. Mobility was the only Division that improved profit and profitability year-over-year. Industry initiated cost-cutting programs, capacity adjustment measures and structural initiatives aimed at restoring profitable growth. In the fourth quarter of fiscal 2009, these efforts entailed 173 million in net charges for staff reduction measures and an additional 40 million at OSRAM for major impairments and inventory write-downs. In fiscal 2008, gains from the sale of businesses partially offset project related charges at Mobility as well as structural initiatives at OSRAM and Mobility.





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	Year ended		New Orders			
	September 30,		% Change		therein	
	2009	2008	Actual	Adjusted <sup>(1)</sup>	Currency	Portfolio
	(in millions of )					
<b>Divisions</b>						
Industry Automation <sup>(2)(3)</sup>	5,571	7,335	(24)%	(22)%	0 %	(2)%
Drive Technologies	6,511	9,425	(31)%	(32)%	1 %	0%
Building Technologies <sup>(2)</sup>	6,910	7,603	(9)%	(12)%	2 %	1%
OSRAM	4,036	4,624	(13)%	(13)%	2 %	(2)%
Industry Solutions	6,101	8,415	(27)%	(28)%	0 %	1%
Mobility	6,766	7,842	(14)%	(14)%	0 %	0%

(1) Excluding currency translation and portfolio effects.

(2) At the beginning of fiscal 2010, the low-voltage switchgear business was transferred from Industry Automation to Building Technologies. Prior-year amounts were reclassified for comparison purposes.

(3) At the beginning of fiscal 2010, a production site was transferred from Industry Automation to Drive Technologies. Prior-year amounts were reclassified for comparison purposes.

	Year ended		Revenue			
	September 30,		% Change		therein	
	2009	2008	Actual	Adjusted <sup>(1)</sup>	Currency	Portfolio
	(in millions of )					
<b>Divisions</b>						
Industry Automation <sup>(2)(3)</sup>	5,763	7,159	(19)%	(18)%	1 %	(2)%
Drive Technologies	7,526	8,434	(11)%	(12)%	1 %	0%
Building Technologies <sup>(2)</sup>	7,007	7,204	(3)%	(6)%	2 %	1%
OSRAM	4,036	4,624	(13)%	(13)%	2 %	(2)%
Industry Solutions	6,804	7,106	(4)%	(6)%	1 %	1%
Mobility	6,442	5,841	10%	11%	(1) %	0%

(1) Excluding currency translation and portfolio effects.

(2) At the beginning of fiscal 2010, the low-voltage switchgear business was transferred from Industry Automation to Building Technologies. Prior-year amounts were reclassified for comparison purposes.

(3) At the beginning of fiscal 2010, a production site was transferred from Industry Automation to Drive Technologies. Prior-year amounts were reclassified for comparison purposes.

<b>Profit</b>	<b>Profit margin</b>
<b>Year ended</b>	<b>Year ended</b>

	September 30,		% Change	September 30,	
	2009 (in millions of )	2008		2009	2008
<b>Divisions</b>					
Industry Automation <sup>(1)</sup>	681	1,587	(57)%	11.8%	22.2%
Drive Technologies	836	1,279	(35)%	11.1%	15.2%
Building Technologies <sup>(1)</sup>	340	485	(30)%	4.9%	6.7%
OSRAM	89	401	(78)%	2.2%	8.7%
Industry Solutions	360	439	(18)%	5.3%	6.2%
Mobility	390	(230)		6.1%	(3.9)%

(1) At the beginning of fiscal 2010, the low-voltage switchgear business was transferred from Industry Automation to Building Technologies. Prior-year amounts were reclassified for comparison purposes.

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A deep downturn of **Industry Automation**'s large factory automation markets in fiscal 2009 took the Division's revenue and orders down 19% and 24%, respectively, compared to the prior year. Despite successful cost-cutting efforts, profit fell 57% compared to the strong prior year, burdened by lower capacity utilization and a less favorable business mix. In the fourth quarter of fiscal 2009, the Division took \$22 million of net charges for staff reduction measures. Profit in fiscal 2008 benefited from a pre-tax net gain on a Divisional level of \$125 million from the sale of Industry Automation's wireless modules business as well as a gain of \$38 million from the sale of another business. Both periods under review included purchase price accounting (PPA) effects from the acquisition of UGS Corp., acquired in fiscal 2007. PPA effects were \$138 million in fiscal 2009 and \$145 million a year earlier. Fiscal 2008 profit also included integration costs of \$17 million.

**Drive Technologies** was strongly affected by a downturn in the machine building industry in fiscal 2009. At the end of fiscal 2009, delayed effects of the economic downturn also began to reach the long-cycle businesses of the Division. As a result, orders declined 31% from the prior-year level and revenue was down 11%, with the strongest declines in Europe, C.I.S., Africa, Middle East. Lower capacity utilization, a less favorable product mix and \$30 million in net charges for staff reduction measures in the fourth quarter combined to reduce profit 35% compared to the strong fiscal 2008. Both periods included margin impacts related to the Division's purchase of Flender Holding GmbH in fiscal 2005. PPA effects in fiscal 2009 were \$36 million, while PPA effects in the prior year were \$38 million. Following a strategic review, the electronics assembly systems business, for which Siemens initiated a carve-out during fiscal 2008, was classified as held for disposal and management responsibility was transferred from Drive Technologies to Centrally managed portfolio activities during fiscal 2009. The presentation of prior-year financial information has been reclassified accordingly.

Revenue at **Building Technologies** declined by 3% in fiscal 2009 compared to the prior year. New orders declined 9% compared to fiscal 2008, due to a general slowdown in the commercial construction markets, particularly in Europe, C.I.S., Africa, Middle East and the Americas. Reduced economies of scale and a less favorable business mix, combined with \$29 million in net charges for staff reduction programs in the fourth quarter, reduced profit by 30% year-over-year.

In fiscal 2009, revenue at **OSRAM** decreased 13% compared to the prior year on lower revenue in all its businesses. On a geographic basis, the strongest declines came from Europe, C.I.S., Africa, Middle East and the Americas. Lower capacity utilization sharply reduced profit in fiscal 2009. Profit in both periods included charges related to structural initiatives. While charges in fiscal 2009 comprised \$18 million in net charges for staff reduction measures and \$40 million for major impairments and inventory write-downs taken in the fourth quarter, impacts including charges for staff reduction measures and impairments in fiscal 2008 were offset by a \$130 million net gain on the sale of the Division's Global Tungsten & Powders unit.

While order intake in fiscal 2009 at **Industry Solutions** declined sharply compared to the prior year, the Division's order backlog had a stabilizing effect on revenue and profit. The strongest order declines came in Europe, C.I.S., Africa, Middle East and Asia, Australia. Revenue came in 4% lower than in fiscal 2008, including higher revenue in Asia, Australia. Profit in fiscal 2009 declined 18%, as the Division took net charges of \$69 million for staff reduction measures in the fourth quarter. Profit in fiscal 2008 benefited from a \$30 million gain on the sale of the Division's hydrocarbon service business.

**Mobility** increased fiscal 2009 revenue 10% compared to the prior year, including higher revenue in all regions. Orders were 14% lower than a year earlier, when Mobility took in its largest-ever rolling stock order for more than 300 trains worth \$1.4 billion. On a geographic basis, orders declined in Europe, C.I.S., Africa, Middle East, which included the large order just mentioned for the prior year, and the Americas. Demand in Asia, Australia increased sharply year-over-year, including a particularly large train order in China. Mobility delivered fiscal 2009 profit of

390 million compared to a loss of 230 million a year earlier. This change stemmed in part from execution of the Division's Mobility in Motion program. A year earlier this program resulted in costs of 151 million, primarily for staff reduction charges and impairments. Profit in fiscal 2008 was also burdened by charges of 209 million related to major projects in the second quarter, provisions related primarily to projects in the rail automation business, and further charges of 32 million for the Combino railcar business.

**Table of Contents****Energy**

<b>Sector</b>	<b>Year ended September 30,</b>		<b>% Change</b>		<b>therein</b>	
	<b>2009</b>	<b>2008</b>	<b>Actual</b>	<b>Adjusted<sup>(1)</sup></b>	<b>Currency</b>	<b>Portfolio</b>
	<b>(in millions of )</b>					
Profit	3,315	1,434	131%			
Profit margin	12.9%	6.4%				
New orders	30,076	33,428	(10)%	(9)%	(1)%	0%
Total revenue	25,793	22,577	14%	14%	0%	0%
External revenue	25,405	22,191	14%			
<i>therein:</i>						
<i>Europe, C.I.S.<sup>(2)</sup>, Africa, Middle East</i>	<i>14,715</i>	<i>12,722</i>	<i>16%</i>			
<i>therein Germany</i>	<i>1,905</i>	<i>1,890</i>	<i>1%</i>			
<i>Americas</i>	<i>6,552</i>	<i>5,643</i>	<i>16%</i>			
<i>Asia, Australia</i>	<i>4,138</i>	<i>3,826</i>	<i>8%</i>			

(1) Excluding currency translation and portfolio effects.

(2) Commonwealth of Independent States.

The **Energy** Sector turned in a strong performance in fiscal 2009, with all Divisions delivering strong profit increases compared to the prior year. Sector profit improved to 3.315 billion from 1.434 billion a year earlier, making Energy the top profit contributor among the Sectors. Profit growth year-over-year included a strong profit rebound at Fossil Power Generation. For comparison, the Division's results in fiscal 2008 were burdened by 559 million in second-quarter project charges as well as additional project charges totaling more than 300 million taken in the first and fourth quarters of fiscal 2008. Sector profit in fiscal 2009 also rose on substantially lower SG&A expenses at Power Transmission, Power Distribution, Oil & Gas and Fossil Power Generation.

Energy produced revenue growth of 14% in fiscal 2009 by executing projects in its substantial order backlog. Led by Fossil Power Generation and Renewable Energy, all Energy Divisions contributed revenue increases year-over-year. Due in part to customer postponements of potential new projects against the background of the global macroeconomic and financial crisis, order intake decreased 10% from a high basis of comparison a year earlier. Within fiscal 2009, Energy saw its longer-cycle businesses become increasingly affected by deteriorating macroeconomic conditions. On a book-to-bill ratio of 1.17, the Sector's order backlog rose to 47.1 billion at the end of fiscal 2009, up from 44.6 billion a year earlier. Out of the backlog at the end of fiscal 2009, orders of 20 billion were expected to be converted into revenue during fiscal 2010, orders of 10 billion during 2011, and the remainder in the periods thereafter. On a geographic basis, revenue grew in all three regions, with the strongest increases in Europe, C.I.S., Africa, Middle East and in the Americas. Order intake declined across the three regions, with the strongest contraction in the Americas.

**New Orders****Year ended**

	<b>September 30,</b>		<b>% Change</b>		<b>therein</b>	
	<b>2009</b>	<b>2008</b>	<b>Actual</b>	<b>Adjusted<sup>(1)</sup></b>	<b>Currency</b>	<b>Portfolio</b>
	<b>(in millions of )</b>					
<b>Divisions</b>						
Fossil Power Generation	12,135	12,993	(7)%	(8)%	1%	0%
Renewable Energy	4,823	4,434	9%	16%	(7)%	0%
Oil & Gas	4,450	5,630	(21)%	(18)%	(2)%	(1)%
Power Transmission	6,324	7,290	(13)%	(12)%	(1)%	0%
Power Distribution	3,018	3,578	(16)%	(14)%	(2)%	0%

(1) Excluding currency translation and portfolio effects.

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	Revenue					
	Year ended		% Change		therein	
	September 30, 2009	September 30, 2008	Actual	Adjusted <sup>(1)</sup>	Currency	Portfolio
	(in millions of )					
<b>Divisions</b>						
Fossil Power Generation	9,802	8,171	20%	18%	2%	0%
Renewable Energy	2,935	2,092	40%	39%	1%	0%
Oil & Gas	4,276	4,038	6%	10%	(3)%	(1)%
Power Transmission	6,172	5,497	12%	12%	0%	0%
Power Distribution	3,284	3,211	2%	4%	(2)%	0%

(1) Excluding currency translation and portfolio effects.

	Profit			Profit margin	
	Year ended		% Change	Year ended	
	September 30, 2009	September 30, 2008		September 30, 2009	September 30, 2008
	(in millions of )				
<b>Divisions</b>					
Fossil Power Generation	1,275	(89)		13.0%	(1.1)%
Renewable Energy	382	242	58%	13.0%	11.6%
Oil & Gas	499	351	42%	11.7%	8.7%
Power Transmission	725	565	28%	11.7%	10.3%
Power Distribution	435	369	18%	13.2%	11.5%

**Fossil Power Generation** led all Siemens Divisions with 1.275 billion in profit for fiscal 2009, combining higher revenue with economies of scale, improved project execution and an improved revenue mix, including a higher contribution from the products business. The loss of 89 million in fiscal 2008 included the substantial project charges mentioned above for the Sector, particularly charges of 344 million related to a technologically advanced project in Olkiluoto, Finland. In addition, fiscal 2008 included negative equity investment income of 26 million related to Energy's equity stake in Areva NP S.A.S., which was also substantially affected by the project in Finland. Since the second quarter of fiscal 2009, this equity stake is accounted for as held for disposal, following the Energy Sector's announced intention to exit the Areva NP S.A.S. joint venture. Revenue at Fossil Power Generation rose 20% on higher sales in all regions, led by increases in the Europe, C.I.S., Africa, Middle East region and the Americas. Due to adverse macroeconomic and financing conditions, the Division's orders in fiscal 2009 came in below the prior-year level. The decline was driven by substantially lower demand in Europe, C.I.S., Africa, Middle East, including lower volume from major orders.

Profit at **Renewable Energy** climbed to 382 million from 242 million in fiscal 2008, driven by economies of scale on a 40% increase in revenue. Orders in the Division came in above the prior-year level, as higher order intake in Europe, C.I.S., Africa, Middle East more than offset lower demand in the Americas region, where the Division took in a higher volume from major orders in the prior-year period. Order development in both regions was significantly influenced by large offshore wind-farm projects with long lead times between order intake and revenue recognition.



**Oil & Gas** brought in 499 million in profits in fiscal 2009, up from 351 million a year earlier, including higher contributions from all business units. Revenue increased 6% year-over-year on growth in the Americas and in Europe, C.I.S., Africa, Middle East, as the Division converted orders from its backlog into current business. In contrast, order intake slowed substantially in fiscal 2009, as customers delayed new projects.

**Power Transmission** posted profit of 725 million in fiscal 2009, up 28% from fiscal 2008 on revenue increases in all three regions. Due to customer postponements of potential new projects, the Division reported a double-digit decline in orders compared to the strong fiscal 2008.

**Power Distribution** grew profit 18% in fiscal 2009, to 435 million. Order intake fell 16% on lower year-over-year orders in all four quarters, due primarily to weaker demand among the Division's industrial

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customers. Revenue at Power Distribution came in just above the prior-year level, as growth in the first two quarters was nearly offset by lower year-over-year sales in the second half of fiscal 2009.

**Healthcare**

Sector	Year ended September 30,		% Change		therein	
	2009	2008	Actual	Adjusted <sup>(1)</sup>	Currency	Portfolio
	(in millions of )					
Profit	1,450	1,225	18%			
Profit margin	12.2%	11.0%				
New orders	11,950	11,779	1%	(3)%	3%	1%
Total revenue	11,927	11,170	7%	2%	4%	1%
External revenue	11,864	11,116	7%			
<i>therein:</i>						
<i>Europe, C.I.S.<sup>(2)</sup>, Africa, Middle East</i>	4,724	4,537	4%			
<i>therein Germany</i>	1,072	980	9%			
<i>Americas</i>	5,153	4,861	6%			
<i>Asia, Australia</i>	1,986	1,718	16%			

(1) Excluding currency translation and portfolio effects.

(2) Commonwealth of Independent States.

The market environment for the **Healthcare Sector** included a contraction in healthcare equipment spending as well as reduced availability of credit for financing equipment purchases and uncertainty created by healthcare reform efforts and budget deficits in developed nations. Against this backdrop, Healthcare increased revenue and orders 7% and 1%, respectively. On an organic basis, particularly excluding strong positive currency translation effects, in fiscal 2009 revenue rose 2% and orders came in 3% lower than a year earlier. On a geographic basis, revenue grew in all three regions, including a 16% rise in Asia, Australia. Orders rose even faster in Asia, Australia, offsetting modest declines in other regions. Healthcare's book-to-bill ratio was just above 1 for fiscal 2009, and its order backlog at the end of fiscal 2009 stood at 6.3 billion compared to 6.8 billion a year earlier. Of the Sector's backlog, orders of 3 billion were expected to be converted into revenue during fiscal 2010, orders of 1 billion during fiscal 2011, and the remainder in the periods thereafter.

Healthcare posted Sector profit of 1.450 billion in fiscal 2009, up 18% from the prior-year level. This increase was in part due to progress with integration of acquisitions in the Diagnostics Division. PPA effects and integration costs at Diagnostics fell to 248 million, equivalent to 2.0 percentage points of Sector profit margin in fiscal 2009. A year earlier Diagnostics recorded a total of 344 million in PPA and integration costs, equivalent to 3.1 percentage points of Sector profit margin. The difference year-over-year is due to lower integration costs. Both years under review include negative profit impacts, totaling 169 million in charges at Workflow & Solutions in fiscal 2009 and 174 million in costs and charges at Workflow & Solutions and Imaging & IT a year earlier.

**New Orders**

	Year ended		% Change		therein	
	September 30, 2009	September 30, 2008	Actual	Adjusted <sup>(1)</sup>	Currency	Portfolio
	(in millions of )					
<b>Divisions</b>						
Imaging & IT	7,143	7,243	(1)%	(5)%	4%	0%
Workflow & Solutions	1,553	1,653	(6)%	(8)%	2%	0%
Diagnostics	3,479	3,195	9%	1%	4%	4%

(1) Excluding currency translation and portfolio effects.

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	Revenue					
	Year ended		% Change		therein	
	September 30, 2009	2008	Actual	Adjusted <sup>(1)</sup>	Currency	Portfolio
	(in millions of )					
<b>Divisions</b>						
Imaging & IT	7,152	6,811	5%	1%	4%	0%
Workflow & Solutions	1,515	1,490	2%	(1)%	2%	1%
Diagnostics	3,490	3,185	10%	2%	4%	4%

(1) Excluding currency translation and portfolio effects.

	Profit			Profit margin	
	Year ended		% Change	Year ended	
	September 30, 2009	2008		2009	2008
	(in millions of )				
<b>Divisions</b>					
Imaging & IT	1,161	899	29%	16.2%	13.2%
Workflow & Solutions	(53)	66		(3.5)%	4.4%
Diagnostics	338	248	36%	9.7%	7.8%

**Imaging & IT** contributed a profit of 1.161 billion in fiscal 2009, up 29% from the prior-year level on a more favorable product mix that included significant contributions from new products introduced in fiscal 2009. Fiscal 2008 profit was held back by 90 million of the negative profit impacts mentioned above for the Sector, consisting primarily of severance charges, impairments and related costs following the review of certain business activities. Revenue and order development in fiscal 2009 matched the general development for Healthcare overall, with revenue rising and orders coming in close to the prior-year level on particular strength in Asia, Australia and positive currency translation effects.

**Workflow & Solutions** posted a loss of 53 million, including the charges of 169 million mentioned above related to significant technical development challenges and delays associated with particle therapy contracts. In fiscal 2008, the Division delivered a profit of 66 million despite 81 million of the negative profit impacts, mainly related to the particle therapy contracts mentioned above for the Sector. Fiscal 2009 revenue was up 2%. Orders came in below the prior-year level.

Profit at **Diagnostics** was 338 million in fiscal 2009, up 36% from the prior-year level. The increase was driven by higher revenue and the reduction in integration costs mentioned above. PPA effects were 181 million and integration costs were 67 million in fiscal 2009, reducing the Division's profit margin by 7.1 percentage points. A year earlier, PPA effects were 176 million (including 7 million of inventory step-up charges) and integration costs were 168 million, reducing Diagnostics' profit margin by 10.8 percentage points. Fiscal 2009 revenue and orders rose 10% and 9%, respectively, from prior-year levels, benefiting strongly from positive currency translation and portfolio effects.

## Equity Investments

In fiscal 2009, Equity Investments recorded a loss of 1.851 billion compared to a profit of 95 million a year earlier. The major factor in this decline was NSN that has been tested for impairment. The main triggering events were NSN's loss of market share as well as a decrease in the product business operations resulting in significantly adjusted financial forecasts of future cash flows of NSN. As a result, we took an impairment of 1.634 billion on our investment in NSN at the end of fiscal 2009. Furthermore, NSN took restructuring charges and integration costs of 507 million as well as an additional charge of 432 million to tax expense to provide a valuation allowance on NSN's deferred tax assets during fiscal 2009. These factors led to an equity investment loss related to our stake in NSN of 2.177 billion in fiscal 2009. In fiscal 2008, NSN incurred restructuring charges and integration costs of 480 million. The equity investment loss related to our stake in NSN was 119 million in fiscal 2008. In fiscal 2009, EN incurred an operating loss and took restructuring charges. As a result, we incurred a loss of 171 million from our investment in EN. The increasing equity investment loss from our investment in NSN and the loss from our stake in EN were only partly

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offset by a gain of 327 million from the sale of our stake in FSC in fiscal 2009. Equity investment income related to our stakes in BSH and KMW was 195 million in fiscal 2009, down from 242 million in fiscal 2008.

**Cross-Sector Businesses****Siemens IT Solutions and Services**

	Year ended		% Change		therein	
	September 30, 2009	2008	Actual	Adjusted <sup>(1)</sup>	Currency	Portfolio
	(in millions of )					
Profit	90	144	(38)%			
Profit margin	1.9%	2.7%				
New orders	4,501	5,272	(15)%	(10)%	(2)%	(3)%
Total revenue	4,686	5,325	(12)%	(8)%	(1)%	(3)%
External revenue	3,580	3,845	(7)%			
<i>therein:</i>						
<i>Europe, C.I.S.<sup>(2)</sup>, Africa, Middle East</i>	3,129	3,326	(6)%			
<i>therein Germany</i>	1,307	1,451	(10)%			
<i>Americas</i>	399	430	(7)%			
<i>Asia, Australia</i>	52	89	(42)%			

(1) Excluding currency translation and portfolio effects.

(2) Commonwealth of Independent States.

In fiscal 2009, orders and revenue for **Siemens IT Solutions and Services** declined by 15% and 12% year-over-year, respectively, due to increasingly challenging external markets in the course of the fiscal year and streamlined internal business with Siemens. Profit for fiscal 2009 was 90 million compared to 144 million a year earlier. Profit development in fiscal 2009 was impacted by the factors mentioned for volume, as well as measures to reduce IT costs for Siemens and 22 million in net charges for staff reduction measures during the fourth quarter. Both periods included charges related to large projects in the UK. Those charges were significantly higher in the prior-year period when they resulted in a net negative effect on profit of 76 million.

**Siemens Financial Services (SFS)**

	Year ended		% Change
	September 30, 2009	2008	
	(in millions of )		
Income before income taxes	304	286	6%
Total assets	11,704	11,328	3%

In fiscal 2009, profit (defined as income before income taxes) at SFS increased to 304 million compared to 286 million in the prior year. Fiscal 2009 included higher interest results as well as higher results from internal services and the equity business including the reversal of an impairment on an investment of 51 million, posted in a previous year. These higher results were partly offset by an increase in loss reserves in the commercial finance business. Total assets rose slightly, to 11.704 billion.

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The following table provides further information on the capital structure of SFS as of September 30, 2009 and 2008:

	<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(in millions of )</b>	
Allocated equity	1,243	1,113
Total debt	9,521	9,359
<i>therein intragroup financing</i>	9,455	9,233
<i>therein debt from external sources</i>	66	126
Debt to equity ratio	7.66	8.41
Cash and cash equivalents	136	28

**Reconciliation to Consolidated Financial Statements**

Reconciliation to Consolidated Financial Statements includes Centrally managed portfolio activities, SRE and various categories of items which are not allocated to the Sectors and Cross-Sector Businesses because Management has determined that such items are not indicative of the Sectors and Cross-Sector Businesses respective performance.

**Centrally managed portfolio activities**

Centrally managed portfolio activities consist primarily of centrally managed activities intended for divestment or closure. For fiscal 2009, the result of Centrally managed portfolio activities was a negative 371 million, compared to a negative 440 million a year earlier. Costs related to the streamlining of Centrally managed portfolio activities in fiscal 2008 included a total of 271 million related to the divestment of Siemens Home and Office Communication Devices (SHC), the divestment of a 50% stake in a building and infrastructure business, including a goodwill impairment of 70 million, and the closure of a regional payphone unit in Europe, primarily for severance. Within this total, the divestment of SHC resulted in costs of 124 million primarily associated with impairments of assets and a loss on the sale. In addition, the SHC transaction involved costs of 21 million in fiscal 2008 related mainly to carve-out activities. The electronics assembly systems business recorded a loss of 201 million in fiscal 2009, consisting of operating losses as well as charges related to severance expenses and impairments. A year earlier, this business incurred losses of 86 million, including severance charges. In addition, fiscal 2009 included a loss related to the divestment of an industrial manufacturing unit in Austria, as well as higher net expenses related to other businesses divested in fiscal 2009 and prior periods.

Sales for Centrally managed portfolio activities in fiscal 2009 were 503 million, down from 2.216 billion a year earlier, due primarily to the streamlining actions mentioned above, including the divestment of SHC, and with fiscal 2008 also including higher revenue related to the electronics assembly systems business.

**Siemens Real Estate**

Income before income taxes at SRE was 341 million in fiscal 2009, compared to 356 million in the prior-year period. Gains from sales of real estate were slightly higher in fiscal 2009, including a gain of 224 million from the sale of residential real estate holdings. Assets with a book value of 614 million were transferred to SRE during fiscal 2009 as part of Siemens program to bundle its real estate assets into SRE. During fiscal 2009, SRE incurred costs of 44 million associated with this program.

**Corporate items and pensions**



In fiscal 2009, Corporate items and pensions totaled a negative 1.715 billion compared to a negative 3.873 billion a year earlier. The main factor in the change was Corporate items, which declined from a negative 3.979 billion to a negative 1.343 billion. Corporate items in the prior-year period included 1.081 billion in charges related to the global SG&A program, a provision of approximately 1 billion related to legal proceedings in the U.S. and Germany that were resolved during fiscal 2009 and a one-time endowment of 390 million to the Siemens Stiftung (Foundation). Another major factor contributing to this change was lower expenses for outside

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advisors engaged in connection with investigations into alleged violations of anti-corruption laws and related matters as well as remediation activities, which declined to 95 million in fiscal 2009 from 430 million a year earlier. Fiscal 2008 also included expenses of 128 million related to a regional sales organization in Germany, including an impairment, as well as a 32 million donation to the Siemens Foundation in the U.S. These factors were partly offset by the release of an accrual of 38 million following reversal of a previous judgment related to the Italian electrical utility Enel. For comparison, Corporate items in fiscal 2009 included net charges of 235 million related to the global SG&A program and other personnel-related restructuring measures. Fiscal 2009 also included higher interest-related net expenses associated with a major asset retirement obligation, including a negative effect from the measurement of this obligation, partly offset by a positive effect from related hedging activities not qualifying for hedge accounting. In addition, fiscal 2009 included a positive effect related to shifting an employment bonus program from cash-based to share-based payment, as well as a charge of 53 million related to a global settlement agreement with the World Bank Group.

Centrally carried pension expense swung to a negative 372 million in fiscal 2009 from a positive 106 million in the prior-year period. This change was due primarily to higher benefit costs related to our principal pension plans. In addition, centrally carried pension expense in fiscal 2009 also included increased insurance costs of 106 million related to our mandatory membership in the Pensionssicherungsverein (PSV), the German pension insurance association.

**Eliminations, Corporate Treasury and other reconciling items**

In fiscal 2009, income before income taxes from Eliminations, Corporate Treasury and other reconciling items was a negative 373 million compared to a negative 300 million in the prior year period. Fiscal 2009 included higher negative results from interest rate hedging activities not qualifying for hedge accounting. These negative results were partly compensated by reduced counter-party risks. In the fourth quarter a year earlier charges of 50 million were posted related to counter-party risks, principally involving banks affected adversely by developments in the international financial markets.

**Table of Contents****Reconciliation to adjusted EBITDA (continuing operations)**

The following table gives additional information on topics included in Profit and Income before income taxes and provides a reconciliation to adjusted EBITDA. We report adjusted EBIT and adjusted EBITDA as a performance measure. The closest comparable GAAP figure under IFRS is Net income as reported in our Consolidated Statements of Income. For further information regarding adjusted EBIT and adjusted EBITDA, please refer to Supplemental financial measures.

For the fiscal years ended September 30, 2010, 2009 and 2008 (in millions of €)

	Profit <sup>(1)</sup>			Income (loss) from investments accounted for using the equity method, net <sup>(2)</sup>			Financial income (expense), net <sup>(3)</sup>		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
<b>Sectors and Divisions</b>									
<b>Industry Sector</b>	<b>3,478</b>	<b>2,701</b>	<b>3,947</b>	<b>5</b>	<b>1</b>	<b>15</b>	<b>(14)</b>	<b>(13)</b>	
Industry Automation	1,048	681	1,587	(2)	(2)	(2)	3	(3)	4
Drive Technologies	855	836	1,279	(1)	(2)	1	(1)	(1)	3
Building Technologies	456	340	485	7	4	4	1	1	1
OSRAM	569	89	401	(8)	(2)	3		1	
Industry Solutions	39	360	439	4	4	7	(3)	3	3
Mobility	513	390	(230)	5	(1)	1	(13)	(16)	(10)
<b>Energy Sector</b>	<b>3,562</b>	<b>3,315</b>	<b>1,434</b>	<b>78</b>	<b>59</b>	<b>41</b>	<b>(22)</b>	<b>(10)</b>	<b>7</b>
Fossil Power Generation	1,516	1,275	(89)	27	26	9	(14)	(14)	2
Renewable Energy	368	382	242	9	4	5	(3)	(1)	
Oil & Gas	487	499	351				(2)		(1)
Power Transmission	763	725	565	36	27	25		9	9
Power Distribution	422	435	369	6	2	2	(2)	(3)	(1)
<b>Healthcare Sector</b>	<b>748</b>	<b>1,450</b>	<b>1,225</b>	<b>3</b>	<b>29</b>	<b>27</b>	<b>20</b>	<b>6</b>	<b>26</b>
Imaging & IT	1,452	1,161	899	7	8	6	2	2	2
Workflow & Solutions	27	(53)	66		10	2	2	1	4
Diagnostics	(776)	338	248	(9)		6	7	8	9
<b>Total Sectors</b>	<b>7,789</b>	<b>7,466</b>	<b>6,606</b>	<b>86</b>	<b>89</b>	<b>83</b>	<b>(16)</b>	<b>(17)</b>	<b>33</b>
<b>Equity Investments</b>	<b>(191)</b>	<b>(1,851)</b>	<b>95</b>	<b>(248)</b>	<b>(2,160)</b>	<b>101</b>	<b>35</b>	<b>30</b>	<b>(6)</b>
<b>Cross-Sector Businesses</b>									
<b>Siemens IT Solutions and Services</b>	<b>(537)</b>	<b>90</b>	<b>144</b>	<b>20</b>	<b>26</b>	<b>25</b>	<b>(1)</b>	<b>1</b>	<b>9</b>
<b>Siemens Financial Services (SFS)</b>	<b>447</b>	<b>304</b>	<b>286</b>	<b>83</b>	<b>130</b>	<b>57</b>	<b>315</b>	<b>111</b>	<b>182</b>
<b>Reconciliation to Consolidated Financial Statements</b>									

Centrally managed portfolio activities	(139)	(371)	(440)			1	3		(2)
Siemens Real Estate (SRE)	250	341	356				(47)	(35)	(51)
Corporate items and pensions	(1,479)	(1,715)	(3,873)		(4)	(3)	(158)	(394)	178
Eliminations, Corporate Treasury and other reconciling items	(328)	(373)	(300)	20	(27)	(4)	(196)	(206)	(221)
<b>Siemens</b>	<b>5,811</b>	<b>3,891</b>	<b>2,874</b>	<b>(40)</b>	<b>(1,946)</b>	<b>260</b>	<b>(65)</b>	<b>(510)</b>	<b>122</b>

- (1) Profit of the Sectors and Divisions as well as of Equity Investments, Siemens IT Solutions and Services and Centrally managed portfolio activities is earnings before financing interest, certain pension costs and income taxes. Certain other items not considered performance indicative by Management may be excluded. Profit of SFS and SRE is Income before income taxes. Profit of Siemens is Income from continuing operations before income taxes. For a reconciliation of Income from continuing operations before income taxes to Net income see Consolidated Statements of Income.
- (2) Includes impairments and reversals of impairments of investments accounted for using the equity method.
- (3) Includes impairment of non-current available-for-sale financial assets. For Siemens, Financial income (expense), net comprises Interest income, Interest expense and Other financial income (expense), net as reported in the Consolidated Statements of Income.
- (4) Adjusted EBIT is Income from continuing operations before income taxes less Financial income (expense), net and Income (loss) from investments accounted for using the equity method, net.
- (5) Amortization and impairments, net of reversals, of intangible assets other than goodwill.
- (6) Depreciation and impairments of property, plant and equipment net of reversals. Includes impairments of goodwill of 1,145, 32 and 78 for the fiscal years ended September 30, 2010, 2009 and 2008, respectively.

Due to rounding, numbers presented may not add up precisely to totals provided.

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(continued)

Adjusted EBIT <sup>(4)</sup>			Amortization <sup>(5)</sup>			Depreciation and impairments of property, plant and equipment and goodwill <sup>(6)</sup>			Adjusted EBITDA		
2010	2009	2008	2010	2009	2008	2010	2009	2008	2010	2009	2008
<b>3,488</b>	<b>2,713</b>	<b>3,932</b>	<b>364</b>	<b>376</b>	<b>330</b>	<b>658</b>	<b>715</b>	<b>800</b>	<b>4,510</b>	<b>3,804</b>	<b>5,062</b>
1,048	686	1,585	183	188	157	94	98	98	1,326	972	1,840
856	839	1,275	45	44	47	148	150	136	1,049	1,033	1,458
448	335	480	77	75	70	91	104	88	616	514	638
578	90	398	18	26	23	220	243	297	816	359	718
38	353	429	25	33	29	59	64	57	123	450	515
521	407	(221)	15	10	4	47	56	124	583	473	(93)
<b>3,506</b>	<b>3,266</b>	<b>1,386</b>	<b>93</b>	<b>70</b>	<b>78</b>	<b>353</b>	<b>315</b>	<b>267</b>	<b>3,953</b>	<b>3,651</b>	<b>1,731</b>
1,502	1,263	(100)	16	16	20	123	107	100	1,641	1,386	20
362	379	237	29	7	10	57	45	21	448	431	268
490	499	352	26	26	28	58	58	57	573	583	437
727	689	531	11	11	10	77	66	54	815	766	595
418	436	368	11	10	11	33	33	33	462	479	412
<b>725</b>	<b>1,415</b>	<b>1,172</b>	<b>317</b>	<b>304</b>	<b>309</b>	<b>1,538</b>	<b>350</b>	<b>331</b>	<b>2,579</b>	<b>2,069</b>	<b>1,812</b>
1,444	1,151	891	109	116	143	81	86	82	1,635	1,353	1,116
25	(64)	60	6	6	5	28	24	21	59	(34)	86
(774)	330	233	200	181	161	1,422	233	218	848	744	612
<b>7,719</b>	<b>7,394</b>	<b>6,490</b>	<b>774</b>	<b>750</b>	<b>717</b>	<b>2,549</b>	<b>1,380</b>	<b>1,398</b>	<b>11,042</b>	<b>9,524</b>	<b>8,605</b>
<b>22</b>	<b>279</b>								<b>22</b>	<b>279</b>	
<b>(557)</b>	<b>63</b>	<b>110</b>	<b>49</b>	<b>44</b>	<b>50</b>	<b>92</b>	<b>136</b>	<b>174</b>	<b>(415)</b>	<b>243</b>	<b>334</b>
<b>49</b>	<b>63</b>	<b>47</b>	<b>7</b>	<b>6</b>	<b>3</b>	<b>326</b>	<b>314</b>	<b>282</b>	<b>383</b>	<b>383</b>	<b>332</b>
(143)	(371)	(439)	1	2	20	6	44	192	(135)	(325)	(227)
298	376	407	2	1	1	294	180	160	594	557	568
(1,321)	(1,317)	(4,048)	24	31	105	51	54	58	(1,246)	(1,232)	(3,885)
(151)	(140)	(75)				(59)	(70)	(67)	(210)	(210)	(142)
<b>5,916</b>	<b>6,347</b>	<b>2,492</b>	<b>858</b>	<b>834</b>	<b>896</b>	<b>3,260</b>	<b>2,038</b>	<b>2,197</b>	<b>10,034</b>	<b>9,219</b>	<b>5,585</b>

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### **Liquidity and capital resources**

#### **Principles and objectives of financial management**

Siemens is committed to a strong financial profile, which provides the financial flexibility to achieve growth and portfolio optimization goals largely independent of market conditions.

Financial management at Siemens is executed under a framework of applicable laws and internal guidelines and regulations. It includes the following activities:

#### **Liquidity management**

Our principal source of financing is cash inflows from operating activities. Corporate Treasury generally manages cash and cash equivalents for the Siemens Group and has primary responsibility for raising funds in the capital markets for the Siemens Group through various debt products, with the exception of countries with conflicting capital market controls. The relevant consolidated subsidiaries in these countries obtain financing primarily from local banks. Siemens follows a prudent borrowing policy which is aimed towards a balanced financing portfolio, a diversified maturity profile and a comfortable liquidity cushion. On September 30, 2010, Siemens held 14.108 billion in cash and cash equivalents, mainly in euros, of which 99% were managed by Corporate Treasury. Especially in light of the global financial markets crisis, Siemens monitors funding options available in the capital markets, trends in the availability of funds and the cost of such funding to evaluate possible strategies regarding its financial and risk profile.

Corporate Treasury enters into reverse repurchase agreements with financial institutions with investment grade credit ratings. Siemens holds securities as collateral under these agreements via a third party (Euroclear) and is permitted to sell or re-pledge the securities. The extent to which Siemens engages in transactions involving reverse repurchase agreements depends on its liquidity management needs and the availability of cash and cash equivalents which varies from time to time. For further information on reverse purchase agreements refer to Notes to Consolidated Financial Statements.

#### **Cash management**

Cash management comprises the management of bank partner relationships and bank accounts as well as the execution of payments, including the administration of cash pools, on a global level. Siemens strives to raise efficiency and transparency through a high level of standardization and continuous advancement of payment processes. Where permissible, the execution of intercompany and third party payments is effected centrally through group-wide tools with central controls to ensure compliance with internal and external guidelines and requirements. To ensure efficient management of Siemens funds, Corporate Treasury has established a central cash management approach: to the extent legally or economically feasible, funds are pooled and managed centrally by Corporate Treasury. Conversely, funding needs within the group are covered centrally by Corporate Treasury via intercompany current accounts and/or loans.

#### **Financial risk management**

Investments of cash and cash equivalents are subject to credit requirements and counterparty limits. Corporate Treasury pools and centrally manages Siemens interest rate, certain commodity and currency risk exposures and uses financial derivative instruments in transactions with external financial institutions to offset such concentrated exposures. For more detailed information about financial risk management at Siemens see Notes to Consolidated

Financial Statements.

**Management of pension plan funding**

Siemens' funding policy for its pension funds is part of its overall commitment to sound financial management, which includes a continuous analysis of the structure of its pension liabilities. For more detailed information about Siemens' pension plan funding see Pension Plan Funding.

**Table of Contents****Capital structure management and credit rating**

To effectively manage its capital structure, Siemens seeks to maintain ready access to the capital markets through various debt products and to preserve its ability to repay and service its debt obligations over time. For more detailed information about Siemens' capital structure, see "Capital Structure," below.

A key factor in maintaining a strong financial profile is our credit rating which is affected by, among other factors, our capital structure, profitability, ability to generate cash flow, geographic and product diversification as well as our competitive market position. Our current corporate credit ratings from Moody's Investors Service and Standard & Poor's are noted as follows:

	<b>Moody's Investors Service</b>	<b>Standard &amp; Poor's</b>
Long-term debt	A1	A+
Short-term debt	P-1	A-1

During fiscal 2010 Moody's Investors Service made no changes in Siemens' credit rating. Moody's applied a long-term credit rating of A1, outlook stable, on November 9, 2007. The rating classification A is the third highest rating within the agency's debt ratings category. The numerical modifier 1 indicates that our long-term debt ranks in the higher end of the A category. The Moody's rating outlook is an opinion regarding the likely direction of an issuer's rating over the medium-term. Rating outlooks fall into the following six categories: positive, negative, stable, developing, ratings under review and no outlook.

Moody's Investors Service's rating for our short-term corporate credit and commercial paper is P-1, the highest available rating in the prime rating system, which assesses issuers' ability to honor senior financial obligations and contracts. It applies to senior unsecured obligations with an original maturity of less than one year.

In addition, Moody's Investors Service publishes credit opinions relating to Siemens. The most recent credit opinion as of June 3, 2010 classified our liquidity profile as very healthy.

During fiscal 2010 Standard & Poor's made no changes in Siemens' credit ratings. Standard & Poor's applied a long-term credit rating of A+, outlook stable, on June 5, 2009. Within Standard & Poor's ratings definitions an obligation rated A+ has the third highest long-term rating category. The modifier + indicates that our long-term debt ranks in the upper end of the A category. The Standard & Poor's rating outlook assesses the potential direction of a long-term credit rating over the medium-term. Rating outlooks fall into the following four categories: positive, negative, stable and developing. On June 5, 2009, Standard & Poor's assigned A-1 for our corporate short-term credit rating. This is the second highest short-term rating within the Standard & Poor's rating scale.

The U.S. Securities and Exchange Commission granted the registration of Moody's Investors Services and Standard & Poor's Ratings Services the status of nationally recognized statistical rating organizations (NRSROs). Siemens does not have any agreements with other nationally recognized statistical rating organizations to provide long-term and short-term credit ratings.

We believe that our high credit rating for our long-term debt applied by Moody's and Standard & Poor's allows us to raise funds in the capital markets at attractive conditions or to obtain financing from banks with financial flexibility. A high credit rating generally leads to lower credit spreads and therefore our rating also positively affects our funding



costs. Security ratings are not a recommendation to buy, sell or hold securities. Credit ratings may be subject to revision or withdrawal by the rating agencies at any time and each rating should be evaluated independently of any other rating.

**Table of Contents****Capital structure**

As of September 30, 2010 and 2009, our capital structure was as follows:

	<b>September 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>%</b>
	<b>(in millions of €)</b>		<b>Change</b>
<b>Total equity attributable to shareholders of Siemens AG</b>	<b>28,346</b>	<b>26,646</b>	<b>6%</b>
As percentage of total capital	59%	58%	
Short-term debt and current maturities of long-term debt	2,416	698	
Long-term debt	17,497	18,940	
<b>Total debt</b>	<b>19,913</b>	<b>19,638</b>	<b>1%</b>
As percentage of total capital	41%	42%	
<b>Total capital (total debt and total equity)</b>	<b>48,259</b>	<b>46,284</b>	<b>4%</b>

In fiscal 2010, total equity attributable to shareholders of Siemens AG increased by 6% compared to fiscal 2009. Total debt increased by 1% during fiscal 2010. This resulted in an increase in total equity as a percentage of total capital to 59% compared to 58% in fiscal 2009. Accordingly, total debt as a percentage of total capital decreased to 41% from 42% in the prior year. For more detailed information on the change in total equity and on the issuance and repayment of debt, see Notes to Consolidated Financial Statements, Net assets position and Capital resources and requirements.

We have commitments to sell or otherwise issue common shares in connection with established share-based compensation plans. In fiscal 2010, commitments for share-based compensation were fulfilled through treasury shares. In fiscal 2011, we may again fulfill commitments for share-based compensation through treasury shares. For additional information with respect to share-based compensation and treasury shares, see Notes to Consolidated Financial Statements.

As part of our Fit<sub>4</sub>2010 program, we decided to improve our capital structure. A key consideration in this regard is maintenance of ready access to the capital markets through various debt products and preservation of our ability to repay and service our debt obligations over time. We therefore set ourselves a capital structure goal defined as Adjusted industrial net debt divided by adjusted EBITDA. The calculation of Adjusted industrial net debt is set forth in the table below. Adjusted EBITDA is defined as adjusted earnings before income taxes (EBIT) before amortization (defined as amortization and impairments of intangible assets other than goodwill) and depreciation and impairments of property, plant and equipment and goodwill. Adjusted EBIT is defined as *Income from continuing operations before income taxes less Interest income (expense) less Other financial income (expense), net* as well as less *Income (loss) from investments accounted for using the equity method, net*. For further information see Reconciliation to adjusted EBITDA (continuing operations).

The target range for our capital structure ratio is 0.8 – 1.0 for fiscal 2010. We set this target based on normal business cycles, before global recessionary conditions and the adverse effects of the financial crisis. As a step toward achieving this target range, we implemented our previously announced share buyback plan to repurchase up to 10 billion in shares through 2010. Since the start of the share buyback program on January 28, 2008, we have acquired a total of 52,771,205 Siemens shares with a market value at the time of purchase of approximately 4.0 billion in two tranches under this plan. These shares could be used in a variety of ways, including but not



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limited to cancellation and reduction of our capital stock and to fulfill obligations arising out of share-based compensation programs. During fiscal 2009 and fiscal 2010 we did not purchase any shares under this program.

	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(in millions of )</b>	
Short-term debt	2,416	698
Plus: Long-term debt <sup>(1)</sup>	17,497	18,940
Less: Cash and cash equivalents	(14,108)	(10,159)
Less: Current available for sale financial assets	(246)	(170)
<b>Net debt</b>	<b>5,560</b>	<b>9,309</b>
Less: SFS Debt	(10,028)	(9,521)
Plus: Funded status principal pension benefit plans	6,357	4,015
Plus: Funded status principal other post employment benefit plans	738	646
Plus: Credit guarantees	597	313
Less: 50% nominal amount hybrid bond <sup>(2)</sup>	(886)	(862)
Less: Fair value hedge accounting adjustment <sup>(3)</sup>	(1,518)	(1,027)
<b>Adjusted industrial net debt</b>	<b>819</b>	<b>2,873</b>
<b>Adjusted EBITDA</b> (continuing operations)	<b>10,034</b>	<b>9,219</b>
<b>Adjusted industrial net debt / Adjusted EBITDA</b> (continuing operations)	<b>0.08</b>	<b>0.31</b>

(1) Long-term debt including fair value hedge accounting adjustment of 1,518 million and 1,027 million for the fiscal year ended September 30, 2010 and 2009, respectively.

(2) The adjustment for our hybrid bond considers the calculation of this financial ratio applied by rating agencies to classify 50% of our hybrid bond as equity and 50% as debt. This assignment follows the characteristics of our hybrid bond such as a long maturity date and subordination to all senior and debt obligations.

(3) Debt is generally reported with a value representing approximately the amount to be repaid. However for debt designated in a hedging relationship (fair value hedges), this amount is adjusted by changes in market value mainly due to changes in interest rates. Accordingly we deduct these changes in market value in order to end up with an amount of debt that approximately will be repaid, which we believe is a more meaningful figure for the calculation presented above. For further information on fair value hedges see Notes to Consolidated Financial Statements.

**Cash flow Fiscal 2010 compared to fiscal 2009**

The following discussion presents an analysis of our cash flows for fiscal 2010 and 2009 for both continuing and discontinued operations.

We report Free cash flow as a supplemental liquidity measure, which is defined as *Net cash provided by (used in) operating activities* less cash used for *Additions to intangible assets and property, plant and equipment*. We believe that the presentation of Free cash flow provides useful information to investors because it gives an indication of the long-term cash generating ability of our business and our ability to pay for discretionary and non-discretionary expenditures not included in the measure, such as dividends, debt repayment or acquisitions. We also use Free cash flow to compare cash generation among the segments of our business. Free cash flow should not be considered in isolation or as an alternative to measures of cash flow calculated in accordance with IFRS. For

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further information about the usefulness and limitations of this measure please refer to Supplemental financial measures.

Free cash flow		Continuing operations		Discontinued operations		Continuing and discontinued operations	
		2010	2009	2010	2009	2010	2009
		Year ended September 30, (in millions of )					
Net cash provided by (used in): <sup>(1)</sup>							
<b>Operating activities</b>	A	<b>9,447</b>	<b>6,246</b> <sup>(3)</sup>	<b>(98)</b>	<b>(145)</b>	<b>9,349</b>	<b>6,101</b> <sup>(3)</sup>
<b>Investing activities</b>		<b>(2,768)</b>	<b>(2,968)</b> <sup>(3)</sup>	<b>(79)</b>	<b>(194)</b>	<b>(2,847)</b>	<b>(3,162)</b> <sup>(3)</sup>
Herein: Additions to intangible assets and property, plant and equipment	B	(2,336)	(2,460) <sup>(3)</sup>			(2,336)	(2,460) <sup>(3)</sup>
<b>Free cash flow</b> <sup>(1)(2)</sup>	<b>A+B</b>	<b>7,111</b>	<b>3,786</b>	<b>(98)</b>	<b>(145)</b>	<b>7,013</b>	<b>3,641</b>

- (1) For information regarding *Net cash provided by (used in) financing activities* please refer to the discussion below.
- (2) The closest comparable financial measure of Free cash flow under IFRS is *Net cash provided by (used in) operating activities*. *Net cash provided by (used in) operating activities* from *continuing operations* as well as from *continuing and discontinued operations* is reported in our Consolidated Statements of Cash Flow. *Additions to intangible assets and property, plant and equipment* from *continuing operations* is reconciled to the figures as reported in the Consolidated Statements of Cash Flow in the Notes to Consolidated Financial Statements. Other companies that report Free cash flow may define and calculate this measure differently.
- (3) Following a change in accounting pronouncements as of the beginning of fiscal year 2010 *Additions to assets held for rental in operating leases*, which were previously reported under *Additions to intangible assets and property, plant and equipment*, were retroactively reclassified from *Net cash provided by (used in) investing activities* to *Net cash provided by (used in) operating activities*. For further information, see Notes to Consolidated Financial Statements.

**Operating activities** provided net cash of 9.349 billion in fiscal 2010, compared to net cash provided of 6.101 billion a year earlier. These results include both continuing and discontinued operations. Within the total, continuing operations provided net cash of 9.447 billion, compared to net cash provided of 6.246 billion in fiscal 2009. In fiscal 2010 Total Sectors Profit was burdened by impairment charges of 1.204 billion, posted at Diagnostics in the fourth quarter, which had no impact on cash flow. Cash flow from operating activities was supported by a strong operating performance in the Sectors (disregarding the impairment charges), particularly in the Healthcare and Industry Sectors. Cash flow from operating activities also benefited from positive changes in net working capital including substantially higher billings in excess of costs, particularly in the Energy Sector, compared to a decrease of these payments in fiscal 2009. In contrast, fiscal 2010 included higher cash outflows related to income taxes and pension plans. Both periods included approximately 0.8 billion in outflows related to staff reduction measures. For comparison, negative changes in net working capital in fiscal 2009 included 1.008 billion in cash outflows paid to authorities in the U.S. and Germany associated with the settlement of legal proceedings and substantial payments for charges related to project

reviews in Fossil Power Generation, Mobility and Siemens IT Solutions and Services.

Discontinued operations improved to net cash used of 98 million in fiscal 2010, compared to net cash used of 145 million in the prior-year period. These cash outflows relate primarily to former Com activities.

**Investing activities** in continuing and discontinued operations used net cash of 2.847 billion in fiscal 2010, compared to net cash used of 3.162 billion in the prior-year period. Within the total, net cash used in investing activities for continuing operations amounted to 2.768 billion in fiscal 2010 and 2.968 billion a year earlier. Within continuing operations, cash outflows for *Acquisitions, net of cash acquired*, were 485 million including 265 million for the acquisition of Solel Solar Systems, a solar thermal power technology company. Compared to a year earlier, higher early terminations and reduced SFS financing activities resulted in lower cash outflows relating to receivables from financing activities. *Proceeds from sales of investments, intangibles and property, plant and equipment* provided net cash of 589 million primarily due to the sale of land and buildings at SRE and the sale of our 25% minority stake in Dräger Medical AG & Co. KG to the majority shareholder Drägerwerk AG & Co. KGaA. For comparison the prior-year period included net cash provided of 1.221 billion mainly from the sale of our residential real estate holdings Siemens Wohnungsgesellschaft mbH & Co. OHG and the sale of our 50% stake in

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FSC to Fujitsu Limited. In contrast, cash outflows for *Purchases of investments* of 972 million a year earlier included 750 million resulting from a drawdown request by NSN under a Shareholder Loan Agreement between Siemens and NSN.

Discontinued operations in fiscal 2010 used net cash of 79 million for investing activities primarily for former Com activities. In the prior year, discontinued operations used net cash of 194 million. In fiscal 2009, cash outflows related to the fiscal 2005 divestment of our mobile devices business included 0.3 billion for a settlement with the insolvency administrator of BenQ Mobile GmbH & Co. OHG as well as cash outflows related to the settlement of legal matters. Cash outflows from discontinued operations in fiscal 2009 were partially offset by cash inflows resulting from a settlement between The Gores Group and us regarding pending requirements for purchase price adjustments and further mutual obligations related to the disposal of the former enterprise networks business.

**Free cash flow** from continuing and discontinued operations amounted to a positive 7.013 billion in fiscal 2010, compared to a positive 3.641 billion a year earlier. Total Free cash flow from continuing operations in the current period amounted to a positive 7.111 billion, compared to a positive 3.786 billion in fiscal 2009. The change year-over-year was due primarily to the increase in net cash provided by operating activities as discussed above. Due to continuing tight control of capital expenditures, cash used for *Additions to intangible assets and property, plant and equipment* decreased to 2.336 billion from 2.460 billion a year earlier. For further information about our capital expenditures please refer to Capital resources and requirements. The cash conversion rate for continuing operations, calculated as Free cash flow from continuing operations divided by income from continuing operations, was a positive 1.73 for fiscal 2010, compared to a positive 1.54 a year earlier. For information regarding the effects on our cash conversion rate related to impairment charges at Diagnostics Division within the Healthcare Sector in the fourth quarter of fiscal 2010, related to charges regarding the strategic reorientation of Siemens IT Solutions and Services in fiscal 2010 and related to impairment charges regarding NSN in fiscal 2009, please refer to Business and operating environment Financial Performance Measures.

Free cash flows during fiscal 2009 and fiscal 2010 were as follows:

**Financing activities** from continuing and discontinued operations used net cash of 2.646 billion in fiscal 2010, compared to a net cash inflow of 375 million a year earlier. In the current period *Changes in short-term debt and other financing activities* used net cash of 721 million resulting mainly from the repayment of outstanding commercial paper and the settlements of financial derivatives used to hedge currency exposure in our financing activities. Fiscal 2009 included inflows of 4.0 billion from the issuance of medium-term notes partly offset by the repayment of a 0.5 billion floating-rate extendible note and U.S.\$750 million in floating rate notes. Dividends paid to shareholders (for fiscal 2009) in fiscal 2010 amounted to 1.388 billion, compared to 1.380 billion (paid for fiscal 2008) a year earlier.



**Table of Contents****Cash flow Fiscal 2009 compared to fiscal 2008**

The following discussion presents an analysis of our cash flows for fiscal 2009 and 2008 for both continuing and discontinued operations. In the periods under review discontinued operations includes SV, which was sold to Continental AG in fiscal 2008, as well as the former Com activities. For further information on the disposal of the SV activities and the former Com segment see Notes to Consolidated Financial Statements.

We report Free cash flow as a supplemental liquidity measure, which is defined as *Net cash provided by (used in) operating activities* less cash used for *Additions to intangible assets and property, plant and equipment*. We believe that the presentation of Free cash flow provides useful information to investors because it gives an indication of the long-term cash generating ability of our business and our ability to pay for discretionary and non-discretionary expenditures not included in the measure, such as dividends, debt repayment or acquisitions. We also use Free cash flow to compare cash generation among the segments of our business. Free cash flow should not be considered in isolation or as an alternative to measures of cash flow calculated in accordance with IFRS. For further information about the usefulness and limitations of this measure please refer to Supplemental financial measures.

Free cash flow	Continuing operations		Discontinued operations		Continuing and discontinued operations		
	2009	2008	Year ended September 30,		2009	2008	
			2009	2008			
			(in millions of )				
Net cash provided by (used in): <sup>(1)</sup>							
<b>Operating activities</b>	A	6,246 <sup>(3)</sup>	8,738 <sup>(3)</sup>	(145)	(697) <sup>(3)</sup>	6,101 <sup>(3)</sup>	8,041 <sup>(3)</sup>
<b>Investing activities</b>		(2,968) <sup>(3)</sup>	(9,446) <sup>(3)</sup>	(194)	9,622 <sup>(3)</sup>	(3,162) <sup>(3)</sup>	176 <sup>(3)</sup>
Herein: Additions to intangible assets and property, plant and equipment	B	(2,460) <sup>(3)</sup>	(2,999) <sup>(3)</sup>		(139) <sup>(3)</sup>	(2,460) <sup>(3)</sup>	(3,138) <sup>(3)</sup>
<b>Free cash flow</b> <sup>(1)(2)</sup>	A+B	3,786	5,739	(145)	(836)	3,641	4,903

- (1) For information regarding *Net cash provided by (used in) financing activities* please refer to the discussion below.
- (2) The closest comparable financial measure of Free cash flow under IFRS is *Net cash provided by (used in) operating activities*. *Net cash provided by (used in) operating activities* from *continuing operations* as well as from *continuing and discontinued operations* is reported in our Consolidated Statements of Cash Flow. *Additions to intangible assets and property, plant and equipment* from *continuing operations* is reconciled to the figures as reported in the Consolidated Statements of Cash Flow in the Notes to Consolidated Financial Statements. Other companies that report Free cash flow may define and calculate this measure differently.
- (3) Following a change in accounting pronouncements as of the beginning of fiscal year 2010 *Additions to assets held for rental in operating leases*, which were previously reported under *Additions to intangible assets and property, plant and equipment*, were retrospectively reclassified from *Net cash provided by (used in) investing activities* to *Net cash provided by (used in) operating activities*. For further information, see Notes to

Consolidated Financial Statements.

**Operating activities** provided net cash of 6.101 billion in fiscal 2009, compared to net cash provided of 8.041 billion in fiscal 2008. These results include both continuing and discontinued operations. Within the total, continuing operations provided net cash of 6.246 billion compared to 8.738 billion a year earlier. The decline in cash flow includes lower billings in excess of costs year-over-year compared to a substantial increase in fiscal 2008, in the Energy and Industry Sectors, as well as a substantial decrease in trade payables compared to an increase in fiscal 2008, especially in the Industry Sector. Other contributing factors included substantial cash outflows in connection with previously disclosed charges mainly posted to income in fiscal 2008. These outflows included 1.008 billion paid to authorities in the U.S. and Germany related to charges for the resolution of legal proceedings. Cash outflows of approximately 0.8 billion also arose related to staff reduction measures. In addition to these outflows substantial payments for charges related to project reviews in Fossil Power Generation, Mobility and Siemens IT Solutions and Services. Positive factors for fiscal 2009 cash flow from operating activities included cash inflows related to trade receivables. Industry decreased trade receivables compared to an increase in the prior year. Energy posted lower additions to trade receivables and reduced its build-up of inventories compared to the fiscal 2008, and both Industry and Healthcare reduced inventory levels year-over-year.

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Discontinued operations improved to net cash used of 145 million in fiscal 2009. For comparison, net cash used of 697 million in the prior year included a payment of a 201 million fine related to former Com activities.

**Investing activities** in continuing and discontinued operations used net cash of 3.162 billion in fiscal 2009, compared to net cash provided of 176 million in fiscal 2008. Within the total, net cash used in investing activities for continuing operations amounted to 2.968 billion in fiscal 2009 and 9.446 billion in the prior year. Within continuing activities *proceeds from sales of investments, intangibles and property, plant and equipment* provided net cash of 1.221 billion due mainly to the sale of our residential real estate holdings and the sale of our 50% stake of FSC to Fujitsu Limited. *Purchases of investments* in fiscal 2009 included cash outflows of 750 million related to two drawdown requests by NSN in relation to a Shareholder Loan Agreement between NSN and us. Reduced SFS financing activities in fiscal 2009 resulted in lower cash outflows relating to receivables from financing activities compared to the prior year. Cash outflows for acquisitions in fiscal 2008 related primarily to the acquisition of Dade Behring at Healthcare for 4.4 billion (net of 69 million cash acquired).

Discontinued operations in fiscal 2009 used net cash of 194 million. This total includes cash outflows related to the divestment of our mobile devices business in fiscal 2005, including 0.3 billion related to a settlement with the insolvency administrator of BenQ Mobile GmbH & Co. OHG as well as cash outflows related to the settlement of legal matters. Cash outflows from discontinued operations were partially offset by cash inflows due to a settlement between The Gores Group and us in fiscal 2009 regarding pending requirements for purchase price adjustment and further mutual obligations in relation to the disposal of the former SEN business. A year earlier, discontinued operations provided 9.622 billion in net cash, due primarily to proceeds of 11.4 billion from the sale of SV and net cash used of 1.1 billion relating to the transfer of SEN activities into EN.

**Free cash flow** from continuing and discontinued operations amounted to 3.641 billion in fiscal 2009, compared to 4.903 billion in the prior year. Within the total, Free cash flow from continuing operations in fiscal 2009 amounted to 3.786 billion, compared to 5.739 billion a year earlier. The change year-over-year was due primarily to the decrease in net cash provided by operating activities discussed above. Cash used for capital expenditures within continuing operations was 2.460 billion in fiscal 2009, down from 2.999 billion a year earlier.

On a sequential basis Free cash flow during fiscal 2009 and fiscal 2008 were as follows:

**Financing activities** from continuing and discontinued operations provided net cash of 375 million in fiscal 2009, compared to net cash used of 6.129 billion in the prior year. The cash provided in fiscal 2009 was due mainly to a higher net amount of outstanding long-term debt including our issuance of 4.0 billion in medium-term notes. This was partly offset by the repayment of a 0.5 billion floating rate extendible note and U.S.\$750 million floating rate notes. A year earlier, we raised net cash of 5.728 billion through three long-term capital market transactions. These cash inflows were largely offset by a decrease of 4.635 billion in short-term debt and other financing activities primarily including repayment of commercial paper and repayment of debt originally raised by Dade Behring in the amount of 0.4 billion. In addition, we used 4.350 billion in cash for the *purchase of common stock*, including 4.0 billion in total under the first two tranches of our share buyback plan. Dividends paid to shareholders in fiscal 2009 (for fiscal 2008) amounted to 1.380 billion, compared to 1.462 billion (paid for fiscal 2007) in the prior year.

**Table of Contents****Capital resources and requirements**

Our **capital resources** consist of a variety of short- and long-term financial instruments including, but not limited to loans from financial institutions, commercial paper, medium-term notes and bonds. In addition, other capital resources consist of liquid resources such as *Cash and cash equivalents*, future cash flows from operating activities and current *Available-for-sale financial assets*.

Our **capital requirements** include, among others, scheduled debt service, regular capital spending, ongoing cash requirements from operating and SFS financing activities, dividend payments, pension plan funding, portfolio activities and cash outflows in connection with restructuring measures.

**Total debt** comprises our *Notes and bonds*, *Loans from banks*, *Obligations under finance leases* and *Other financial indebtedness* such as commercial paper. Total debt comprises *Short-term debt and current maturities of long-term debt* as well as *Long-term debt*, as stated on the Consolidated Statements of Financial Position. **Total liquidity** refers to the liquid financial assets we had available at the respective balance sheet dates to fund our business operations and pay for near-term obligations. Total liquidity comprises *Cash and cash equivalents* as well as current *Available-for-sale financial assets*, as stated on the Consolidated Statements of Financial Position. **Net debt** results from total debt less total liquidity. Management uses the *Net debt* measure for internal corporate finance management, as well as for external communication with investors, analysts and rating agencies, and accordingly we believe that presentation of *Net debt* is useful for those concerned. *Net debt* should not, however, be considered in isolation or as an alternative to short-term debt and long-term debt as presented in accordance with IFRS. For further information about the usefulness and limitations of Net debt, please refer to Supplemental financial measures.

	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(in millions of )</b>	
Short-term debt and current maturities of long-term debt	2,416	698
Long-term debt	17,497	18,940
<b>Total debt</b>	<b>19,913</b>	<b>19,638</b>
Cash and cash equivalents	14,108	10,159
Available-for-sale financial assets (current)	246	170
<b>Total liquidity</b>	<b>14,354</b>	<b>10,329</b>
<b>Net debt<sup>(1)</sup></b>	<b>5,560</b>	<b>9,309</b>

- (1) We typically need a considerable portion of our cash and cash equivalents as well as current available-for-sale financial assets at any given time for purposes other than debt reduction. The deduction of these items from total debt in the calculation of Net debt therefore should not be understood to mean that these items are available exclusively for debt reduction at any given time.

The changes in *Net debt* from fiscal 2009 to 2010 may also be presented as follows:



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**Commercial paper program** We have a U.S.\$9.0 billion ( 6.6 billion) global multi-currency commercial paper program in place, which includes the ability to issue U.S.\$-denominated extendible notes. In fiscal 2010 we issued commercial paper in varying amounts to fund our ongoing short-term capital requirements. Our issuances of commercial paper typically have a maturity of less than 90 days. As of September 30, 2010, we had no commercial paper outstanding. All commercial paper issued in fiscal 2010 was completely repaid within the year.

**Notes and bonds** We have a program for the issuance of debt instruments (medium-term note program) of 15.0 billion in place which we extended in May 2010. In May 2009, we increased the maximum issuable amount under this program from 10.0 billion to 15.0 billion, following a previous increase from 5.0 billion to 10.0 billion in December 2008. Under this medium-term-note program we issued the following notes:

In February 2009, we issued 4.0 billion in fixed-interest rate notes in two tranches comprising 2.0 billion in 4.125% notes due in February 2013 and 2.0 billion in 5.125% notes due in February 2017.

In June 2008, we issued a Eurobond with an aggregate amount of 3.4 billion, comprising three tranches: 1.2 billion in 5.25% notes due in December 2011; 1.0 billion in 5.375% notes due in June 2014 and 1.2 billion in 5.625% notes due in June 2018.

In August 2008, we increased two tranches of the Eurobond issue by 750 million, including 350 million in 5.25% notes due in December 2011 and 400 million in 5.625% notes due in June 2018.

In March 2006, we issued U.S.\$1.0 billion in notes in two tranches comprising U.S.\$500 million in floating rate notes (U.S.\$ LIBOR + 0.15%) due in March 2012 and U.S.\$500 million in 5.625% notes due in March 2016.

The nominal amount outstanding under the medium-term note program was 8.9 billion as of September 30, 2010.

In September 2006, we issued a subordinated Hybrid bond in two tranches, a euro tranche of 900 million in 5.25% notes and a British pound tranche of £750 million in 6.125% notes, both tranches with a final legal maturity in September 2066. The company has a call option after 10 years or thereafter. If the bond is not called, both tranches will become floating rate notes (EURIBOR + 1.25% for the euro tranche and GBP LIBOR + 1.25% for the British pound tranche, plus a step-up of 1.0% for both tranches). The total nominal amount of our Hybrid bond is 1.8 billion.

In August 2006, we issued notes totaling U.S.\$5.0 billion. These notes were issued in four tranches comprising: U.S.\$750 million in floating rate notes (U.S.\$ LIBOR + 0.05%) due in August 2009, which were redeemed at face value at their maturity date; U.S.\$750 million in 5.5% notes due in February 2012; U.S.\$1.750 billion in 5.75% notes due in October 2016 and U.S.\$1.750 billion in 6.125% notes due in August 2026. We may redeem, at any time, all or some of the fixed rate notes at the early redemption amount (call) according to the conditions of the notes. The nominal amount of these notes outstanding as of September 30, 2010 was 3.1 billion.

In June 2001, the Company issued a Eurobond with an aggregate amount of 4.0 billion comprising two tranches, of which 2.0 billion in 5.75% notes maturing in July 2011 are still outstanding.

**Assignable loans** In June 2008, we issued four series of assignable loans ( *Schuldscheindarlehen* ) with an aggregate amount of 1.1 billion: 370 million in floating rate notes (EURIBOR + 0.55%) and 113.5 million in 5.283% notes, both maturing in June 2013 and 283.5 million in floating rate notes (EURIBOR + 0.7%) and 333 million in 5.435% notes, both maturing in June 2015.

**Credit facilities** We have three credit facilities at our disposal for general corporate purposes. Our credit facilities as of September 30, 2010, consist of 7.0 billion in committed lines of credit. These facilities include:

a U.S.\$5.0 billion ( 3.7 billion) undrawn syndicated multi-currency revolving credit facility expiring March 2012 provided by a syndicate of international banks;

a 450 million bilateral undrawn revolving credit facility expiring September 2012 provided by a domestic bank;

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a U.S.\$4.0 billion syndicated multi-currency credit facility expiring August 2013 provided by a syndicate of international banks. This facility comprises a U.S.\$1.0 billion ( 0.7 billion) term loan which was drawn in January 2007 and is due in August 2013 as well as an undrawn U.S.\$3.0 billion ( 2.2 billion) revolving tranche.

As of September 30, 2010, 6.3 billion of these lines of credit remained unused.

The maturity profile of the loans, notes and bonds described above is presented below:

The U.S.\$4 billion and U.S.\$5 billion syndicated multi-currency revolving credit facilities provide their lenders with a right of termination in the event that (i) Siemens AG becomes a subsidiary of another company or (ii) an individual or a group of individuals acting in concert acquires effective control over Siemens AG by being able to exercise significant influence over its activities. The 450 million bilateral revolving credit facility may be terminated by the lender if major changes in Siemens AG's corporate legal situation occur that jeopardize the orderly repayment of the credit.

None of our **credit facilities** contains a material adverse change provision of the type often found in facilities of such nature and none of our global **commercial paper** and **medium-term note programs** nor our **credit facilities** contain specific financial covenants such as rating triggers or interest coverage, leverage or capitalization ratios that could trigger remedies, such as acceleration of repayment or additional collateral.

Further information about our bonds and the other components of our debt as well as about our financial risk management and the use of financial instruments for hedging purposes is provided in Notes to Consolidated Financial Statements.

Siemens has filed an application with the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht or BaFin) for the grant of a license to conduct banking business. The authority is currently reviewing the application. With the help of a licensed credit institution, Siemens aims to expand its product portfolio, particularly in the sales finance area, to add flexibility to group financing and to optimize its risk management.

**Capital expenditures** Due to continuing tight control of capital expenditures our total capital expenditures for additions to intangible assets and property, plant and equipment (PPE) decreased to 2.336 billion in fiscal 2010, compared to 2.460 billion in the prior year. 1.724 billion of our investments in intangible assets and PPE relates to our three Sectors and 612 million relates mainly to SRE and our Cross-Sector Businesses. For further information, see Notes to Consolidated Financial Statements.

The capital expenditure rate for our Sectors, defined as *Additions to intangible assets and property, plant and equipment* as a percentage of amortization and depreciation, was 79% for fiscal 2010. Following a change in accounting pronouncements effective with the beginning of fiscal 2010 *Additions to intangible assets and property, plant and equipment* does not include *Additions to assets held for rental in operating leases*. Reclassifications are applied retroactively and the below reported capital expenditure rates are on a comparable basis. *Additions to assets*



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*held for rental in operating leases* amounted to 623 million and 463 million in the fiscal years ended September 30, 2010 and 2009, respectively. For further information, see Notes to Consolidated Financial Statements. Our mid-term target is to keep our capital expenditure rate in the range of 95-115%.

The capital expenditure rates for fiscal 2009 and fiscal 2010 are as follows:

We directed significant portions of our capital expenditure in fiscal 2010 to expand capacities in strategic growth markets, particularly including emerging markets; to safeguard market share; and to secure competitiveness in technology-driven growth markets. This approach was notable particularly in the Energy Sector, which spent a large part of its capital expenditure of 579 million in the technology-driven wind power market, and in the Industry Sector, which spent a large portion of its capital expenditure of 817 million for new energy-saving LED technologies at OSRAM and for product innovation at Building Technologies and Industry Automation. Industry also used considerable capital expenditures for replacement of technical equipment and machines, particularly at Drive Technologies. Healthcare used its capital expenditure of 328 million in fiscal 2010 primarily for development of software and IT solutions, mainly at Imaging & IT.

The changes of investments in intangible assets and property, plant and equipment from fiscal 2009 to 2010 are as follows:

**Dividends** At the Annual Shareholders Meeting scheduled for January 25, 2011, the Managing Board, in agreement with the Supervisory Board, will submit the following proposal to allocate the unappropriated net income of Siemens AG for the fiscal year ended September 30, 2010: distribution of a dividend of 2.70 on each no-par value share entitled to the dividend for fiscal year 2010 existing at the date of the Annual Shareholders Meeting, which in the aggregate amounts to an at present expected total distribution of approximately 2.4 billion, with the remaining amount to be carried forward.

**Other capital requirements** Other capital requirements include expected cash outflows relating in part to charges for staff reduction measures particularly at Siemens IT Solutions and Services of 399 million and at the Industry Sector of 200 million as well as to special remuneration for non-management employees of 310 million posted at the fourth quarter of fiscal 2010.

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With our ability to generate positive operating cash flows, our *total liquidity* of 14.354 billion and our 6.3 billion in undrawn lines of credit and given our credit ratings at year-end we believe that we have sufficient flexibility to fund our capital requirements including scheduled debt service, regular capital spending, ongoing cash requirements from operating and SFS financing activities, dividend payments, pension plan funding and portfolio activities. Also in our opinion, our working capital is sufficient for the Company's present requirements.

**Contractual obligations**

In the ordinary course of business, Siemens' primary contractual obligations regarding cash involve debt service, purchase obligations and operating lease commitments.

The following table summarizes our contractual payment obligations as of September 30, 2010 that will result in future cash outflows:

	<b>Total</b>	<b>Payments due by period</b>			<b>After 5 years</b>
		<b>Less than 1 year</b>	<b>1-3 years (in millions of )</b>	<b>4-5 years</b>	
Debt	19,913	2,416	5,967	1,808	9,722
Purchase obligations	12,139	11,030	953	117	39
Operating leases	3,126	721	969	612	824
<b>Total contractual cash obligations</b>	<b>35,178</b>	<b>14,167</b>	<b>7,889</b>	<b>2,537</b>	<b>10,585</b>

**Debt** At September 30, 2010, Siemens had 19.913 billion of short- and long-term debt, of which 2.416 billion will become due within the next twelve months. Short-term debt includes current maturities of long-term debt, as well as loans from banks coming due within the next twelve months. At September 30, 2010, the weighted average maturity of our bonds and notes due after one year was 5.62 years. Further information about the components of debt is given in Notes to Consolidated Financial Statements.

Debt for Siemens at September 30, 2010 consisted of the following:

	<b>Short-Term</b>	<b>Long-Term (in millions of )</b>	<b>Total</b>
Notes and bonds	2,062	15,238	17,300
Loans from banks	283	1,981	2,264
Other financial indebtedness	22	156	178
Obligations under finance leases	49	122	171
<b>Total debt</b>	<b>2,416</b>	<b>17,497</b>	<b>19,913</b>

**Purchase obligations** At September 30, 2010, Siemens had 12.139 billion in purchase obligations. Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding and which

specify all of the following items: (i) fixed or minimum quantities, (ii) fixed, minimum or variable price provisions and (iii) approximate timing of the transaction.

**Operating leases** At September 30, 2010, Siemens had a total of 3.126 billion in total future payment obligations under non-cancelable operating leases. For additional information, see Notes to Consolidated Financial Statements.

**Other** Siemens is subject to asset retirement obligations related to certain items of property, plant and equipment. Such asset retirement obligations are primarily attributable to environmental clean-up costs related to remediation and environmental protection liabilities which amounted to 1.004 billion as of September 30, 2010, and costs primarily associated with the removal of leasehold improvements at the end of the lease term (amounting to 49 million as of September 30, 2010). The environmental clean-up costs related to remediation and environmental protection liabilities have been accrued based on the estimated costs of decommissioning facilities for the production of uranium and mixed-oxide fuel elements in Hanau, Germany (Hanau facilities), as well as a nuclear

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research and service center in Karlstein, Germany (Karlstein facilities). For additional information with respect to asset retirement obligations, see Notes to Consolidated Financial Statements.

Our liquidity may be adversely affected in future periods by regular or special contributions to fund our pension plans and similar commitments. As of September 30, 2010 and 2009, our liability for pension plans and similar commitments as recognized in the Consolidated Statements of Financial Positions amounted to 8.464 billion and 5.938 billion, respectively. However, the recognized liability may fluctuate significantly in future periods due to changes in assumptions, in particular the discount rate, governmental regulations in effect at the time, accrued service and interest costs, and the investment performance of our pension plan assets. For additional information regarding contributions to the principal funded pension benefit plans and payments to our principal pension benefit plans and principal other post employment benefit plans, see Pension plan funding and Note 24 in Notes to Consolidated Financial Statements. In fiscal 2009, Siemens reached an agreement with the trustees of its largest pension plan in the United Kingdom, which may lead to gross contributions of up to approximately 600 million by 2025. Additional contributions to our pension benefit plans may generally be made at the discretion of our Management in future periods.

**Off-Balance sheet arrangements**

**Guarantees** Our guarantees are principally credit guarantees and guarantees of third-party performance. As of September 30, 2010, the undiscounted maximum amount of potential future payments for guarantees was 7.996 billion. Credit guarantees cover the financial obligations of third-parties in cases where Siemens is the vendor and/or contractual partner. In addition, Siemens provides credit line guarantees with variable utilization to joint ventures and to associated and other companies we held an investment in. Our total credit guarantees were 597 million as of September 30, 2010. Performance bonds and guarantees of advanced payments guarantee the fulfillment of partners' contractual commitments in consortia where Siemens may be the general or subsidiary partner. In the event of non-performance under a contract by a consortium partner(s), Siemens will be required to pay up to an agreed-upon maximum amount. Guarantees of third-party performance amounted to 1.093 billion as of September 30, 2010.

In fiscal 2007, The Federal Republic of Germany commissioned a consortium consisting of Siemens IT Solutions and Services and IBM Deutschland GmbH (IBM) to modernize and operate the non-military information and communications technology of the German Federal Armed Forces (*Bundeswehr*). This project is called HERKULES. A project company, BWI Informationstechnik GmbH (BWI), will provide the services required by the terms of the contract. Siemens IT Solutions and Services is a shareholder in the project company. The total contract value amounts to a maximum of approximately 6 billion. In connection with the consortium and execution of the contract between BWI and the Federal Republic of Germany in December 2006, Siemens issued several guarantees legally and economically connected to each other in favor of the Federal Republic of Germany and IBM, the consortium member. The guarantees ensure that BWI has sufficient resources to provide the required services and to fulfill its contractual obligations. These guarantees are listed as a separate item *HERKULES obligations*, due to their compound and multilayer nature. Total future payments potentially required by Siemens amounted to 3.09 billion and 3.49 billion as of September 30, 2010 and 2009, respectively and will be reduced by approximately 400 million per year over the remaining seven-year contract period as of September 30, 2010. Yearly payments under these guarantees are limited to 400 million plus, if applicable, a maximum of 90 million in unused guarantees carried forward from the prior year.

Other guarantees amounted to 3.216 billion as of September 30, 2010 and include indemnification in connection with dispositions of business entities, if customary to the relevant transactions, may protect the buyer from any potential tax, legal and other risks in conjunction with the purchased business entity. In the event that it becomes probable that Siemens will be required to satisfy these guarantees, provisions are established. Such provisions are established in addition to the liabilities recognized for the non-contingent component of the guarantees. Most of the guarantees have fixed or scheduled expiration dates.

**Capital commitments** As of September 30, 2010 and 2009, the Company had commitments to make capital contributions to various companies of 470 million and 294 million, respectively. The September 30, 2010 and 2009 balances include a conditional commitment to make capital contributions to EN of 172 million, representing our proportionate share in EN. The committed amount is due upon EN making acquisitions or investments.

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For additional information with respect to our guarantees and our other commitments, see Notes to Consolidated Financial Statements.

### **Pension plan funding**

The defined benefit obligation (DBO) of Siemens principal pension benefit plans, which considers future compensation and pension increases, amounted to 29.7 billion on September 30, 2010, compared to 25.1 billion on September 30, 2009. The fair value of plan assets as of September 30, 2010 was 23.3 billion, compared to 21.1 billion on September 30, 2009. Accordingly, the combined funding status of Siemens principal pension benefit plans on September 30, 2010 showed an underfunding of 6.4 billion compared to an underfunding of 4.0 billion at the end of the prior fiscal year. The actual return on plan assets for the last twelve months amounted to 2.3 billion, resulting mainly from fixed income investments and to a lower extent from equity investments. This represents a 10.8% return, compared to the expected return of 6.4%.

Siemens funding policy for its pension funds is part of its overall commitment to sound financial management, which also includes an ongoing analysis of the structure of its pension liabilities. To balance return and risk, Siemens has developed a pension benefit risk management concept. We have identified as a prime risk a decline in the principle plans funded status as a result of the adverse development of plan assets and/or defined benefit obligations. We monitor our investments and our defined benefit obligations in order to measure such prime risk. The prime risk quantifies the expected maximum decline in the funded status for a given confidence level over a given time horizon. A risk budget on the group level forms the basis for the determination of our investment strategy, i.e., the strategic asset class allocation of principle plan assets and the degree of interest rate risk hedging. Both our risk budget and investment strategy are regularly reviewed with the participation of senior external experts in the international asset management and insurance industry to allow for an integral view of pension assets and pension liabilities. We select asset managers based on our quantitative and qualitative analysis and subsequently constantly monitor their performance and risk, both on a stand-alone basis, and in the broader portfolio context. We review the asset allocation of each plan in light of the duration of the related pension liabilities and analyze trends and events that may affect asset values in order to initiate appropriate measures at a very early stage.

Siemens also regularly reviews the design of its pension plans. Historically, the majority of Siemens pension plans have included significant defined benefits. However, in order to reduce the Company's exposure to certain risks associated with defined benefit plans, such as longevity, inflation, effects of compensation increases and other factors, we implemented new pension plans in some of our major subsidiaries including Germany, the U.S. and the U.K. during the last several years. The benefits of these new plans are based predominantly on contributions made by the Company and are still affected by longevity, inflation adjustments and compensation increases, but only to a minor extent. We expect to continue to review the need for the implementation of similar plan designs in the coming years to better control future benefit obligations and related costs. In fiscal 2010, the Company recognized a curtailment gain of 193 million related to pension plans in the U.S.

The combined funding status of Siemens principal other post-employment benefit plans on September 30, 2010 showed an underfunding of 0.7 billion compared to an underfunding of 0.6 billion at the end of the prior fiscal year. Other liabilities for pension plans and similar commitments amounted to 1.2 billion on September 30, 2010, compared to 1.1 billion on September 30, 2009.

For more information on Siemens pension plans, see Notes to Consolidated Financial Statements.

**Table of Contents****Net assets position**

During fiscal 2010, total assets increased to 102.827 billion, up from 94.926 billion the year before. Our net assets position in fiscal 2010 was influenced by currency translation effects mainly due to the strengthening of the U.S. dollar over the course of the fiscal year. Excluding currency translation effects total assets increased to 98.960 billion. Within total assets of 102.827 billion, total assets related to SFS as of September 30, 2010, increased to 12.506 billion from 11.704 billion a year earlier, due primarily to currency translation effects. These amounts represented 12% of Siemens' total assets in both periods. Total current assets were 48% in fiscal 2010, compared to 46% in prior year.

The following table shows current assets at the respective balance sheet dates:

	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(in millions of )</b>	
Cash and cash equivalents	14,108	10,159
Available-for-sale financial assets	246	170
Trade and other receivables	14,971	14,449
Other current financial assets <sup>(1)</sup>	2,610	2,407
Inventories	14,950	14,129
Income tax receivables	790	612
Other current assets	1,258	1,191
Assets classified as held for disposal	715	517
<b>Total current assets</b>	<b>49,648</b>	<b>43,634</b>

(1) Due to the retrospective application of an amended accounting pronouncement in fiscal 2010, certain derivatives, not qualifying for hedge accounting, were reclassified from current to non-current (see Notes to the Consolidated Financial Statements ).

*Cash and cash equivalents* totaled 14.108 billion as of September 30, 2010. The increase of 3.949 billion was primarily driven by strong cash flow from operating activities. For detailed information, see Liquidity and capital resources Cash flow Fiscal 2010 compared to fiscal 2009.

The increases of 522 million in *Trade and other receivables* and of 821 million in *Inventories* year-over-year were due mainly to currency translation effects.

The increase of 203 million in *Other current financial assets* relates primarily to changes in fair market values of derivatives used for our hedging activities.

*Assets classified as held for disposal* increased to 715 million as of September 30, 2010 compared to 517 million a year earlier. As of September 30, 2010, *Assets classified as held for disposal* included our stake in Areva NP S.A.S., held by the Energy Sector, and our stake relating to Electronics Assembly Systems (EA) in Centrally managed portfolio activities.

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

	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(in millions of )</b>	
Goodwill	15,763	15,821
Other intangible assets	4,969	5,026
Property, plant and equipment	11,748	11,323
Investments accounted for using the equity method	4,724	4,679
Other financial assets <sup>(1)</sup>	11,296	10,525
Deferred tax assets	3,940	3,291
Other assets	739	627
<b>Total long-term assets</b>	<b>53,179</b>	<b>51,292</b>

- (1) Due to the retrospective application of an amended accounting pronouncement in fiscal 2010, certain derivatives, not qualifying for hedge accounting, were reclassified from current to non-current (see Notes to the Consolidated Financial Statements ).



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*Goodwill* remained nearly level at 15.763 billion as of September 30, 2010 compared to 15.821 billion a year earlier. A decrease in *Goodwill* due to impairment charges of 1.145 billion at the Healthcare Sector's Diagnostics Division in the fourth quarter of fiscal 2010 was mostly offset by currency translation effects and additions to *Goodwill* relating primarily to the acquisition of 100% of Solel Solar Systems Ltd., a solar thermal power technology company, by the Energy Sector's Renewable Energy Division. For further information relating to the goodwill impairment, see Goodwill impairment at Healthcare Sector's Diagnostics Division.

*Investments accounted for using the equity method* increased to 4.724 billion as of September 30, 2010 compared to 4.679 billion a year earlier. The increase was due to new investments, increases in existing investments, the conversion of 500 million shareholder loans to NSN into preferred shares (which resulted in an increase of 500 million in our investment in NSN and had no impact on our cash flow) and currency translation effects. These factors were partly offset primarily by losses related to our stake in NSN and by the sale of our 25% minority stake in Dräger Medical AG & Co. KG to its majority shareholder Drägerwerk AG & Co. KGaA.

The increase in *Other financial assets* resulted mainly from changes in the non-current portion of the fair market values of derivatives used for our hedging activities as well as increased loan receivables primarily at SFS. Other financial assets were reduced in fiscal 2010 by the conversion of the above-mentioned 500 million in shareholder loans to NSN into preferred shares. NSN has announced that it has entered into an agreement with Motorola, Inc. to acquire the majority of Motorola's wireless network infrastructure assets subject to customary closing conditions including regulatory approvals. Siemens and Nokia each intend to convert under certain conditions a further 250 million in shareholder loans to NSN into preferred shares, which would not have an impact on our cash flow.

The table below shows our current and long-term liabilities at the respective balance sheet dates:

	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(in millions of )</b>	
Short-term debt and current maturities of long-term debt	2,416	698
Trade payables	7,880	7,593
Other current financial liabilities <sup>(1)</sup>	1,401	1,600
Current provisions	5,138	4,191
Income tax payables	1,816	1,936
Other current liabilities	21,794	20,311
Liabilities associated with assets classified as held for disposal	146	157
<b>Total current liabilities</b>	<b>40,591</b>	<b>36,486</b>
Long-term debt	17,497	18,940
Pension plans and similar commitments	8,464	5,938
Deferred tax liabilities	577	776
Provisions	3,332	2,771
Other financial liabilities <sup>(1)</sup>	990	706
Other liabilities	2,280	2,022
<b>Total long-term liabilities</b>	<b>33,140</b>	<b>31,153</b>

- (1) Due to the retrospective application of an amended accounting pronouncement in fiscal 2010, certain derivatives, not qualifying for hedge accounting, were reclassified from current to non-current (see Notes to the Consolidated Financial Statements ).

*Short-term debt and current maturities of long-term debt* totaled 2.416 billion at the end of fiscal 2010, an increase of 1.718 billion from the prior year-end. This increase mainly resulted from the reclassification of a 2.0 billion 5.75% Eurobond (formerly classified as *Long-term debt*), partly offset by the repayment of commercial paper.

The increase of 287 million in *Trade payables* year-over-year was due mainly to currency translation effects.

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*Other current liabilities* increased by 1.483 billion compared to the prior year-end, due mainly to higher billings in excess of cost primarily at Energy. As of September 30, 2010, *Other current liabilities* included liabilities of 310 million related to special remuneration for non-management employees.

*Long-term debt* decreased by 1.443 billion compared to the prior year-end. The decrease was mainly due to the above-mentioned reclassification of a 2.0 billion 5.75% Eurobond to *Short-term debt and current maturities of long-term debt* partly offset by fair value hedge accounting adjustments and currency translation effects.

*Pension plans and similar commitments* increased to 8.464 billion as of September 30, 2010 compared to 5.938 billion a year earlier, reflecting the increase in the underfunding of Siemens principal pension plans as of September 30, 2010 to 6.4 billion, compared to 4.0 billion a year earlier.

The increase in *Current Provisions* and the increase in non-current *Provisions* included higher warranties, higher provisions for order-related losses and risks, and higher asset retirement obligations due to changes in discount rates.

The increase of 284 million in *Other financial liabilities* relates primarily to changes in the non-current portion of fair market values of derivatives designated as hedging instruments.

Shareholders' equity and total assets were as follows:

	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
	(in millions of €)	
<b>Total equity attributable to shareholders of Siemens AG</b>	<b>28,346</b>	<b>26,646</b>
<i>Equity ratio</i>	28%	28%
Non-controlling interests	750	641
<b>Total assets</b>	<b>102,827</b>	<b>94,926</b>

Total equity attributable to shareholders of Siemens AG increased 1.700 billion year-over-year, to 28.346 billion at the end of fiscal 2010. The increase in Total equity was due mainly to the Net income attributable to shareholders of Siemens AG of 3.899 billion and positive currency translation effects of 1.179 billion. These factors were partly offset by dividend payments of 1.388 billion and actuarial losses on pension plans and similar commitments of 2.053 billion.

While both Total assets and Total equity attributable to shareholders of Siemens AG increased year-over-year, our equity ratio excluding non-controlling interests remained at 28%.

For additional information on our net assets position, see Notes to Consolidated Financial Statements.

**Goodwill impairment at Healthcare Sector's Diagnostics Division**

The annual test for impairment of goodwill of the Diagnostics Division within the Sector Healthcare was performed as of September 30, 2010. As a result, the goodwill was reduced due to an impairment amounting to 1.145 billion, below the previously announced estimate primarily due to currency translation effects. The Diagnostics Division is based on the acquisitions of Diagnostic Products Corporation (DPC), the diagnostics division of Bayer AG, and the acquisition of Dade Behring, Inc. The Division operates in the global healthcare market for diagnostic testing systems and consumables which faces increasing cost restraints but is estimated to still represent a growing market mainly due to the megatrend demographic change. While the cost targets associated with the integration of the acquired three

companies were met, the growth targets have not been achieved.

As a result of a strategic review, which was completed in the three months ended September 30, 2010, the Division's medium-term growth prospects and the long-term market development in laboratory diagnostics have been reassessed and the Division's business planning has been adjusted accordingly to reflect expected lower growth prospects. Cash flows beyond the 5-year planning period were extrapolated using a constant growth rate of 2.25%. The main reasons for these lower growth prospects and therefore adjusted business targets are delays in technology and product related development activities along with increasing competition. The adjusted business

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plan resulting from the strategic review was the basis for the annual goodwill impairment test in the three months ended September 30, 2010.

The estimated fair value of Diagnostics is assumed to be mainly driven by its terminal value. Cash flows beyond the 5-year planning period were extrapolated using a constant growth rate of 2.25%. A post-tax discount rate of 7% was applied. The recoverable amount of the Diagnostics Division is calculated as fair value less costs to sell and amounts to 8.300 billion. A decrease of the terminal value growth rate by 0.25 percentage points would reduce the Division's recoverable amount by more than 3.6%. The Division's recoverable amount would decline by 9.1% upon a 0.5 percentage point increase in the discount rate.

Except for the Diagnostics Division within the Healthcare Sector described above, the recoverable amounts for the annual impairment test 2010 for Divisions and Cross-Sector Businesses were estimated to be significantly higher than the carrying amounts. For further information, refer to Notes to Consolidated Financial Statements .

### **Overall assessment of the economic position**

Siemens ended fiscal 2010 as a more focused company with strong operating momentum. Net income and Total Sectors profit climbed above the prior-year levels, and all three Sectors generated strong increases in free cash flow compared to the prior year. We also restored order growth following the economic downturn, particularly in our shorter-cycle businesses, and kept revenue level with the prior year by steadily converting orders from our strong order backlog into current business. Order development was clearly more robust in the second half of fiscal 2010 than in the first half, as our Sectors took advantage of improving market conditions.

In fiscal 2010, we completed our Fit<sub>4</sub>2010 program, which we believe successfully transformed Siemens from a cultural, organizational and performance perspective. While we were broadly successful in achieving the financial objectives of Fit<sub>4</sub>2010, we were not able to meet every quantitative target included in the program in fiscal 2010. We set these targets based on normal business cycles, before global recessionary conditions and adverse effects of the financial crisis materially affected the growth of our business in fiscal 2009 and fiscal 2010. As a result, organic revenue growth came in below our target in fiscal 2010 (see Business and operating environment Financial performance measures ). Yet during the years in which we pursued Fit<sub>4</sub>2010 we achieved a compound annual growth rate for organic revenue of 4%, which is two times the level of real global GDP growth reported by IHS Global Insight for this period. Another major component of Fit<sub>4</sub>2010 was optimizing our business portfolio, such as by divesting 51% of our share in the enterprise networks business. During fiscal 2010, we substantially completed the streamlining of Centrally managed portfolio activities by finding a buyer for the electronics assembly systems business.

During the fourth quarter of fiscal 2010 we completed a strategic review that reassessed the medium-term growth prospects and long-term market development of the laboratory diagnostics business. Following completion of the annual impairment test, we took a substantial goodwill impairment which reduced profit for the Healthcare Sector compared to the prior year. We also launched a strategic reorientation of Siemens IT Solutions and Services, aimed at improving its competitive position in part by reducing its workforce. Associated charges for staff reduction measures resulted in a loss for the business for the fiscal year.

In light of these factors, we believe that we successfully achieved the objectives of Fit<sub>4</sub>2010.

Our commitment to a strong financial position remained steady in 2010, including a conservative capital structure, strong cash position and healthy debt maturity profile. Our equity ratio excluding non-controlling interests remained steady at 28%. The Management Board and the Supervisory Board propose a dividend of 2.70 per share, up from 1.60 per share a year earlier.



**Table of Contents****Report on expected developments****Worldwide economy**

According to the predictions of IHS Global Insight, the global economy will expand more than 3% in real terms in both 2011 and 2012, although GDP growth will continue to be markedly faster in emerging markets than in the industrialized countries. The forecast for global economic growth in 2011 is 3.3%, slowing slightly compared with the expected growth for 2010 of 3.8%. For 2012, IHS Global Insight is projecting global economic growth of 3.6%. When global growth estimates are examined at a regional level, significant differences in expected growth rates emerge. Growth is expected to be considerably more subdued in the Europe, C.I.S., Africa, Middle East region and in the Americas than in Siemens' third reporting region, Asia, Australia. A growth rate of 2.4% is predicted for Europe, C.I.S., Africa, Middle East in 2011, rising to 2.6% in 2012. The growth forecasts for the Americas region are 2.7% in 2011 and 3.3% in 2012. Although growth in Asia, Australia is expected to slow in 2011 relative to 2010, forecasts from IHS Global Insight indicate that the growth of GDP in this region will be 4.9% in 2011, with an expected rise to 5.3% in 2012.

As far as the trend in gross fixed investment is concerned, IHS Global Insight anticipates that in 2011 this key indicator will be up by 5.8% in real terms year-over-year. This means that capital investment is expected to exceed the level it reached before the recession. IHS Global Insight is forecasting a further increase of 6.5% in gross fixed investment in 2012. This growth is expected to be concentrated in Asia, Australia and the Americas. IHS Global Insight is forecasting increases in gross fixed investment in Asia, Australia of 6.9% in 2011 and 7.2% in 2012. For the Americas, the forecast is for growth of 6.5% in 2011 and 8.6% in 2012. Growth in gross fixed investment is expected to be considerably slower in the Europe, C.I.S., Africa, Middle East region, at 3.7% in each of the two following years.

With an increase of 10.1% in 2010, manufacturing value added is recovering rapidly from a sharp downturn during the recession. IHS Global Insight forecasts that growth rates for this key indicator will return to more normal levels in 2011 and 2012, with figures of 5.6% and 5.3%, respectively. In particular, IHS Global Insight estimates that growth in manufacturing value added in the Asia, Australia region will drop down from the historically high level of 15.4% in 2010 to 8.1% in 2011 and 7.6% in 2012, thus returning to the growth pattern seen prior to the recession.

The forecasts presented here for gross domestic product and gross fixed investment are based on a report from IHS Global Insight dated October 15, 2010. The figures for manufacturing value added are based on data from IHS Global Insight taken from a report as of October 22, 2010. Siemens has not independently verified this data.

**Market development**

While demand in shorter-cycle markets served by the **Industry** Sector already showed strong signs of recovery early in the just-completed fiscal year, longer-cycle markets started to recover only in part in fiscal 2010. We expect the markets for our shorter-cycle businesses to show an average of high single-digit annual growth in the next two years. Our expectation for the next two fiscal years also includes market growth for our longer-cycle businesses. Here we expect slower growth than in the markets for our shorter-cycle businesses.

The markets served by the **Energy** Sector hit bottom in the second half of fiscal 2010. For the next two fiscal years we expect the broad energy markets to show clear recovery driven by increased electricity demand related to economic growth and implementation of environment-friendly policies. Furthermore, emerging markets are expanding their power infrastructures while developed countries are modernizing their aging infrastructure.

For the healthcare industry, in which our **Healthcare** Sector participates, we see an improvement in the outlook over the next two fiscal years due to growth in emerging markets combined with a moderate recovery in the U.S. We anticipate that these factors will offset potential impacts from cuts in public spending for healthcare, particularly in Europe. Therefore we expect mid-single-digit growth in the overall healthcare market in the next two fiscal years.



**Table of Contents****Siemens Group****Results of operations**

We are basing our outlook for the Siemens Group and its segments on the above mentioned expectations of the overall economic situation as well as the specific market conditions over the next two fiscal years. Our outlook is based on an exchange rate of 1.35 U.S. dollar per EUR.

With continuing improvement in Siemens markets, we expect organic **order intake** in fiscal 2011 to show a clear increase compared to fiscal 2010. Order intake growth is expected to benefit in particular from growth in our wind and transportation businesses. Following a decline in fiscal 2010, we expect organic **revenue** to show moderate growth in fiscal 2011. The assumptions underlying this outlook include successful recovery in the global economy as described above, and anticipated growth in our Environmental Portfolio. In addition, we expect revenue to benefit from conversion of the strong order backlog of our three Sectors, which stood at 87 billion at the end of fiscal 2010. We expect to convert approximately 39 billion of the backlog into revenue in fiscal 2011 and 19 billion in fiscal 2012. Within the backlog in fiscal 2011, we expect 21 billion in revenue conversion from the 53 billion backlog of the Energy Sector, 14 billion in revenue conversion from the 28 billion backlog of Industry, and 3.5 billion in revenue conversion from the 7 billion backlog of Healthcare. Based on an expected positive development in global energy markets and in our longer-cycle industrial markets, we expect organic revenue growth to continue in fiscal 2012. Revenue in fiscal 2012 is expected to benefit from an anticipated book-to-bill ratio above one in fiscal 2011, as the expected substantial growth in order intake in our wind and transportation businesses mentioned above generates revenue growth going forward.

As mentioned earlier, revenue from our Environmental Portfolio is expected to grow from 27.6 billion in fiscal 2010 to more than 40 billion in fiscal 2014. The growth rate of our Environmental Portfolio is expected to be higher than for Siemens overall. In fiscal 2010 revenue from emerging markets contributed approximately 30% of total revenue and Siemens intends to increase this share over time. While we are focusing principally on organic growth, our strategy also includes options to strengthen our core businesses via acquisitions and divestments.

We expect that **income from continuing operations** in fiscal 2011 will rise by at least 25% to 35% compared to reported results in fiscal 2010. This outlook excludes effects that may arise from legal and regulatory matters. The assumptions underlying this outlook include anticipated revenue growth as discussed above, Sector profitability in their respective adjusted EBITDA margin corridors, and improved results below the Sectors as discussed below. Further assumptions include limited effects related to currency, only a moderate increase in pricing pressure, and a positive contribution from supply chain management. Expenses for R&D are expected to grow in fiscal 2011 in absolute terms, and also as percentage of revenue. As part of our growth plans within certain markets and regions, we also plan to increase our expenses for SG&A in absolute terms compared to fiscal 2010, in particular marketing & selling expenses with respect to go-to-market activities. We will monitor the development of actual order growth carefully and reassess the planning for R&D and SG&A promptly, if our growth momentum should slow. The income contribution from supply chain management is expected to be more limited than in fiscal 2010, while pricing pressure from customers is expected to be higher than in the prior year mostly due to rising competitive dynamics in the Energy sector particularly in China. Based on a positive macroeconomic environment, revenue growth and success with our go-to-market activities, we expect positive development in income from continuing operations in fiscal 2012.

We are exposed to currency translation effects, involving the U.S. dollar, British pound and currencies of emerging markets such as China, India and Brazil. We also expect volatility in global currency markets to continue in fiscal 2011. Given that Siemens is a net exporter from the Europe zone to the rest of world, a weak Euro is principally favorable for our business. Through optimization of our production facilities during the recent past, we have improved our natural hedge on a global basis. In addition, we have already systematically addressed the remaining currency risk

in our export business activities for fiscal 2011, see Notes to Consolidated Financial Statements. We expect these steps to help reduce effects on income related to currency in fiscal 2011.

One of our most important goals is to increase Siemens' capital efficiency, which we measure in terms of adjusted return on capital employed (**ROCE (adjusted)**). Based on our expectation for capital-efficient growth in our businesses and continuous improvement relative to markets and competitors, we expect ROCE (adjusted)

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within our target range of 15% to 20% in both fiscal 2011 and fiscal 2012. Starting with One Siemens we adopted an advanced definition of ROCE. For further information see Business and operating environment Financial performance measures One Siemens as well as Supplemental financial measures.

We intend to propose dividend payments to the shareholders of Siemens AG representing between 30% and 50% of net income in each of the next two fiscal years. The percentage calculation will take into account exceptional non-cash effects within income. We intend to fund these dividend payments from Free cash flow.

## **Financial position**

Following the unprecedented level of **Free cash flow** in fiscal 2010, we expect Free cash flow to be burdened in 2011, by cash outflows for R&D and SG&A expenses associated with growth as mentioned above, substantial outflows for intangible and tangible assets, and substantial outflows for personnel-related payments associated with the staff reduction measures and special remuneration for which expenses were recognized in fiscal 2010 as mentioned earlier. We expect Free cash flow in 2012 to be influenced by revenue growth and earnings development.

We intend to maintain our focus on net working capital management as an important factor for cash generation within operating activities, and on investments in intangible and tangible assets within cash used in investing activities. For both net working capital and capital expenditures (investments in intangible assets and property, plant and equipment), we take into account both the macroeconomic environment and our own order growth. With regard to capital expenditures, we aim to achieve a ratio of investments in intangible assets and fixed assets to depreciation and amortization expense in a range from 95% to 115% for our Sectors. We will retain our stringent approval process for capital investments, which goes up to the Managing Board. In preparation for future growth, we intend to increase our capital expenditures in fiscal 2011, particularly in Industry and Energy.

In the area of **investment planning**, we expect to continue investing in our established markets, such as to safeguard market share and competitive advantages based on technological innovation. We will also continue investing in emerging markets, such as for increasing our capacities for designing, manufacturing and marketing new solutions within these markets. At the Sector level, Industry intends to invest in capacity extension and technical innovations, particularly relating to new energy-saving LED and OLED technologies. The Sector expects that investment in energy-saving products will account for a growing share of its investments in emerging markets. The Energy Sector plans to invest in particular in the technology-driven wind power market and in major emerging markets, such as India. The Healthcare Sector has a tight control on investment and the main area continues to be the development of software and IT solutions.

With our ability to generate positive operating cash flows, our total liquidity of 14.4 billion and undrawn lines of credit of 6.3 billion, and our credit ratings at year-end we believe that we have sufficient flexibility to fund our capital requirements including for scheduled debt service, regular capital spending, ongoing cash requirements from operating and SFS financing activities, dividend payments, pension plan funding and portfolio activities. Also in our opinion, our working capital is sufficient for the Company's present requirements.

Our commitment to a strong financial position includes a conservative **capital structure**. For our medium-term capital structure, we seek a ratio of adjusted industrial net debt to adjusted EBITDA in the range of 0.5 to 1.0.

## **Segments**

As for the Group, our outlook for our segments is based on the above-mentioned expectations regarding the overall economic situation as well as the specific market conditions over the next two fiscal years. Combined with our focus under One Siemens on exceeding the performance of relevant competitors, we expect these factors to result in revenue

growth in fiscal 2011 and 2012. Also as part of One Siemens, we have defined adjusted EBITDA margin corridors for the respective industries of our three Sectors throughout their complete business cycles. For Industry and Energy, the margin corridor is 10% to 15%. For Healthcare, the margin corridor is 15% to 20%. For **SFS**, our financial services business, the target range for return on equity is 15% to 20%. We expect that results for our Sectors and SFS will be within their respective ranges for both fiscal 2011 and 2012. In particular, we expect fiscal 2011 results to include the divestment of our stake in Areva NP held by the Energy Sector.

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We expect that income development from **Equity Investments** will remain volatile in fiscal 2011 and fiscal 2012. Restructuring measures continue at NSN, which we expect to have substantial impacts on income from Equity Investments. Developments at NSN in coming periods may be influenced by integration of wireless network infrastructure assets from Motorola, the acquisition of which is expected to close in coming months.

Measures initiated in fiscal 2010 to improve the competitive position of **Siemens IT Solutions and Services** will be implemented in fiscal 2011. While we expect a substantial improvement in fiscal 2011 results compared to the loss reported for fiscal 2010, we do not expect the business to deliver results typical of its industry within the forecast horizon.

We expect that activities at the Corporate level related to establishing Siemens IT Solutions and Services as a legally separate, stand-alone operating entity and wholly owned subsidiary of Siemens, will result in substantial charges in fiscal 2011. These charges will be reported within **Corporate items**. In fiscal 2010, Corporate items included expenses of 310 million related to special remuneration for non-management employees as mentioned above. Once the allocation of the remuneration is determined in the first quarter of fiscal 2011, the expenses will be allocated primarily to the Sectors in fiscal 2011. Beginning with fiscal 2011, central infrastructure costs that have been included in Corporate items up to and including fiscal 2010 will be allocated primarily to the Sectors. Financial information for prior periods will be reported on a comparable basis. For example, comparable fiscal 2010 results will show allocated central infrastructure costs of 585 million.

## **Overall assessment**

With continuing improvement in Siemens markets, we expect organic order intake to show a clear increase compared to fiscal 2010. Supported also by our already strong order backlog, we expect revenue to return to moderate organic growth in fiscal 2011. We further anticipate income from continuing operations to exceed reported fiscal 2010 results by at least 25% to 35%. This outlook excludes effects that may arise from legal and regulatory matters. Based on our expectation for capital-efficient growth in our businesses and continuous improvement relative to markets and competitors, we expect ROCE (adjusted) within the target range of 15% to 20% in both fiscal 2011 and fiscal 2012.

Overall, the actual development for Siemens and its segments may vary, positively or negatively, from our expectations due to the inherent uncertainties related to a number of factors discussed above, particularly including recovery of the global economy, anticipated market development, limited effects related to currency, and progress in converting our strong order backlog into current revenue, as well as the risks and opportunities described elsewhere in this document. See Item 3: Key information Risk factors as well as Opportunities. This report on expected developments should be read in conjunction with Forward-looking statements at the beginning of this document.

## **Opportunities**

Within our comprehensive, interactive and management-oriented Enterprise Risk Management (ERM) approach that is integrated into the organization and that addresses both risks and opportunities, we regularly identify, evaluate and respond to opportunities that present themselves in our various fields of activity. While we describe our most significant opportunities below, those are not the only ones we encounter. In addition, our assessment of opportunities is subject to change as our Company, our markets and technologies are constantly developing. As a consequence, new opportunities may arise, existing opportunities may cease to be relevant, or the significance of an opportunity may change. Generally, opportunities are assessed to the best of our knowledge, considering certain assumptions including market development, market potential of technologies or solutions, and anticipated developments in customer demand or prices, among other things. When opportunities materialize, they may have a lower effect than previously estimated on the basis of the underlying assumptions. It is also possible that opportunities we see today will never materialize.

***We are in the process of continuously developing and implementing initiatives to reduce costs, adjust capacities and streamline our portfolio:*** Such measures aim at strengthening our competitive position and realizing cost advantages. For example, we expect to generate sustainable improvements in profitability from our supply chain management efforts aimed at optimizing our supply chain management, generating associated savings

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as well as improving the management of our supplier-related risk. For further information regarding our supply chain management, see Item 4: Information on the Company Supply chain management.

***Through selective acquisitions and equity investments we constantly strive to strengthen our leading technology position, access additional market potential or further develop our product portfolio:*** We constantly monitor our current and future markets for opportunities for strategic acquisitions or equity investments to complement organic growth. Such acquisitions or equity investments could help us to strengthen our market position in our existing markets, provide access to new markets or complement our technological portfolio in selected areas.

***We have an opportunity to further grow in the area of environment and climate protection:*** Many of the key areas of our research and development activities focus on products and solutions capable of strengthening and advancing our Environmental Portfolio. Our Environmental Portfolio comprises products and solutions with outstanding energy efficiency, systems and components for renewable forms of energy, and environmental technologies for cleaner water and air. These products and solutions are intended to help our customers to reduce their carbon dioxide footprint, cut their energy costs and improve their profitability through increased productivity. We believe that public policy initiatives in many countries will lead to greater demand for such products and solutions in the years ahead, including from government stimulus programs. Within One Siemens we have set ourselves the target of exceeding 40 billion in revenue from our Environmental Portfolio by the end of fiscal 2014. For further information, see Item 4: Information on the Company Environmental Portfolio.

***We see further opportunities in the above-average growth potential of emerging markets:*** It is expected that in coming years emerging markets will continue to grow significantly faster than industrialized nations, led by particularly strong growth in the BRIC countries Brazil, Russia, India and China. Within One Siemens, we want to take measures aimed at continuously increasing our share of revenue from emerging markets. We believe, that developing the capability to design, manufacture and sell so-called SMART (simplicity, maintenance-friendly, affordable, reliable, and timely to market) products will provide us with opportunities to gain market share and enhance our local presence in these strategic growth markets. Adding further SMART products to our portfolio and developing stronger sales channels would enable us to increase our revenues by serving large and fast-growing regional markets, where customers may consider price more strongly than product features when making a purchase decision.

***Localizing value chain activities in low cost countries could further improve our cost position:*** Localizing certain value chain activities, such as procurement, manufacturing, maintenance and service in markets like the BRIC countries and the Middle East could enable us to reduce costs and to strengthen our global competitive position, in particular compared to competitors based in countries with a favorable cost structure.

***We constantly strive to develop new technologies, new products and solutions as well as to improve existing ones:*** We invest in new technologies that we expect to meet future demands in accordance with the four strategic megatrends demographic change, urbanization, climate change and globalization (for further information, see Item 4: Information on the Company Strategy Global megatrends ). The focus areas of our research and development activities include smart grids, the technology for electric vehicles, including their integration into these smart grids, as well as concentrated solar power that plays an important role in accelerating the implementation of the DESERTEC concept.

**Critical accounting estimates**

Siemens Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). The financial statements are also in accordance with IFRS as issued by the IASB. Siemens significant accounting policies, as described in Note 2 to the Consolidated Financial Statements are essential to understanding the Company's results of operations, financial positions and cash flows.

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 the Company's results of operations, financial positions and cash flows. Critical accounting



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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 Company's Sectors, particularly Energy and Industry, 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 contract progresses. Certain long-term service contracts are accounted for under the percentage-of-completion method as well. 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 Divisions 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 on behalf of the Company's Managing Board. In addition, to qualify for such accounting, 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, we also consider country credit ratings, which are centrally determined based on information from external rating agencies. Regarding the determination of the valuation allowance derived from a portfolio-based analysis of historical bad debts, a decline of receivables in volume results in a corresponding reduction of such provisions and vice versa. As of September 30, 2010 and 2009, Siemens recorded a total valuation allowance for accounts receivable of 1,161 and 1,281, respectively.

***Impairment*** Siemens tests at least annually whether goodwill has incurred 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 outcome predicted by these estimates is influenced e.g. by the successful integration of acquired entities, volatility of capital markets and foreign exchange rate fluctuations. The recoverable amount is the higher of the Division's fair value less costs to sell and its value in use. The Company generally uses discounted cash flow based methods to determine these values. 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. In fiscal 2010 a goodwill impairment of 1,145 million was recognized in the Diagnostics Division of Sector Healthcare. See Note 16 in Notes to the Consolidated Financial Statements for further information as well as for parameters of Healthcare's Diagnostics Division impairment test. For a sensitivity analysis of the impairment of Healthcare Sector's Diagnostics Division see Net assets position Goodwill impairment at Healthcare Sector's Diagnostics Division.

Likewise, whenever property, plant and equipment, other intangible assets and investments accounted for using the equity method are tested for impairment, the determination of the assets' recoverable amount involves the use of estimates by management and can have a material impact on the respective values and ultimately the amount of any impairment.

In the three months ended September 30, 2009, NSN, presented in the segment Equity Investments was tested for impairment. The main triggering events were NSN's loss of market share as well as a decrease in the product

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business operations resulting in significantly adjusted financial forecasts of future cash flows of NSN. The NSN impairment test is based on fair value less costs to sell applying a discounted cash flow method. As a result, an impairment loss of 1,634 was recognized. Whether future impairments of our investment in NSN will be required is dependent on its ability to grow and/or otherwise return to increasing profitability.

***Employee benefit accounting Pension plans and similar commitments*** Obligations for pension and other post-employment benefits and related net periodic benefit costs are determined in accordance with actuarial valuations. These valuations rely on key assumptions including discount rates, expected return on plan assets, expected salary increases, mortality rates and health care trend rates. The discount rate assumptions are determined by reference to yields on high-quality corporate bonds of appropriate duration and currency at the balance sheet date. In case such yields aren't available discount rates are based on government bonds yields. Expected returns on plan assets assumptions are determined on a uniform basis, considering long-term historical returns and asset allocations. Due to changing market and economic conditions the underlying key assumptions may differ from actual developments and may lead to significant changes in pension and other post-employment benefit obligations. Such differences are recognized in full directly in equity in the period in which they occur without affecting profit or loss. For a discussion of the current funded status and a sensitivity analysis with respect to the impact of certain critical assumptions on the net periodic benefit cost see Note 24 in Notes to the Consolidated Financial Statements.

***Termination Benefits*** Siemens runs restructuring projects on an individual basis. Costs in conjunction with terminating employees and other exit costs are subject to significant estimates and assumptions. See Note 5 in Notes to the Consolidated Financial Statements for further information.

***Provisions*** Significant estimates are involved in the determination of provisions related to onerous contracts, warranty costs, asset retirement obligations and legal proceedings. A significant portion of the business of certain operating divisions 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 onerous sales contracts when current estimates of total contract costs exceed expected contract revenue. Such estimates are subject to change based on new information as projects progress toward completion. Onerous sales 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, the Mobility Division, Industry Solutions Division, Workflow & Solutions Division and the Energy Sector as well as estimates involving warranty costs. Significant estimates and assumptions are also involved in the determination of provisions related to major asset retirement obligations. Uncertainties surrounding the amount to be recognized include, for example, the estimated costs of decommissioning because of the long time frame over which future cash outflows are expected to occur. Amongst others, the estimated cash outflows could alter significantly if, and when, political developments affect the government's plans to develop the final storage. See Note 25 in Notes to the Consolidated Financial Statements for further information on major asset retirement obligations.

Siemens is subject to legal and regulatory proceedings in various jurisdictions. Such proceedings may result in criminal or civil sanctions, penalties or disgorgements against the Company. If it is more likely than not that an obligation of the Company exists and will result in an outflow of resources, a provision is recorded if the amount of the obligation can be reliably estimated. Regulatory and legal proceedings as well as government investigations often involve complex legal issues and are subject to substantial uncertainties. Accordingly, management exercises considerable judgment in determining whether there is a present obligation as a result of a past event at the balance sheet date, whether it is more likely than not that such a proceeding will result in an outflow of resources and whether the amount of the obligation can be reliably estimated. The Company periodically reviews the status of these proceedings with both inside and outside counsel. These judgments are subject to change as new information becomes available. The required amount of a provision may change in the future due to new developments in the particular matter. Revisions to estimates may significantly impact future net income. Upon resolution, Siemens may incur

charges in excess of the recorded provisions for such matters. It cannot be excluded, that the financial position or results of operations of Siemens will be materially affected by an unfavorable outcome of legal or regulatory proceedings or government investigations. See Note 30 in Notes to the Consolidated Financial Statements for further information.

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**Income taxes** Siemens operates in various tax jurisdictions and therefore has to determine tax expense under respective local tax laws which can be complex and subject to different interpretations of taxpayers and local tax authorities. Deferred tax assets are recognized if sufficient future taxable profit is available, including income from forecasted operating earnings, the reversal of existing taxable temporary differences and established tax planning opportunities. As of each balance sheet date, management evaluates the recoverability of deferred tax assets, based on projected future taxable profits. As future developments are uncertain and partly beyond management's control, assumptions are necessary to estimate future taxable profits as well as the period in which deferred tax assets will recover. Estimates are revised in the period in which there is sufficient evidence to revise the assumption. If management considers it probable that all or a portion of a deferred tax asset cannot be realized, a corresponding valuation allowance is taken into account.

## **Recent accounting pronouncements**

For information on recent accounting pronouncements see Notes to Consolidated Financial Statements.

## **Supplemental financial measures**

To supplement Siemens' Consolidated Financial Statements presented in accordance with International Financial Reporting Standards, or IFRS, Siemens presents the following supplemental financial measures within this document:

New orders and order backlog;

Adjusted or organic growth rates of Revenue and new orders;

Book-to-bill ratio;

Total Sectors Profit;

Return on capital employed, or ROCE;

ROCE (adjusted);

Free cash flow;

Adjusted EBITDA and adjusted EBIT;

Earnings effect from purchase price allocation (PPA effects) and integration costs;

Net debt; and

Adjusted industrial net debt.

These supplemental financial measures are or may be non-GAAP financial measures, as defined in the rules of the U.S. Securities and Exchange Commission (SEC). They may exclude or include amounts that are included or excluded, as applicable, in the calculation of the most directly comparable financial measures calculated in accordance with IFRS, and their usefulness is therefore subject to limitations, which are described below under Limitations on the usefulness of Siemens' supplemental financial measures. Accordingly, they should not be viewed in isolation or as alternatives to the most directly comparable financial measures calculated in accordance with IFRS, as identified in the following discussion, and they should be considered in conjunction with Siemens' Consolidated Financial

Statements presented in accordance with IFRS and the Notes thereto included within this document.

In addition, in considering these supplemental financial measures, investors should bear in mind that other companies that report or describe similarly titled financial measures may calculate them differently. Accordingly, investors should exercise appropriate caution in comparing these supplemental financial measures to similarly titled financial measures reported by other companies.

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### **Definitions, most directly comparable IFRS financial measures and usefulness of Siemens supplemental financial measures**

Siemens supplemental financial measures are designed to measure growth, capital efficiency, cash and profit generation and optimization of Siemens capital structure and therefore are used to formulate targets for Siemens. The following discussion provides definitions of these supplemental financial measures, the most directly comparable IFRS financial measures and information regarding the usefulness of these supplemental financial measures.

### **New orders and order backlog**

Under its policy for the recognition of new orders, Siemens generally recognizes a new order when we enter into a contract that we consider legally effective and binding based on a number of different criteria. In general, if a contract is considered legally effective and binding, Siemens recognizes the total contract value. The contract value is the agreed price or fee for that portion of the contract for which the delivery of goods and/or the provision of services is irrevocably agreed. Future revenues from service, maintenance and outsourcing contracts are recognized as new orders in the amount of the total contract value only if there is adequate assurance that the contract will remain in effect for its entire duration (e.g., due to high exit barriers for the customer).

New orders are generally recognized immediately when the relevant contract becomes legally effective and binding. The only exceptions are orders with short overall contract terms. In this case, a separate reporting of new orders would provide no significant additional information regarding our performance. For orders of this type the recognition of new orders thus occurs when the underlying revenue is recognized.

Order backlog represents the future revenues of our Company resulting from already recognized new orders. Order backlog is calculated by adding the new orders of the current fiscal year to the balance of the order backlog from the prior fiscal year and subtracting the revenue recognized in the current fiscal year. If an order from the current fiscal year is cancelled or its amount is modified, Siemens adjusts its new order total for the current quarter accordingly, but do not retroactively adjust previously published new order totals. However, if an order from a previous fiscal year is cancelled, new orders of the current quarter and accordingly the current fiscal year are generally not adjusted, instead, if the adjustment exceeds a certain threshold, the existing order backlog is revised. Aside from cancellations, the order backlog is also subject to changes in the consolidation group and to currency translation effects.

There is no standard system for compiling and calculating new orders and order backlog information that applies across companies. Accordingly, its new orders and order backlog may not be comparable with new orders and order backlog reported by other companies. Siemens subjects its new orders and its order backlog to internal documentation and review requirements. Siemens may change its policies for recognizing new orders and order backlog in the future without previous notice.

### **Adjusted or organic growth rates of Revenue and new orders**

Siemens presents, on a worldwide basis and for each Sector, Division and Cross-Sector Business, the percentage change from period to period in Revenue and new orders as adjusted for currency translation effects and portfolio effects. The adjusted percentage changes are called adjusted or organic rates of growth. The IFRS financial measure most directly comparable to adjusted or organic growth rate of Revenue is the unadjusted growth rate calculated based on the actual Revenue figures presented in the Consolidated Income Statement. There is no comparable IFRS financial measure for the adjusted or organic growth rate of new orders because, as discussed above, new orders is not an IFRS financial measure.

Siemens presents its Consolidated Financial Statements in Euros; however, a significant proportion of the operations of its Sectors, Divisions and Cross-Sector Businesses takes place in a functional currency other than the Euro, particularly the U.S. dollar, and is therefore subject to foreign currency translation effects. Converting figures from these currencies into Euros affects the comparability of Siemens' results and financial position when the exchange rates for these currencies fluctuate. Some Divisions are significantly affected due to the large proportion of international operations, particularly in the U.S. In addition, the effect of acquisitions and dispositions on



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Siemens consolidated revenues and expenses affects the comparability of the Consolidated Financial Statements between different periods.

The adjusted or organic growth rates of Revenue and new orders are calculated by subtracting currency translation effects and portfolio effects from the relevant actual growth rates. The currency translation effect is calculated as (1) (a) Revenues or new orders, as the case may be, for the current period, based on the currency exchange rate of the current period *minus* (b) Revenues or new orders for the current period, based on the currency exchange rate of the previous period, *divided* by (2) Revenues or new orders for the previous period, based on the currency exchange rate of the previous period. The portfolio effect is calculated, in the case of acquisitions, as the percentage change in Revenues or new orders, as the case may be, attributable to the acquired business and, in the case of dispositions, as the percentage change in Revenues or new orders on the assumption that the disposed business had not been part of Siemens in the previous period. Adjusted growth rates of Revenue and new orders are always calculated for a period of twelve months. Siemens is making portfolio adjustments for certain transactions, including the carve-outs of Siemens Home and Office Communication Devices GmbH & Co. KG and the Wireless Modules business in fiscal 2008, as well as for other minor transactions in the Sectors, Cross-Sector Businesses and Centrally managed portfolio activities. For further information regarding major acquisitions and dispositions, see Notes to Consolidated Financial Statements.

Siemens believes that the presentation of an adjusted or organic growth rate of Revenue and new orders provides useful information to investors because a meaningful analysis of trends in Revenue and new orders from one period to the next requires comparable data and therefore an understanding of the developments in the operational business net of the impact of currency translation and portfolio effects. Siemens management considers adjusted or organic rates of growth in its management of Siemens business. For this reason, Siemens believes that investors ability to assess Siemens overall performance may be improved by disclosure of this information.

**Book-to-bill ratio**

The book-to-bill ratio measures the relationship between orders received and the amount of products and services shipped and billed. A book-to-bill ratio of above 1 indicates that more orders were received than billed, indicating stronger demand, whereas a book-to-bill ratio of below 1 points to weaker demand. The book-to-bill ratio is not required or defined by IFRS.

**Total Sectors Profit**

Siemens uses Total Sectors Profit to measure the sum of Profit of the three Sectors Industry, Energy and Healthcare. Profit of the Sectors is earnings before financing interest, certain pension costs and income taxes. Certain other items not considered performance indicative by Management may be excluded. Profit or loss for each reportable segment is the measure reviewed by the chief operating decision maker in accordance with IFRS 8, Operating Segments. The IFRS financial measure most directly comparable to Total Sectors Profit is Income from continuing operations.

Siemens believes that investors ability to assess Siemens overall performance may be improved by disclosure of Total Sectors Profit as a measure of the operational performance of the three Sectors representing the core industrial activities of Siemens.

**Return on capital employed, or ROCE**

Return on capital employed, or ROCE, is Siemens measure of capital efficiency. Siemens uses this financial performance ratio in order to assess its income generation from the point of view of its shareholders and creditors, who provide Siemens with equity and debt. The different methods of calculation are detailed below. Siemens believes

that the presentation of ROCE and the various supplemental financial measures involved in its calculation provides useful information to investors because ROCE can be used to determine whether capital invested in the Company and the Sectors yields competitive returns. In addition, achievement of predetermined targets relating to ROCE is one of the factors Siemens takes into account in determining the amount of performance-based or variable compensation received by its management.

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Within the Fit<sub>4</sub>2010 program, Siemens defines group ROCE as net income (before interest) divided by average capital employed, or average CE.

Net income (before interest), the numerator in the ROCE calculation, is defined as Net income excluding Other interest income (expense), net and taxes thereon. Taxes on Other interest (expense), net are calculated in a simplified form by applying the current tax rate, which can be derived from the Consolidated Statements of Income, to Other interest income (expense), net.

Capital employed, or CE, the denominator in the ROCE calculation, is defined as Total equity plus Long-term debt plus Short-term debt and current maturities of long-term debt minus Cash and cash equivalents. For information on how average capital employed is calculated, refer to Compensation for limitations associated with Siemens supplemental financial measures. Each of the components of capital employed appears on the face of the Consolidated Statements of Financial Position.

Siemens also presents group ROCE on a continuing basis. For this purpose, the numerator is Income from continuing operations excluding Other interest income (expense), net and taxes thereon and the denominator is average CE, less Assets classified as held for disposal presented as discontinued operations, net of Liabilities associated with assets held for disposal presented as discontinued operations. For information on how average capital employed (continuing operations) is calculated, refer to Compensation for limitations associated with Siemens supplemental financial measures.

**ROCE (adjusted)**

Beginning with fiscal 2011, One Siemens will be our framework for capital efficient growth and sustainable value creation. As part of One Siemens, we are introducing an advanced financial indicator, ROCE (adjusted). ROCE (adjusted) is reported on a continuing basis and adjusts ROCE as defined under the Fit<sub>4</sub>2010 program primarily to consider pension underfunding as financing, to increase comparability of the metric with competitors, particularly with respect to the finance business, and to align with our definition of adjusted industrial net debt.

Income from continuing operations before interest after tax, the numerator in the ROCE (adjusted) calculation, is defined as Income from continuing operations, excluding Other interest income (expense), net (but not Other interest income (expense) of SFS) (both as reported in the Consolidated Financial Statements or the Notes to Consolidated Financial Statements), and excluding interest cost on Pension plans and similar commitments and taxes thereon. SFS Other income (expense) is included in Other interest income (expense), net. Adding back SFS Other income (expense) in the nominator corresponds to the adjustment for SFS debt in the denominator. For fiscal 2010 and 2009, interest cost on Pension plans and similar commitments is calculated using the weighted average discount rate of our principal pension benefit plans at period-end for the fiscal year ended September 30, 2009 (5.3%) and for the fiscal year ended September 30, 2008 (6.2%) (both as reported in Notes to Consolidated Financial Statements) applied to Pension plans and similar commitments as reported in the Consolidated Statements of Financial Position as of September 30, 2009 and 2008, respectively. Pension plans and similar commitments primarily represents the funded status of pension plans and other post-employment benefits as well as the liabilities for other long-term post-employment benefits.

Average capital employed, or CE, the denominator in the ROCE (adjusted) calculation, is defined as the average of Total equity plus Long-term debt, plus Short-term debt and current maturities of long-term debt, less Cash and cash equivalents, plus Pension plans and similar commitments, less SFS Debt and less Fair value hedge accounting adjustment. For further information on fair value hedges see, Adjusted industrial net debt and Notes to Consolidated Financial Statements. Each of the components of capital employed appears on the face of the Consolidated Balance Sheet or in the Notes to Consolidated Financial Statements or in the relevant tables of Item 5: Operating and financial review and prospects.

**Free cash flow**

Siemens defines Free cash flow as Net cash provided by (used in) operating activities less Additions to intangible assets and property, plant and equipment. The IFRS financial measure most directly comparable to Free cash flow is Net cash provided by (used in) operating activities.

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Siemens believes that the presentation of Free cash flow provides useful information to investors because it is a measure of cash generated by our operations after deducting cash outflows for Additions to intangible assets and property, plant and equipment. Therefore the measure gives an indication of the long-term cash generating ability of our business. In addition, because Free cash flow is not impacted by portfolio activities, it is less volatile than the total of Net cash provided by (used in) operating activities and Net cash provided by (used in) investing activities. For this reason, Free cash flow is reported on a regular basis to Siemens management, who uses it to assess and manage cash generation among the various reportable segments of Siemens and for the worldwide Siemens group. Achievement of predetermined targets relating to Free cash flow generation is one of the factors Siemens takes into account in determining the amount of performance-based or variable compensation received by its management, both at the level of the worldwide Siemens group and at the level of individual reportable segments.

**Adjusted EBITDA and adjusted EBIT****Adjusted EBITDA and adjusted EBIT at the Siemens group level**

Siemens reports adjusted EBITDA and adjusted EBIT on a continuing basis. Siemens defines adjusted EBITDA as adjusted EBIT before amortization (which in turn is defined as Amortization and impairments of intangible assets other than goodwill) and Depreciation and impairment of property, plant and equipment and goodwill. Siemens defines adjusted EBIT as Income from continuing operations before income taxes less Other financial income (expense), net, plus Interest expense, less Interest income, as well as less Income (loss) from investments accounted for using the equity method, net. Each of the components of adjusted EBIT appears on the face of the Consolidated Financial Statements, and each of the additional components of adjusted EBITDA appears in the Consolidated Financial Statements or is presented in the table Reconciliation to adjusted EBITDA (continuing operations) in Reconciliation to adjusted EBITDA (continuing operations) within this document. The IFRS financial measure most directly comparable to adjusted EBIT and adjusted EBITDA is Net income.

Adjusted EBITDA is included in the ratio of adjusted industrial net debt to adjusted EBITDA, a measure of our capital structure. Measures similar to adjusted EBITDA and adjusted EBIT are also broadly used by analysts, rating agencies and investors to assess the performance of a company. Accordingly, Siemens believes that the presentation of adjusted EBITDA and adjusted EBIT provides useful information to investors. For further information regarding the ratio of adjusted industrial net debt to adjusted EBITDA, see Adjusted industrial net debt.

**Adjusted EBITDA and adjusted EBIT at the Sector level**

Siemens also presents adjusted EBITDA and adjusted EBIT on the Sector level on a continuing basis. Siemens defines adjusted EBITDA on the Sector level as adjusted EBIT before amortization (which in turn is defined as Amortization and impairments of intangible assets other than goodwill) and Depreciation and impairment of property, plant and equipment and goodwill on the Sector level. Siemens defines adjusted EBIT on the Sector level as Profit as presented in the Segment Information less Other financial income (expense), net, plus Interest expense, less Interest income, as well as less Income (loss) from investments accounted for using the equity method, net. Each of the components of adjusted EBITDA and adjusted EBIT on the level of each Sector, respectively, is presented in the table Reconciliation to adjusted EBITDA (continuing operations) within this document. The IFRS financial measure in a manner similar to and most directly comparable to adjusted EBITDA and adjusted EBIT on the Sector level is Profit of the relevant Sector as presented in the Notes to Consolidated Financial Statements.

We believe that reporting adjusted EBITDA and adjusted EBIT on a segment level enhances the ability of investors to compare performance across segments.

**Earnings effect from purchase price allocation (PPA effects) and integration costs**

The purchase price paid for an acquired business is allocated to the assets, liabilities and contingent liabilities acquired based on their fair values. The fair value step-ups result in an earnings effect over time, e.g., additional amortization of fair value step-ups of intangible assets, which is defined as a PPA effect. Integration costs are

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internal or external costs that arise after the signing of an acquisition in connection with the integration of the acquired business, e.g. costs in connection with the adoption of Siemens guidelines and policies.

Siemens believes that the presentation of PPA effects and integration costs effects provides useful information to investors as it allows investors to consider earnings impacts related to business combination accounting in the performance analysis.

### **Net debt**

Siemens defines net debt as total debt less total liquidity. Total debt is defined as Short-term debt and current maturities of long-term debt plus Long-term debt. Total liquidity is defined as Cash and cash equivalents plus current Available-for-sale financial assets. Each of these components appears in the Consolidated Statements of Financial Position. The IFRS financial measure most directly comparable to net debt is total debt as reported in the Notes to Consolidated Financial Statements.

Siemens believes that the presentation of net debt provides useful information to investors because its management reviews net debt as part of its management of Siemens overall liquidity, financial flexibility, capital structure and leverage. In particular, net debt is an important component of adjusted industrial net debt. Furthermore, certain debt rating agencies, creditors and credit analysts monitor Siemens net debt as part of their assessments of Siemens business.

### **Adjusted industrial net debt**

Within the Fit<sub>4</sub>2010 program, Siemens manages adjusted industrial net debt as one component of its capital. Siemens defines adjusted industrial net debt as net debt less SFS Debt, less 50% of the nominal amount of our hybrid bond, plus the Funded status of principal pension benefit plans, plus the Funded status of principal other post-employment benefit plans, plus credit guarantees, and less fair value hedge accounting adjustments. The adjustment for our hybrid bond considers the calculation of this financial ratio applied by rating agencies to classify 50 percent of our hybrid bond as equity and 50 percent as debt. This assignment follows the characteristics of our hybrid bond such as a long maturity date and subordination to all senior and debt obligations. Debt is generally reported with a value representing approximately the amount to be repaid. However for debt designated in a hedging relationship (fair value hedges), this amount is adjusted by changes in market value mainly due to changes in interest rates. Accordingly, we deduct these changes in market value in order to end up with an amount of debt that approximately will be repaid, which we believe is a more meaningful figure for the calculation. For further information on fair value hedges see, Notes to Consolidated Financial Statements. Further information concerning adjusted industrial net debt can be found in Liquidity and capital resources Capital structure within this document.

A key consideration in managing our capital structure is the maintenance of ready access to the capital markets through various debt products and the preservation of our ability to repay and service our debt obligations over time. Siemens has therefore set a capital structure goal that is measured by adjusted industrial net debt divided by adjusted EBITDA.

Siemens believes that using the ratio of adjusted industrial net debt to adjusted EBITDA as a measure of its capital structure provides useful information to investors because management uses it to manage our debt-equity ratio in order to promote access to debt financing instruments in the capital markets and our ability to meet scheduled debt service obligations.

For One Siemens, we advanced our definition of adjusted industrial net debt used under Fit<sub>4</sub>2010. Going forward, the calculation of adjusted industrial net debt will include an adjustment for Pension plans and similar commitments (as

presented in the Consolidated Financial Statements ), in order to consider our total pension liability. Accordingly, adjustments will no longer be made only for the Funded status of principal pension benefit plans and for the Funded status of principal other post-employment benefit plans which only represented a part of our total pension liability.



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**Limitations on the usefulness of Siemens supplemental financial measures**

The supplemental financial measures reported by Siemens may be subject to limitations as analytical tools. In particular:

With respect to new orders and order backlog: In particular, new order reporting for the current period may include adjustments to new orders added in previous quarters of the current fiscal year and prior years (except for cancellations). Order backlog is based on firm commitments which may be cancelled in future periods.

With respect to adjusted or organic growth rates of Revenue and new orders: These measures are not adjusted for other effects, such as increases or decreases in prices or quantity/volume.

With respect to book-to-bill ratio: The use of this measure is inherently limited by the fact that it is a ratio and thus does not provide information as to the absolute number of orders received by Siemens or the absolute amount of products and services shipped and billed by it.

With respect to Total Sectors Profit: Profit of Equity Investments, Cross-Sector Businesses, Centrally managed portfolio activities, Siemens Real Estate, Corporate items and pensions as well as of Eliminations, Corporate Treasury and other reconciling items can have a material impact on Siemens Income from continuing operations in any given period. In addition, Total Sectors Profit does not eliminate profit earned by one Sector on intragroup transactions with another Sector.

With respect to return on capital employed, or ROCE, and ROCE (adjusted): The use of these measures is inherently limited by the fact that they are ratios and thus do not provide information as to the absolute amount of Siemens income.

With respect to Free cash flow: Free cash flow is not a measure of cash generated by operations that is available exclusively for discretionary expenditures. This is, because in addition to capital expenditures needed to maintain or grow its business Siemens requires cash for a wide variety of non-discretionary expenditures, such as interest and principal payments on outstanding debt, dividend payments or other operating expenses.

With respect to adjusted EBITDA and adjusted EBIT: As adjusted EBITDA excludes non-cash items such as depreciation, amortization and impairment, it does not reflect the expense associated with, and accordingly the full economic effect of, the loss in value of Siemens assets over time. Similarly, neither adjusted EBITDA nor adjusted EBIT reflects the impact of financial income (expense), net and taxes.

With respect to earnings effects from purchase price allocation (PPA effects) and integration costs: The fact that the profit margin is adjusted for these effects does not mean that they do not impact profit of the relevant segment in the Consolidated Financial Statements.

With respect to net debt and the ratio of adjusted industrial net debt to adjusted EBITDA: Siemens typically uses a considerable portion of its cash, cash equivalents and available-for-sale financial assets at any given time for purposes other than debt reduction. Therefore, the fact that these items are excluded from net debt does not mean that they are used exclusively for debt repayment. The use of the ratio adjusted industrial net debt to adjusted EBITDA is inherently limited by the fact that it is a ratio.

**Compensation for limitations associated with Siemens supplemental financial measures**

Siemens provides a quantitative reconciliation of each supplemental financial measure to the most directly comparable IFRS financial measures within this document and Siemens encourages investors to review those reconciliations carefully.

**Quantitative reconciliations of Siemens supplemental financial measures**

The following either provides quantitative reconciliations or indicates where quantitative reconciliations of supplemental financial measures to the most comparable IFRS financial measures may be found. The values

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presented in the reconciliations can generally be derived from the Consolidated Financial Statements and Notes to Consolidated Financial Statements.

**Adjusted or organic growth rates of Revenue and new orders**

For a quantitative reconciliation of adjusted or organic growth rates of Revenue and new orders to unadjusted growth rates of Revenue and new orders, refer to the relevant tables within Operating and financial review and prospects.

**Total Sectors Profit**

Total Sectors Profit is reconciled to Income from continuing operations before income taxes in Notes to Consolidated Financial Statements within this document. For a reconciliation of Income from continuing operations before income taxes to Income from continuing operations, see the Consolidated Statements of Income.

**Return on capital employed, or ROCE**

The following tables report the calculation of return on capital employed (ROCE) as defined under our Fit<sub>4</sub>2010 program and ROCE (adjusted) as defined under One Siemens.

<b>Capital employed</b>	<b>Average</b>	<b>09/30/2010</b>	<b>06/30/2010</b>	<b>03/31/2010</b>	<b>12/31/2009</b>	<b>09/30/2009</b>
		<b>(in millions of )</b>				
<b>Fit<sub>4</sub>2010- Fiscal 2010</b>						
Total equity	28,857	29,096	30,211	28,969	28,722	27,287
Plus: Long-term debt	18,884	17,497	20,032	19,174	18,776	18,940
Plus: Short-term debt and current maturities of long-term debt	878	2,416	458	395	423	698
Less: Cash and cash equivalents	(11,259)	(14,108)	(11,829)	(9,753)	(10,446)	(10,159)
<b>Capital employed (continuing operations)<sup>(1)(2)</sup></b>	<b>37,360</b>	<b>34,901</b>	<b>38,872</b>	<b>38,785</b>	<b>37,475</b>	<b>36,766</b>
<b>One Siemens-Fiscal 2010</b>						
Total equity	28,857	29,096	30,211	28,969	28,722	27,287
Plus: Long-term debt	18,884	17,497	20,032	19,174	18,776	18,940
Plus: Short-term debt and current maturities of long-term debt	878	2,416	458	395	423	698
Less: Cash and cash equivalents	(11,259)	(14,108)	(11,829)	(9,753)	(10,446)	(10,159)
Plus: Pension plans and similar commitments	7,029	8,464	8,054	6,532	6,155	5,938
Less: Siemens Financial Services (SFS) Debt	(9,701)	(10,028)	(10,424)	(9,459)	(9,072)	(9,521)
Less: Fair value hedge accounting adjustment <sup>(3)</sup>	(1,175)	(1,518)	(1,437)	(1,085)	(806)	(1,027)

<b>Capital employed</b> (continuing operations) <sup>(1)(2)</sup>	<b>33,513</b>	<b>31,819</b>	<b>35,065</b>	<b>34,773</b>	<b>33,752</b>	<b>32,156</b>
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**Table of Contents****(Continued)**

<b>Capital employed</b>	<b>Average</b>	<b>09/30/2009</b>	<b>06/30/2009</b>	<b>03/31/2009</b>	<b>12/31/2008</b>	<b>09/30/2008</b>
		<b>(in millions of )</b>				
<b>Fit<sub>4</sub>2010- Fiscal 2009</b>						
Total equity	27,038	27,287	27,790	25,974	26,761	27,380
Plus: Long-term debt	17,487	18,940	19,028	19,697	15,511	14,260
Plus: Short-term debt and current maturities of long-term debt	2,544	698	2,269	3,019	4,914	1,819
Less: Cash and cash equivalents	(7,965)	(10,159)	(9,018)	(7,684)	(6,071)	(6,893)
<b>Capital employed (continuing operations)<sup>(1)(2)</sup></b>	<b>39,100</b>	<b>36,766</b>	<b>40,069</b>	<b>41,004</b>	<b>41,112</b>	<b>36,549</b>
<b>One Siemens-Fiscal 2009</b>						
Total equity	27,038	27,287	27,790	25,974	26,761	27,380
Plus: Long-term debt	17,487	18,940	19,028	19,697	15,511	14,260
Plus: Short-term debt and current maturities of long-term debt	2,544	698	2,269	3,019	4,914	1,819
Less: Cash and cash equivalents	(7,965)	(10,159)	(9,018)	(7,684)	(6,071)	(6,893)
Plus: Pension plans and similar commitments	6,106	5,938	6,803	7,131	6,296	4,361
Less: Siemens Financial Services (SFS) Debt	(9,592)	(9,521)	(9,373)	(9,764)	(9,941)	(9,359)
Less: Fair value hedge accounting adjustments <sup>(3)</sup>	(938)	(1,027)	(889)	(1,314)	(1,280)	(180)
<b>Capital employed (continuing operations)<sup>(1)(2)</sup></b>	<b>34,676</b>	<b>32,156</b>	<b>36,610</b>	<b>37,057</b>	<b>36,187</b>	<b>31,371</b>
<b>Capital employed</b>						
	<b>Average</b>	<b>09/30/2008</b>	<b>06/30/2008</b>	<b>03/31/2008</b>	<b>12/31/2007</b>	<b>09/30/2007</b>
		<b>(in millions of )</b>				
<b>Fit<sub>4</sub>2010- Fiscal 2008</b>						
Total equity	31,569	27,380	32,419	32,715	35,705	29,627
Plus: Long-term debt	11,311	14,260	13,288	9,420	9,725	9,860
Plus: Short-term debt and current maturities of long-term debt	3,057	1,819	1,998	3,560	2,273	5,637
Less: Cash and cash equivalents	(6,081)	(6,893)	(7,735)	(5,614)	(6,158)	(4,005)
<b>Capital employed (continuing operations)<sup>(1)(2)</sup></b>	<b>38,352</b>	<b>36,549</b>	<b>39,728</b>	<b>39,908</b>	<b>41,234</b>	<b>34,340</b>

- (1) In fiscal 2009 and 2008, *capital employed (continuing operations)* includes adjustments relating to minor assets and liabilities associated with Assets classified as held for disposal presented as discontinued operations. As of September 30, 2007, assets classified as held for disposal amount to 11,224 million and liabilities associated with assets classified as held for disposal amount to 4,445 million.
- (2) Average capital employed for a fiscal year is determined as a five-point average in capital employed of the respective quarters starting with the capital employed as of September 30 of the previous fiscal year.
- (3) Debt is generally reported with a value representing approximately the amount to be repaid. However for debt designated in a hedging relationship (fair value hedges), this amount is adjusted by changes in market value mainly due to changes in interest rates. Accordingly, we deduct these changes in market value in order to end up with an amount of debt that approximately will be repaid, which we believe is a more meaningful figure for the calculation presented above. For further information on fair value hedges see, Notes to Consolidated Financial Statements.

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	<b>ROCE Fit<sub>4</sub>2010 Year Ended September 30, 2010</b>		<b>ROCE (adjusted) One Siemens Year Ended September 30, 2009</b>	
	2010	2009	2010	2009
	(in millions of )			
<b>Income from continuing operations before interest after tax</b>				
Net income	4,068	2,497	4,068	2,497
Plus: Other interest (income) expense, net	(317)	(111)	(317)	(111)
Less: SFS Other interest income (expense) <sup>(1)</sup>			339	265
Plus: Interest cost on Pension plans and similar commitments <sup>(2)</sup>			315	270
Less: Taxes on interest adjustments <sup>(3)</sup>	92	41	(98)	(157)
Income before interest after tax	3,843	2,427	4,307	2,764
Plus: (Income) loss from discontinued operations, net of income taxes	44	(40)	44	(40)
<b>Income from continuing operations before interest after tax</b>	<b>3,887</b>	<b>2,387</b>	<b>4,351</b>	<b>2,724</b>
<b>Return on capital employed (ROCE) (continuing operations)</b>				
(I) Income from continuing operations before interest after tax	3,887	2,387	4,351	2,724
(II) Average capital employed (continuing operations)	37,360	39,100	33,513	34,676
<b>(I)/(II) ROCE (continuing operations)</b>	<b>10.4%</b>	<b>6.1%</b>	<b>13.0%</b>	<b>7.9%</b>

(1) *SFS Other income (expense)* is included in *Other interest income (expense), net*. Adding back *SFS Other income (expense)* in the nominator corresponds to the adjustment for SFS Debt in the denominator.

(2) For fiscal 2010 and 2009, interest cost on Pension plans and similar commitments is calculated using the weighted average discount rate of our principal pension benefit plans at period-end for the fiscal year ended September 30, 2009 (5.3%) and for the fiscal year ended September 30, 2008 (6.2%) (both as reported in Notes to Consolidated Financial Statements ) applied to *Pension plans and similar commitments* as reported in the Consolidated Statements of Financial Position as of September 30, 2009 and 2008, respectively.

(3) Effective tax rate for the determination of taxes on interest adjustments is calculated by dividing *Income from continuing operations before income taxes* through *Income taxes*, both as reported in the Consolidated Statements of Income.

For the year ended September 30, 2008, ROCE (continuing operations) as defined under our Fit<sub>4</sub>2010 program was 4.8%. The calculation of *average capital employed (continuing operations)* amounting to 38.352 billion is presented in the table before. As *Other interest (income) expense, net* was -, Income from continuing operations before interest after tax as the nominator for the ROCE calculation amounted to 1.859 billion and therefore equals *Income from continuing operations* as presented in the Consolidated Statements of Income.

Due to rounding, numbers presented may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.



**Table of Contents****Free cash flow**

	<b>Year Ended September 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(in millions of €)</b>		
<b>Free cash flow (continuing and discontinued operations)</b>			
<i>Net cash provided by (used in) operating activities (continuing and discontinued operations)</i>	9,349	6,101	8,041
Less: Additions to intangible assets and property, plant and equipment	(2,336)	(2,460)	(3,138)
<b>Free cash flow (continuing and discontinued operations)</b>	<b>7,013</b>	<b>3,641</b>	<b>4,903</b>
<i>Net cash provided by (used in) investing activities (continuing and discontinued operations)</i>	(2,847)	(3,162)	176
<i>Net cash provided by (used in) financing activities (continuing and discontinued operations)</i>	(2,646)	375	(6,129)
<b>Free cash flow (continuing operations)</b>			
<i>Net cash provided by (used in) operating activities (continuing operations)</i>	9,447	6,246	8,738
Less: Additions to intangible assets and property, plant and equipment (continuing operations)	(2,336)	(2,460)	(2,999)
<b>Free cash flow (continuing operations)</b>	<b>7,111</b>	<b>3,786</b>	<b>5,739</b>
<i>Net cash provided by (used in) investing activities (continuing operations)</i>	(2,768)	(2,968)	(9,446)
<i>Net cash provided by (used in) financing activities (continuing operations)</i>	(2,823)	36	3,730

Due to rounding, numbers presented may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

**Adjusted EBITDA and adjusted EBIT**

	<b>Year Ended September 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(in millions of €)</b>		
<i>Net income</i>	4,068	2,497	5,886
Plus: (Income) loss from discontinued operations, net of income taxes	44	(40)	(4,027)
<i>Income from continuing operations</i>	4,112	2,457	1,859
Plus: Income taxes	1,699	1,434	1,015
<i>Income from continuing operations before income taxes</i>	5,811	3,891	2,874
Plus: Other financial (income) expense, net <sup>(1)</sup>	336	433	74
Plus: Interest expense <sup>(1)</sup>	1,890	2,213	2,208
Less: Interest income <sup>(1)</sup>	(2,161)	(2,136)	(2,404)
Plus: (Income) loss from investments accounted for using the equity method, net	40	1,946	(260)

<b>Adjusted EBIT</b> (continuing operations)	<b>5,916</b>	<b>6,347</b>	<b>2,492</b>
Plus: Amortization, depreciation and impairments <sup>(2)</sup>	4,118	2,872	3,093
<b>Adjusted EBITDA</b> (continuing operations)	<b>10,034</b>	<b>9,219</b>	<b>5,585</b>

- (1) The total of Other financial income (expense), net, Interest expense and Interest income as reported in the Consolidated Statements of Income equals Financial income (expense), net in the Reconciliation to adjusted EBITDA presented in Reconciliation to adjusted EBITDA (continuing operations).
- (2) Amortization, depreciation and impairments as reported in Segment Information (continuing operations) within Notes to Consolidated Financial Statements does not include impairments of goodwill. Impairments of goodwill are presented in Reconciliation to adjusted EBITDA (continuing operations).

Due to rounding, numbers presented may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

**Table of Contents****Earnings effect from purchase price allocation (PPA effects) and integration costs**

If we report a profit margin adjusted for PPA effects and integration costs effects, we also report the absolute values of the PPA effects and integration costs for which the profit margin is adjusted. The percentage points derived enable investors to determine a profit margin including these effects.

**Net debt**

For a quantitative reconciliation of net debt to total debt, refer to [Liquidity and capital resources](#) [Capital structure](#).

**Adjusted industrial net debt**

	<b>Fit<sub>4</sub>2010</b>		<b>One Siemens</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(in millions of )</b>			
Short-term debt	2,416	698	2,416	698
Plus: Long-term debt <sup>(1)</sup>	17,497	18,940	17,497	18,940
Less: Cash and cash equivalents	(14,108)	(10,159)	(14,108)	(10,159)
Less: Current available for sale financial assets	(246)	(170)	(246)	(170)
<b>Net debt</b>	<b>5,560</b>	<b>9,309</b>	<b>5,560</b>	<b>9,309</b>
Less: SFS Debt	(10,028)	(9,521)	(10,028)	(9,521)
Plus: Funded status principal pension benefit plans	6,357	4,015		
Plus: Funded status principal other post-employment benefit plans	738	646		
Plus: Pension plans and similar commitments			8,464	5,938
Plus: Credit guarantees	597	313	597	313
Less: 50% nominal amount hybrid bond <sup>(2)</sup>	(886)	(862)	(886)	(862)
Less: Fair value hedge accounting adjustment <sup>(3)</sup>	(1,518)	(1,027)	(1,518)	(1,027)
<b>(I) Adjusted industrial net debt</b>	<b>819</b>	<b>2,873</b>	<b>2,189</b>	<b>4,150</b>
<b>(II) Adjusted EBITDA</b> (continuing operations)	<b>10,034</b>	<b>9,219</b>	<b>10,034</b>	<b>9,219</b>
<b>(I)/(II) Adjusted industrial net debt/adjusted EBITDA</b> (continuing operations)	<b>0.08</b>	<b>0.31</b>	<b>0.22</b>	<b>0.45</b>

(1) Long-term debt including fair value hedge accounting adjustment of 1,518 million and 1,027 million for the fiscal year ended September 30, 2010 and 2009, respectively.

(2) The adjustment for our hybrid bond considers the calculation of this financial ratio applied by rating agencies to classify 50 percent of our hybrid bond as equity and 50 percent as debt. This assignment follows the characteristics of our hybrid bond such as a long maturity date and subordination to all senior and debt obligations.

- (3) Debt is generally reported with a value representing approximately the amount to be repaid. However for debt designated in a hedging relationship (fair value hedges), this amount is adjusted by changes in market value mainly due to changes in interest rates. Accordingly, we deduct these changes in market value in order to end up with an amount of debt that approximately will be repaid, which we believe is a more meaningful figure for the calculation presented above. For further information on fair value hedges see, Notes to Consolidated Financial Statements.

Due to rounding, numbers presented may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

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**ITEM 6: DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

**Management**

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

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

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

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

**Supervisory Board**

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

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

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

to monitor the management of the Company;

to appoint and dismiss members of our Managing Board;

to represent the Company in its dealings with the Managing Board or when its interests are adverse to those of the Managing Board. For example, when the Company enters into an employment agreement with a

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Managing Board member, the Supervisory Board determines the salary and other compensation components, including pension benefits; and

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

Each member of the Supervisory Board is elected for a maximum term of approximately five years, which expires at the end of the Annual Shareholders Meeting in which the shareholders ratify the acts of the Supervisory Board member for the fourth fiscal year following the fiscal year in which the member was elected. Our Articles of Association establish the compensation of the Supervisory Board members. For further details, see Compensation report.

The following table sets forth the names of the members of our Supervisory Board, their dates of birth, the expiration of their respective terms, their board positions and principal occupations, and their principal outside directorships at September 30, 2010:

<b>Name</b>	<b>Date of birth</b>	<b>Term expires</b>	<b>Board position and principal occupation</b>	<b>Companies at which Supervisory Board and similar positions were held</b>
Dr. Gerhard Cromme	2/25/1943	Annual Shareholders Meeting 2013	Chairman of the Supervisory Board; Chairman of the Supervisory Board, ThyssenKrupp AG	Allianz SE; Axel Springer AG; ThyssenKrupp AG; Compagnie de Saint-Gobain S.A.
Berthold Huber <sup>(1)</sup>	2/15/1950	Annual Shareholders Meeting 2013	First Deputy Chairman; First Chairman, IG Metall	Audi AG; Porsche Automobil Holding SE
Dr. Josef Ackermann	2/7/1948	Annual Shareholders Meeting 2013	Second Deputy Chairman; Chairman of the Management Board and the Group Executive Committee, Deutsche Bank AG	Belenos Clean Power Holding Ltd.; Royal Dutch Shell plc; Zurich Financial Services AG
Lothar Adler <sup>(1)</sup>	2/22/1949	Annual Shareholders Meeting 2013	Member; Chairman of the Central Works Council, Siemens AG	
Jean-Louis Beffa	8/11/1941	Annual Shareholders Meeting 2013	Member	Claude Bernard Participations SAS; Compagnie de Saint-Gobain S.A.; GDF SUEZ S.A.; Groupe Bruxelles Lambert; JL2B Conseil; Le Monde S.A.; Le Monde & Partenaires Associés S.A.S.; Saint-Gobain Corporation; Société Editrice du Monde S.A.
Gerd von Brandenstein	4/6/1942		Member; Economist	degewo Aktiengesellschaft

		Annual Shareholders Meeting 2013		
Michael Diekmann	12/23/1954	Annual Shareholders Meeting 2013	Member; Chairman of the Board of Management of Allianz SE	Allianz Deutschland AG; Allianz Global Investors AG; BASF SE; Linde AG; Allianz France SA; Allianz S.p.A.
Dr. Hans Michael Gaul	3/2/1942	Annual Shareholders Meeting 2013	Member	Evonik Industries AG; EWE Aktiengesellschaft; HSBC Trinkaus & Burkhardt AG; IVG Immobilien AG; VNG-Verbundnetz Gas AG; Volkswagen AG



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<b>Name</b>	<b>Date of birth</b>	<b>Term expires</b>	<b>Board position and principal occupation</b>	<b>Companies at which Supervisory Board and similar positions were held</b>
Prof. Dr. Peter Gruss	6/28/1949	Annual Shareholders Meeting 2013	Member; President of the Max-Planck-Gesellschaft zur Förderung der Wissenschaften e.V.	Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München
Bettina Haller <sup>(1)</sup>	3/14/1959	Annual Shareholders Meeting 2013	Member; Chairwoman of the Combine Works Council, Siemens AG	
Hans-Jürgen Hartung <sup>(1)</sup>	3/10/1952	Annual Shareholders Meeting 2013	Member; Chairman of the Works Council, Siemens Energy Sector, Erlangen, Germany	
Harald Kern <sup>(1)</sup>	3/16/1960	Annual Shareholders Meeting 2013	Member; Member of the Central Works Council, Siemens AG; Deputy Chairman of the Siemens Europe Committee	
Dr. Nicola Leibinger-Kammüller	12/15/1959	Annual Shareholders Meeting 2013	Member; President and Chairwoman of the Managing Board of TRUMPF GmbH + Co. KG	Axel Springer AG; Deutsche Lufthansa AG; Voith AG
Werner Mönius <sup>(1)</sup>	5/16/1954	Annual Shareholders Meeting 2013	Member; Chairman of the Siemens Europe Committee	
Håkan Samuelsson	3/19/1951	Annual Shareholders Meeting 2013	Member	Scandferries Holding GmbH; Scandlines GmbH; Volvo Car Corporation
Dieter Scheitor <sup>(1)</sup>	11/23/1950	Annual Shareholders Meeting 2013	Member; Physicist; Trade Union Commissioner for Siemens, IG Metall	
Dr. Rainer Sieg <sup>(1)</sup>	12/20/1948	Annual Shareholders Meeting 2013	Member; Chairman of the Committee of Spokespersons, Siemens group; Chairman of the Central Committee of Spokespersons, Siemens AG	
Birgit Steinborn <sup>(1)</sup>	3/26/1960	Annual Shareholders Meeting	Member; Deputy Chairwoman of the Central Works Council,	

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Lord Iain Vallance of Tummel	5/20/1943	2013 Annual Shareholders Meeting	Siemens AG Member; Chairman, Amsphere Ltd.	
Sibylle Wankel <sup>(1)</sup>	3/3/1964	2013 Annual Shareholders Meeting	Member; Attorney, Bavarian Regional Headquarters, IG Metall	Vaillant GmbH; ZEPPELIN GmbH

(1) Employee representative.

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There are six Supervisory Board committees: the Chairman's Committee, the Audit Committee, the Compliance Committee, the Finance and Investment Committee, the Nominating Committee and the Mediation Committee. Set forth in the table below are the current members of each committee. For a comprehensive discussion of the functions of our committees, please refer to Item 10: Additional information Corporate governance.

<b>Name of committee</b>	<b>Current members</b>
Chairman's Committee	Chairman Dr. Gerhard Cromme, Lothar Adler <sup>(1)</sup> , Dr. Josef Ackermann, Berthold Huber <sup>(1)</sup> .
Audit Committee	Chairman Dr. Hans Michael Gaul, Dr. Gerhard Cromme, Bettina Haller <sup>(1)</sup> , Dieter Scheitor <sup>(1)</sup> , Birgit Steinborn <sup>(1)</sup> , Lord Iain Vallance of Tummel.
Compliance Committee	Chairman Dr. Gerhard Cromme, Lothar Adler <sup>(1)</sup> , Dr. Hans Michael Gaul, Bettina Haller <sup>(1)</sup> , Lord Iain Vallance of Tummel, Sibylle Wankel <sup>(1)</sup> .
Finance and Investment Committee	Chairman Dr. Gerhard Cromme, Lothar Adler <sup>(1)</sup> , Jean-Louis Beffa, Gerd von Brandenstein, Werner Mönius <sup>(1)</sup> , Håkan Samuelsson, Dieter Scheitor <sup>(1)</sup> , Birgit Steinborn <sup>(1)</sup> .
Nominating Committee	Chairman Dr. Gerhard Cromme, Dr. Josef Ackermann, Dr. Hans Michael Gaul.
Mediation Committee	Chairman Dr. Gerhard Cromme, Lothar Adler <sup>(1)</sup> , Dr. Josef Ackermann, Berthold Huber <sup>(1)</sup> .

(1) Employee representative.

**Managing Board**

Our Managing Board currently consists of eight members. This reflects the appointment of Brigitte Ederer as of July 1, 2010 and the voluntary resignation of Dr. Heinrich Hiesinger as of September 30, 2010.

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

preparation of the annual financial statements;

the calling of the Annual Shareholders Meeting (unless applicable law requires otherwise) and preparation and execution of the resolutions; and

reports to the Supervisory Board and the Annual Shareholders Meeting concerning certain matters.

Our Managing Board has one committee, the Equity and Employee Stock Committee, which is authorized to make certain decisions without seeking the approval of the full Managing Board. The Equity and Employee Stock Committee is responsible for certain capital measures as well as for the issuance of employee stock, including the determination of the terms of such issuances. The members of this committee are President and CEO Peter Löscher, Executive Vice-President and CFO Joe Kaeser and Executive Vice-President Brigitte Ederer.

The Supervisory Board appoints the members of the Managing Board for a maximum term of five years. They may be re-appointed or have their term extended for one or more terms of up to a maximum of five years each. The

Supervisory Board may remove a member of the Managing Board prior to the expiration of its term for good cause, generally by a two-thirds majority of the votes cast. According to the Managing Board's Bylaws, the age of a member of the Managing Board shall generally not exceed 65.

According to the Managing Board's Bylaws, decisions of the Managing Board shall be taken unanimously whenever possible. If unanimity cannot be achieved, a decision shall require a simple majority of votes cast unless applicable law requires a larger majority. The President of the Managing Board shall have the deciding vote in the event of a deadlock.

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The following table sets forth the names of the members of our Managing Board, their dates of birth, the expiration of their respective terms, their current positions and their principal outside directorships at September 30, 2010:

<b>Name</b>	<b>Date of birth</b>	<b>Term expires</b>	<b>Current position</b>	<b>Companies at which Supervisory Board and similar positions were held</b>
Peter Löscher	9/17/1957	3/31/2012	President and CEO	Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München
Joe Kaeser	6/23/1957	3/31/2016	Executive Vice-President and CFO	Allianz Deutschland AG; Bayerische Börse AG; Enterprise Networks Holdings B.V.; NXP Semiconductors N.V.
Wolfgang Dehen	2/9/1954	3/31/2012	Executive Vice-President	TÜV Süd AG
Brigitte Ederer <sup>(1)</sup>	2/27/1956	6/30/2015	Executive Vice-President	Boehringer Ingelheim RCV GmbH; Österreichische Industrieholding AG (ÖIAG)
Dr. Heinrich Hiesinger <sup>(2)</sup>	5/25/1960	9/30/2010	Executive Vice-President	Deutsche Messe Aktiengesellschaft (until 6/30/2010); INPRO Innovationsgesellschaft für fortgeschrittene Produktionssysteme in der Fahrzeugindustrie mbH (until 12/31/2009)
Barbara Kux	2/26/1954	11/16/2013	Executive Vice-President	ZF Friedrichshafen AG; Firmenich International SA (until 10/12/2010)
Prof. Dr. Hermann Requardt	2/11/1955	3/31/2016	Executive Vice-President	Software Aktiengesellschaft
Prof. Dr. Siegfried Russwurm	6/27/1963	3/31/2012	Executive Vice-President	Deutsche Messe Aktiengesellschaft
Peter Y. Solmssen	1/24/1955	3/31/2012	Executive Vice-President	

(1) Brigitte Ederer was elected as a member of the Managing Board, effective July 1, 2010.

(2) Dr. Heinrich Hiesinger ceased to be a member of the Managing Board, effective September 30, 2010.

**Compensation report**

This section outlines the principles underlying the determination of the total compensation of the members of the Managing Board of Siemens AG, and sets out the structure and level of the remuneration of the Managing Board members. It also describes the policies governing, and levels of, compensation paid to Supervisory Board members.

**Managing Board remuneration**

The remuneration system for the Managing Board at Siemens is intended to provide an incentive for long-term corporate management with an emphasis on sustainability. Members of the Managing Board are expected to make a long-term commitment to and on behalf of the Company, and may benefit from any sustained increase in the Company's value. A further aim is for their remuneration to be commensurate with the compensation paid by companies of comparable size and economic position. Exceptional achievements are to be rewarded adequately, while falling short of goals is intended to result in an appreciable reduction in remuneration. Finally, the Managing Board's compensation also is structured so as to be attractive in comparison to that of competitors, with a view to attracting outstanding managers to our Company and keeping them with us for the long term.

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The system and levels for the remuneration of the Managing Board are determined and regularly reviewed by the full Supervisory Board, based on proposals of the Chairman's Committee. Additionally, in the fall of 2009 the Managing Board and Supervisory Board decided to submit the remuneration system for the Managing Board to the Shareholders Meeting for a vote. The remuneration system then in effect was approved by a large majority at the Annual Shareholders Meeting on January 26, 2010.

The revised remuneration system for the members of the Managing Board, the details of which are set forth below, became effective as of October 1, 2010 and will be presented for the approval of the Annual Shareholders Meeting in January 2011.

In fiscal 2010, the remuneration system for the Managing Board had the following components:

Base compensation is paid as a monthly salary. The base compensation of President and CEO Peter Löscher was set at the time of his appointment on July 1, 2007, and has remained unchanged since then. The base compensation of the other members of the Managing Board was at approximately the same level in fiscal 2010 as in 2003.

The variable cash compensation component (bonus) is based on the Company's business performance in the past fiscal year. For a 100 percent target attainment (target amount) the amount of the bonus equals the amount of base compensation. Taking into consideration the Company's long-term strategic orientation and using the target parameters of return on capital employed (ROCE), Free cash flow, and organic revenue growth at the group level, the Supervisory Board defines unique targets at the beginning of the fiscal year. The target parameters in addition to other factors also apply to senior executives, with a view to establishing a uniform and consistent target system throughout the Company. The Supervisory Board redefines the relative weighting of the target parameters each year.

The bonus is subject to a ceiling (cap), which amounted to 250 percent of the target amount for fiscal 2010. If targets are not met, the variable component is potentially not paid at all.

The Supervisory Board is entitled to revise the amount resulting from attaining targets by up to 20 percent upward or downward, at its duty-bound discretion (*pflichtgemäßes Ermessen*). In deciding on such a revision, the Supervisory Board may take into account the achievement of other goals that it has set at the beginning of the fiscal year.

Since fiscal 2006, the long-term stock-based compensation has consisted of a grant of forfeitable stock commitments (Stock Awards). The beneficiary of a Stock Award will receive one free share of Siemens stock after a vesting period. The vesting period for Stock Awards ends at the close of the second day after publication of the results of operation in the third calendar year after the date of the award.

For fiscal 2010, the Supervisory Board has decided to base its discretionary decision to grant Stock Awards on the average earnings per share (basic EPS) for the past three fiscal years. On the basis of prior years, the fair value of the awards for a target attainment of 100 percent would be 2.5 million for the President and CEO, and 1 million for the other members of the Managing Board. These values were not to be overrun or under-run by more than 20 percent for fiscal 2010 (cap).

With regard to the further terms of the Stock Awards, the same general principles apply to the Managing Board and senior executives; these principles are discussed in more detail in the Notes to Consolidated Financial Statements.

Since 2008, the remuneration system at Siemens has been significantly shaped by the Company-wide Siemens Share Ownership Guidelines. These require the members of the Managing Board to hold Siemens shares worth a multiple of their base compensation (300 percent for the President and CEO, 200 percent for the other members of the Managing Board) for the duration of their term of office on the Managing Board. Evidence that the required amounts of Siemens

shares are held must first be provided in March 2012 and thereafter be provided annually. A four-year buildup period applies to members of the Managing Board who were appointed after October 1, 2008. If the value of the accrued holdings declines below the amount to be evidenced from time to time because the market price of Siemens stock decreases, the member of the Managing Board must acquire additional shares. At the end of the calendar year, the Company determines the number of shares required to fulfill the holding obligation and notifies each member of the Managing Board accordingly. Thereafter, each member of the Managing Board has time until the second Friday in March of the following year to balance any shortages. Accordingly, the Managing Board members are required to invest a significant portion of their assets in Siemens shares during their membership on the Board.



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In fiscal 2010, under the Share Matching Plan, the members of the Managing Board had the option to invest up to 50 percent of the gross amount of their variable cash compensation component (bonus) in Siemens shares, and like the other plan participants, at the end of a vesting period of approximately three years, they will receive one additional free share of Siemens stock (matching share) for every three shares they acquired and continuously held.

Since fiscal 2005, members of the Managing Board have been included in the Siemens Defined Contribution Benefit Plan (BSAV), the general conditions of which are uniformly applicable to all employees of Siemens AG in Germany. The former retirement benefit system was integrated into the BSAV in October 2004. Under the BSAV, members of the Managing Board receive contributions that are credited to their personal pension account. The amount of the annual contributions is based on a predetermined percentage which refers to the base compensation and the target amount for the bonus. This percentage was set by the Chairman's Committee of the Supervisory Board at 28 percent when the system was introduced in October 2004, and has been reconfirmed at that figure each year since. Furthermore, special contributions may be granted on the basis of individual decisions of the Supervisory Board. If a member of the Managing Board had earned a pension benefit entitlement from the Company before the BSAV was introduced, a portion of his contributions went toward financing this prior commitment.

Managing Board contracts entered into in or after June 2007 provide for a compensatory payment if membership on the Managing Board is terminated early without serious cause. The amount of this payment may not exceed the value of two years' compensation (cap). This rule does not apply if an amicable termination is agreed at the request of the member of the Managing Board, or if there is serious cause for the Company to terminate the employment relationship.

In the event of a change of control i.e., if one or more shareholders acting jointly or in concert acquire a majority of the voting rights in Siemens AG and exercise a controlling influence, or if Siemens AG becomes a dependent enterprise as a result of entering into an enterprise contract within the meaning of § 291 of the German Stock Corporation Act (*Aktiengesetz*), or if Siemens AG is to be merged into an existing corporation or other entity any member of the Managing Board has the right to terminate his or her contract with the Company if such a change of control results in a substantial change in position (e.g., due to a change in corporate strategy or a change in the Managing Board member's duties and responsibilities). If this right of termination is exercised, the member of the Managing Board is entitled to a severance payment in the amount of the base compensation applicable for the last fiscal year that ended before the termination of the contract, plus the target bonus for the remainder of the term of the contract. Managing Board contracts signed before 2008 provided for a settlement of at least three years' remuneration for the remaining term of the contract; Managing Board contracts signed in or after June 2008 limit this severance entitlement to not more than three years' remuneration. In addition, non-monetary benefits are settled by a cash payment equal to five percent of the severance payment. The stock-based components for which a firm commitment exists will remain unaffected. There is no entitlement to a severance payment if the member of the Managing Board receives benefits from third parties in connection with the change of control. Moreover, there is no right to terminate if the change of control occurs within a period of twelve months prior to a Managing Board member's retirement.

The Supervisory Board engaged an independent outside compensation consultant to review the appropriateness and level of the Managing Board's compensation for fiscal 2010. The independent compensation consultant confirmed that the remuneration of the Managing Board on the basis of the target attainment for fiscal 2010 was appropriate. Taking this expert review into account and after reviewing the achievement of the targets set at the beginning of the fiscal year, the Supervisory Board decided at its meeting of November 10, 2010, based on the remuneration system in effect for fiscal 2010, to set the variable cash compensation component, the Stock Awards to be granted, and the pension benefit contributions as follows:

**Variable cash compensation component (bonus)** In setting the targets for the variable cash compensation component (bonus) at the beginning of fiscal 2010, the Supervisory Board took into account that the Company's business has felt

the repercussions of the worldwide economic and financial crisis:

Given the uncertainty in the financial markets at the beginning of the fiscal year, the Supervisory Board assigned primary priority to safeguarding adequate liquidity, and allowed for that fact in weighting the target parameters.

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Based on a reported ROCE of 6.1 percent in fiscal 2009, in determining the target ROCE for fiscal 2010 the Supervisory Board took into account that the Company was expecting a decrease in organic revenue because of the economic and financial crisis.

In fiscal 2009, Siemens was able to maintain its revenue stable at the prior-year's level, notwithstanding the economic and financial crisis. Nevertheless, on a comparable basis the Company's new orders decreased by approximately 14 percent as a result of economic conditions. This development prompted the Supervisory Board to adjust the targets for organic revenue growth for fiscal 2010, with a view to setting a goal that, while ambitious, was nonetheless realistic.

As a consequence, the following targets were set and attained with respect to the variable cash compensation component:

Target parameter	Weight	100% of target	Actual 2010	Target
			figure <sup>(1)</sup>	attainment
ROCE	30%	10.30%	14.88%	201.78%
Free cash flow (FCF)	40%	2,205 million	7,863 million	250.00%
Revenue growth (organic)	30%	(3.00)%	(2.51)%	106.81%
<b>Total target attainment</b>	<b>100%</b>			<b>192.58%</b>

(1) The values measured for target attainment for ROCE and Free cash flow were adjusted for certain non-recurring factors.

The values measured for target attainment were adjusted for non-recurring factors pursuant to the rules determined by the Supervisory Board at the beginning of the fiscal year. Accordingly, the actual values were adjusted for changes in the portfolio, impairment of non-current assets, and certain restructuring expenses, if any individual factor in these areas would have affected target attainment by more than five percent of the relevant target parameter.

The Supervisory Board also decided, exercising its duty-bound discretion (*plichtgemäßes Ermessen*), to increase the bonus payout amounts resulting from the target attainment by five percent, resulting in a target attainment of 202 percent for the determination of the payout amounts. In its decision, the Supervisory Board took account of the achievement of targets relevant to the Compliance Program and the growth of the Company's Environmental Portfolio. Furthermore, the Supervisory Board took into account the performance of Siemens' business volume and profitability in fiscal 2010 in comparison to its competitors General Electric, Philips, ABB and Alstom.

**Long-term stock-based compensation** For fiscal 2010, the Supervisory Board determined that the decision on the grant of Stock Awards would take account of the average earnings per share (basic EPS) from continuing operations for the past three fiscal years (2008–2010). The earnings for fiscal 2010 resulted in an average EPS of 3.01 (continuing operations) for fiscal 2008–2010, yielding a target attainment of 114 percent. The Stock Awards were recorded at the closing price of Siemens stock in Xetra trading on the date of commitment less the present value of dividends expected during the vesting period, because Stock Award holders are not entitled to receive dividends. The resulting value amounted to 77.76 (2009: 60.79).

**Total compensation** The decisions by the Supervisory Board described above yield total compensation of 34.2 million for the Managing Board for fiscal 2010 (2009: 27.3 million), an increase of 25 percent. Of this amount, 24.2 million

(2009: 17.9 million) was attributable to the cash compensation component and 10.0 million (2009: 9.4 million) to stock-based compensation.

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The following compensation was determined for each of the members of the Managing Board for fiscal 2010 (individualized disclosure):

	Fixed compensation (base compensation)		Variable cash compensation component (bonus)		Stock-based compensation <sup>(1)</sup> (Stock Awards)			
	2010	2009	2010	2009	Shares	Fair value	Shares	Fair value
	(Amounts in number of units or \$)							
<b>Managing Board</b>								
<b>Members serving as of September 30, 2010</b>								
Löscher	1,980,000	1,980,000	4,084,622	2,552,512	36,652	2,850,060	41,126	2,500,000
Wolfgang Dehen	780,000	780,000	1,577,230	1,268,717	14,661	1,140,039	16,451	1,000,000
Brigitte Ederer <sup>(3)</sup>	195,000		394,308		3,666	285,068		
Dr. Heinrich Hiesinger <sup>(4)</sup>	780,000	780,000	1,577,230	795,549			16,451	1,000,000
Joe Kaeser	780,000	780,000	1,577,230	985,624	14,661	1,140,039	16,451	1,000,000
Barbara Kux <sup>(5)</sup>	780,000	680,333	1,577,230	862,421	14,661	1,140,039	14,394	875,000
Prof. Dr. Hermann Requardt	780,000	780,000	1,577,230	953,646	14,661	1,140,039	16,451	1,000,000
Prof. Dr. Siegfried Russwurm	780,000	780,000	1,577,230	985,624	14,661	1,140,039	16,451	1,000,000
Peter Y. Solmssen	780,000	780,000	1,577,230	985,624	14,661	1,140,039	16,451	1,000,000
<b>Former member of the Managing Board</b>								
Reid-Anderson <sup>(6)</sup>		130,000		193,994				
	<b>7,635,000</b>	<b>7,470,333</b>	<b>15,519,540</b>	<b>9,583,711</b>	<b>128,284</b>	<b>9,975,362</b>	<b>154,226</b>	<b>9,375,000</b>

(Continued)	Other compensation <sup>(2)</sup>		Total	
	2010	2009	2010	2009
	(Amounts in number of units or \$)			

**Managing Board members serving as of September 30, 2010**

Peter Löscher	67,360	86,470	8,982,042	7,119,032
Wolfgang Dehen	49,984	49,904	3,547,253	3,098,677
Brigitte Ederer <sup>(3)</sup>	10,372		884,748	
Dr. Heinrich Hiesinger <sup>(4)</sup>	35,942	35,750	2,393,172	2,611,355
Joe Kaeser	66,587	66,455	3,563,856	2,832,135
Barbara Kux <sup>(5)</sup>	462,073	206,569	3,959,342	2,624,334
Prof. Dr. Hermann Requardt	58,947	60,331	3,556,216	2,794,033
Prof. Dr. Siegfried Russwurm	52,607	43,981	3,549,876	2,809,661
Peter Y. Solmssen	314,012	74,942	3,811,281	2,840,622

**Former member of the Managing Board**

Jim Reid-Anderson <sup>(6)</sup>		260,927		584,921
<b>Total</b>	<b>1,117,884</b>	<b>885,329</b>	<b>34,247,786</b>	<b>27,314,770</b>

- (1) The expenses recognized for stock-based compensation (Stock Awards) and for the Share Matching Plan for current and former members of the Managing Board in accordance with IFRS in fiscal 2010 and 2009 amounted to 8,266,027 and 5,242,845, respectively. The following amounts pertained to the members of the Managing Board in office in fiscal 2010: Peter Löscher 1,930,604 (2009: 1,097,255), Wolfgang Dehen 734,877 (2009: 463,803), Brigitte Ederer 0 (2009: 0), Dr. Heinrich Hiesinger 974,015 (2009: 696,222), Joe Kaeser 1,011,350 (2009: 730,740), Barbara Kux 276,178 (2009: 0), Prof. Dr. Hermann Requardt 975,639 (2009: 697,302), Prof. Dr. Siegfried Russwurm 741,426 (2009: 483,864), Peter Y. Solmssen 680,793 (2009: 440,007). An amount of 0 (2009: 0) pertained to Jim Reid-Anderson, who was elected a full member of the Managing Board effective May 1, 2008, and resigned from the Board effective November 30, 2008.
- (2) Other compensation includes non-cash benefits arising, for example, from the provision of company cars in the amount of 185,338 (2009: 184,643), subsidized insurance in the amount of 71,904 (2009: 60,657) and reimbursement of legal and/or tax advice fees, accommodation and moving expenses and costs associated with preventive medical examinations in the amount of 860,642 (2009: 640,029).
- (3) Brigitte Ederer was elected a full member of the Managing Board effective July 1, 2010.
- (4) Dr. Heinrich Hiesinger resigned from the Managing Board effective at the end of the day on September 30, 2010.
- (5) Barbara Kux was elected a full member of the Managing Board effective November 17, 2008.
- (6) Jim Reid-Anderson, who was elected a full member of the Managing Board effective May 1, 2008, and resigned from the Board effective November 30, 2008, received a consultant's fee in fiscal 2010, as well as the compensation required under his post-contractual non-compete agreement.

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**Pension benefit commitments** The amount of the contributions to the Siemens Defined Contribution Benefit Plan (BSAV) is determined annually by the Supervisory Board. The contributions under the BSAV are added to the personal pension account each January following the close of the fiscal year, with value date on January 1. Until the beneficiary's time of retirement, the pension account is credited with an annual interest payment (guaranteed interest) on January 1 of each year.

For fiscal 2010, the members of the Managing Board were granted contributions under the BSAV totaling 4.3 million (2009: 4.5 million), based on a resolution of the Supervisory Board dated November 10, 2010. Of this amount, 0.1 million (2009: 0.1 million) related to funding of pension commitments earned prior to transfer to the BSAV and the remaining 4.2 million (2009: 4.4 million) to contributions granted under the BSAV.

The following table shows, among other things, individualized details of the contributions (additions) under the BSAV attributable to the members of the Managing Board for fiscal 2010.

Contribution Plan (BSAV)	Balance of BSAV account at September 30, 2010 <sup>(1)</sup>	Balance of BSAV account at September 30, 2009 <sup>(1)</sup>	Total contributions for fiscal 2010	Total contributions for fiscal 2009	Of which, funding of pension commitments earned prior to transfer	Of which, funding of pension commitments earned prior to transfer	Of which, contributions to BSAV account 2010	Of which, contributions to BSAV account 2009
					to BSAV 2010	to BSAV 2009		
<b>Managing Board members serving as of September 30, 2010</b>								
Wolfgang Schäfer	11,444,745	10,097,550	1,120,000	1,120,000			1,120,000	1,120,000
Wolfgang Dehen	1,188,777	768,349	436,800	436,800	33,660	33,660	403,140	403,140
Wolfgang Ederer <sup>(2)</sup>			109,200				109,200	
Ulrich Hiesinger <sup>(3)</sup>	1,507,773	1,078,039	436,800	436,800	31,322	31,322	405,478	405,478
Wolfgang Kux <sup>(4)</sup>	1,848,093	1,403,805	436,800	436,800	24,097	24,097	412,703	412,703
Wolfgang Kux <sup>(4)</sup>	740,400 <sup>(5)</sup>		436,800	740,400 <sup>(5)</sup>			436,800	740,400 <sup>(5)</sup>
Wolfgang Hermann	1,785,597	1,346,321	436,800	436,800	27,816	27,816	408,984	408,984
Wolfgang Siegfried								
Wolfgang M	1,066,482	628,295	436,800	436,800	12,750	12,750	424,050	424,050
Wolfgang Solmssen	11,638,083	10,954,800	436,800	436,800			436,800	436,800
<b>Former member of the Managing Board</b>								
Wolfgang L-Anderson <sup>(6)</sup>								
	<b>31,219,950</b>	<b>26,277,159</b>	<b>4,286,800</b>	<b>4,481,200</b>	<b>129,645</b>	<b>129,645</b>	<b>4,157,155</b>	<b>4,350,000</b>

- (1) In each case, including the additions in January 2010, but without reflecting minimum interest of currently 2.25 percent accrued in the meantime.
- (2) Brigitte Ederer was elected a full member of the Managing Board effective July 1, 2010.
- (3) Dr. Heinrich Hiesinger resigned from the Managing Board effective at the end of the day on September 30, 2010.
- (4) Barbara Kux was elected a full member of the Managing Board effective November 17, 2008.
- (5) Including the special addition of 340,000 as of January 2010, approved in fiscal 2009.
- (6) Jim Reid-Anderson was elected a full member of the Managing Board effective May 1, 2008, and resigned from the Board effective November 30, 2008.

The defined benefit obligation (DBO) of all pension commitments to members of the Managing Board as of September 30, 2010, amounted to 44.6 million (2009: 33.9 million). This amount is included in Notes to Consolidated Financial Statements.

Former members of the Managing Board and their surviving dependents received emoluments within the meaning of § 314 (1), No. 6 b of the German Commercial Code (*Handelsgesetzbuch, HGB*) totaling 13.7 million (2009: 16.1 million) for the year ended September 30, 2010, and 14,661 Stock Awards with a total fair value of 1.1 million.

The defined benefit obligation (DBO) of all pension commitments to former members of the Managing Board and their surviving dependents, amounted to 175.7 million (2009: 159.5 million) as of September 30, 2010. This amount is included in Notes to Consolidated Financial Statements.

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



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The following tables provide information concerning the Stock Awards and stock options held by members of the Managing Board that were components of the stock-based compensation in fiscal 2010 and prior years, as well as about the Managing Board members' entitlements to matching shares under the Siemens Share Matching Plan.

The following table shows the changes in the Stock Awards held by Managing Board members in fiscal 2010:

Stock Awards	Balance at beginning of fiscal 2010		Granted during fiscal year		Vested during fiscal year		Forfeited during fiscal year		Balance at end of fiscal 2010 <sup>(1)</sup>	
	Awards	Weighted average fair value at grant date	Awards	Weighted average fair value at grant date	Awards	Weighted average fair value at grant date	Awards	Weighted average fair value at grant date	Awards	Weighted average fair value at grant date
(Amounts in number of units or )										
<b>Managing Board members serving as of September 30, 2010</b>										
Dr. L. Löschner	76,613	45.69	41,126	60.79					117,739	50.00
Dr. G. Dehen	30,604	41.14	16,451	60.79	1,407	57.28			45,648	47.00
Dr. B. Ederer <sup>(2)</sup>	6,326	50.43	2,879	60.79	445	57.28			8,760	53.00
Dr. H. Hiesinger <sup>(3)</sup>	37,664	52.39	16,451	60.79	964	57.28	53,151	54.90		
Dr. K. Kaeser	39,586	53.14	16,451	60.79	935	57.28			55,102	55.00
Dr. M. Kux			14,394	60.79					14,394	60.00
Dr. G. Dr. Hermann										
Dr. G. Uardt	38,483	52.62	16,451	60.79	1,309	57.28			53,625	55.00
Dr. G. Dr. Siegfried										
Dr. G. Swurm	29,540	41.75	16,451	60.79	513	57.28			45,478	48.00
Dr. G. Y. Solmssen	26,561	37.65	16,451	60.79					43,012	46.00
<b>Total</b>	<b>285,377</b>	<b>47.00</b>	<b>157,105</b>	<b>60.79</b>	<b>5,573</b>	<b>57.28</b>	<b>53,151</b>	<b>54.90</b>	<b>383,758</b>	<b>51.00</b>

(1) Amounts do not include Stock Awards granted in November 2010 for fiscal 2010. However, these amounts may include Stock Awards received as compensation by the Managing Board member before joining the Managing Board.

(2) Brigitte Ederer was elected a full member of the Managing Board effective July 1, 2010.

(3) Dr. Heinrich Hiesinger resigned from the Managing Board effective at the end of the day on September 30, 2010.

Stock options were issued for fiscal years 1999 through 2005 under the terms and conditions of the 1999 and 2001 Siemens Stock Option Plans approved by the Annual Shareholders' Meetings of Siemens AG on February 18, 1999, and February 22, 2001. For details on the Siemens Stock Option Plans, see Notes to Consolidated Financial

Statements.

At the beginning of fiscal 2010, Managing Board members held a total of 73,085 stock options, with a weighted average strike price of 73.65. These stock options pertained to the following board members (the figures in brackets are the weighted average strike price): Dr. Heinrich Hiesinger, 23,755 stock options ( 73.56); Joe Kaeser, 21,850 stock options ( 73.62); and Prof. Dr. Hermann Requardt, 27,480 stock options ( 73.74).

No stock options were granted to Managing Board members in fiscal 2010.

On September 14, 2010, Dr. Heinrich Hiesinger exercised 11,845 stock options at a share price of 75.46; the strike price of these options was 74.59. No other stock options were exercised by Managing Board members in fiscal 2010.

A total of 33,655 (2009: 11,000) stock options with a strike price of 72.54 were forfeited in fiscal 2010. Of this total, 11,910 (2009: 0) forfeited options pertained to Dr. Heinrich Hiesinger, 10,355 (2009: 11,000) to Joe Kaeser, and 11,390 (2009: 0) to Prof. Dr. Hermann Requardt.

As of September 30, 2010, the members of the Managing Board held a total of 27,585 outstanding stock options, with a strike price of 74.59. Of this total, 11,495 options pertained to Joe Kaeser and 16,090 pertained to Prof. Dr. Hermann Requardt. The remaining term of these stock options as of September 30, 2010, was 0.1 years.

In fiscal 2010, the members of the Managing Board were entitled to participate in the Siemens Share Matching Plan, and under the plan were entitled to invest up to 50 percent of the annual gross amount of their variable cash compensation component (bonus) in Siemens shares. After expiration of a vesting period of approximately three years, plan participants will receive one free matching share of Siemens stock for every three Siemens shares acquired and continuously held under the plan, provided the participants were employed without interruption at

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Siemens AG or a Siemens company until the end of the vesting period. The following table shows individualized details of the matching share entitlements acquired by the members of the Managing Board in fiscal 2010 and the applicable fair values.

<b>Entitlement to matching shares under the Share Matching Plan</b>									
<b>Balance at beginning of fiscal 2010</b>		<b>Acquired during fiscal year</b>		<b>Due during fiscal year</b>		<b>Forfeited during fiscal year</b>		<b>Balance at end of fiscal 2010<sup>(1)(2)</sup></b>	
<b>Weighted average fair value at acquisition date</b>		<b>Weighted average fair value at acquisition date</b>		<b>Weighted average fair value at acquisition date</b>		<b>Weighted average fair value at acquisition date</b>		<b>Weighted average fair value at acquisition date</b>	
<b>Entitlement to matching shares</b>	<b>value at acquisition date</b>	<b>Entitlement to matching shares</b>	<b>value at acquisition date</b>	<b>Entitlement to matching shares</b>	<b>value at acquisition date</b>	<b>Entitlement to matching shares</b>	<b>value at acquisition date</b>	<b>Entitlement to matching shares</b>	<b>value at acquisition date</b>
(Amounts in number of units or )									

**Managing Board members serving as of September 30, 2010**

Peter Löscher									
Wolfgang Dehen	4,140	21.34	1,705	47.18				5,845	28.88
Brigitte Ederer <sup>(3)</sup>	560	21.34						560	21.34
Dr. Heinrich Hiesinger <sup>(4)</sup>	3,762	21.34	1,284	47.18		5,046	27.92		
Joe Kaeser	3,855	21.34	1,590	47.18				5,445	28.89
Barbara Kux <sup>(5)</sup>			698	47.18				698	47.18
Prof. Dr. Hermann Requardt	3,228	21.34	1,027	47.18				4,255	27.58
Prof. Dr. Siegfried Russwurm	4,926	21.34	533	47.18				5,459	23.86
Peter Y. Solmssen	6,051	21.34						6,051	21.34
<b>Total</b>	<b>26,522</b>	<b>21.34</b>	<b>6,837</b>	<b>47.18</b>		<b>5,046</b>	<b>27.92</b>	<b>28,313</b>	<b>26.41</b>

(1) Amounts may include entitlements acquired before the member joined the Managing Board.

(2) The entitlements of the Managing Board members serving at the end of fiscal 2010 had the following fair values: Peter Löscher 0 (2009: 0), Wolfgang Dehen 169,623 (2009: 88,808), Brigitte Ederer 11,958 (2009: 11,958), Dr. Heinrich Hiesinger 0 (2009: 80,741), Joe Kaeser 158,102 (2009: 82,726), Barbara Kux 33,282 (2009: 0), Prof. Dr. Hermann Requardt 118,158 (2009: 69,346), Prof. Dr. Siegfried Russwurm 131,068 (2009: 105,581), Peter Y. Solmssen 129,588 (2009: 129,588). Jim Reid-Anderson, who was elected a full member of the Managing Board effective May 1, 2008, and resigned from the Board effective November 30, 2008, received no entitlements to matching shares in fiscal years 2009 or 2010. The above fair values also take into account that the shares were acquired under the Share Matching Plan at the lowest share price on December 17, 2009 (2009: December 17,

2008), and that a Company subsidy was provided under the Base Share Program.

- (3) Brigitte Ederer was elected a full member of the Managing Board effective July 1, 2010.
- (4) Dr. Heinrich Hiesinger resigned from the Managing Board effective at the end of the day on September 30, 2010.
- (5) Barbara Kux was elected a full member of the Managing Board effective November 17, 2008.

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The Siemens Share Ownership Guidelines require the members of the Managing Board to hold Siemens shares worth a multiple of their average base compensation (300 percent for the President and CEO, 200 percent for the other members of the Managing Board) for the duration of their term of office on the Managing Board. As of September 30, 2010, the individual adherence to the Share Ownership Guidelines of each of the members of the Managing Board was as follows:

	Share ownership		Obligation under Share Ownership Guidelines		
	Number of shares	Value <sup>(1)</sup> (Amounts in number of units or )	Required value <sup>(2)</sup>	Required number of shares <sup>(1)</sup>	Due date for initial measurement of adherence
<b>Managing Board members serving as of September 30, 2010</b>					
Peter Löscher	100,000	7,743,000	5,955,000	76,909	03/09/2012
Wolfgang Dehen	22,632	1,752,396	1,620,000	20,923	03/09/2012
Brigitte Ederer <sup>(3)</sup>	1,681	130,160	1,800,000	23,247	03/13/2015
Dr. Heinrich Hiesinger <sup>(4)</sup>					
Joe Kaeser	27,655	2,141,327	1,620,000	20,923	03/09/2012
Barbara Kux	6,193	479,524	1,680,000	21,698	03/08/2013
Prof. Dr. Hermann Requardt	15,009	1,162,147	1,620,000	20,923	03/09/2012
Prof. Dr. Siegfried Russwurm	20,326	1,573,842	1,620,000	20,923	03/09/2012
Peter Y. Solmssen	31,028	2,402,498	1,620,000	20,923	03/09/2012
<b>Total</b>	<b>224,524</b>	<b>17,384,894</b>	<b>17,535,000</b>	<b>226,469</b>	

- (1) On the basis of the closing price of Siemens stock in Xetra trading on September 30, 2010 ( 77.43).
- (2) With effect of October 1, 2010, the amount of the obligation under the Share Ownership Guidelines will be determined on the basis of the average base compensation for the past four years.
- (3) Brigitte Ederer was elected a full member of the Managing Board effective July 1, 2010.
- (4) Dr. Heinrich Hiesinger resigned from the Managing Board effective at the end of the day on September 30, 2010.

**Revisions to the remuneration system for the Managing Board for fiscal 2011** In fiscal 2010, the Supervisory Board decided to make further adjustments to the remuneration system for the Managing Board and to focus even more sharply on sustainable corporate management. The changes center around strengthening long-term components of compensation, with an associated expansion of deferred payouts. For a 100 percent target attainment, more than half of total remuneration will be awarded as stock-based compensation with a four-year vesting period. Additionally,

over 50 percent of the variable component of compensation will be determined on the basis of multi-year target parameters. Furthermore, the remuneration of the members of the Managing Board will be more strongly aligned with the shareholders' interest in a stable and long-term remunerative investment. In particular, this purpose is achieved by relating half of the long-term variable compensation to the multi-year performance of Siemens stock relative to five important competitors. Finally, for this purpose, adjustments in connection with the measurement of the target attainment for variable compensation components will be tightly limited to extraordinary developments which cannot be anticipated.

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The following table shows the most significant revisions compared to the previous remuneration system:

Specifically, the following changes were adopted effective October 1, 2010:

The base compensation of the President and CEO will remain substantially unchanged. The base compensation of the other Managing Board members, which has hitherto remained at approximately the same level as in 2003, will be increased from 780,000 to 900,000 per year.

The variable compensation component (bonus) will continue to be determined on the basis of annual targets which are determined by the Supervisory Board at the beginning of the fiscal year. The starting point for the target setting is One Siemens, our target system for sustainably enhancing the Company value. Growth, return on capital employed (ROCE adjusted) and Free cash flow will continue to serve as target parameters under this target system. The Supervisory Board will take into consideration the position of Siemens in the market and relative to its competitors when setting the targets and defining the relative weighting of the target parameters each year. The target system for the members of the Managing Board thus provides an incentive for sustainably increasing the value of the Company.

In choosing the targets to be considered in deciding on possible adjustments to the bonus payouts ( $\pm 20$  percent), the Supervisory Board will take account of incentives for sustainable corporate management. In addition, the adjustment option may be used to give special recognition for Managing Board members' individual achievements.

Going forward, the bonus which had been paid out up to now entirely in cash, will be paid out half in cash, and half in the form of non-forfeitable commitments for Siemens stock (Bonus Awards). After a four-year vesting period, the beneficiary will receive one free share of Siemens stock for each Bonus Award. Instead of the transfer of Siemens stock, an equivalent cash settlement may be paid. This new arrangement will significantly increase the proportion of total compensation paid out as stock-based and deferred compensation.

The Supervisory Board also decided to lower the maximum amount for the bonus (cap) from 250 percent to 200 percent.

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Long-term stock-based compensation will continue to be granted in the form of forfeitable Stock Awards. To further strengthen the focus on sustainability also for this compensation component, the Supervisory Board has extended the vesting period by one year from three years to four years.

The annual target amounts for Stock Awards ( 2.5 million for the President and CEO, 1.0 million for the other Managing Board members) will remain unchanged. However, the Supervisory Board has defined mandatory rules for the grant of Stock Awards so that this remuneration component is also fully performance-related. The starting point is the Company-wide target system One Siemens which has been effective as of fiscal year 2011. This system focuses on sustainably enhancing Siemens' value. The rules governing the grant of Stock Awards take this aspect into account as follows:

On the one hand, the annual grant of Stock Awards will depend on the sustainability of superior business performance. For this purpose, half of the annual target amount for Stock Awards will be linked to the average of the published earnings per share (basic EPS) for the past three fiscal years. At the end of the fiscal year, the Supervisory Board will determine a figure that represents the year's target attainment, which may lie between 0 percent and 200 percent (cap). This target attainment will then determine the actual fair value of the award, and the resulting number of Stock Awards.

On the other hand, the performance of Siemens' value relative to its competitors shall have a direct impact on remuneration. For this purpose, with respect to the other half of the annual target amount for Stock Awards, the Supervisory Board will first grant a number of Stock Awards equivalent to the fair value of half the target amount on the date of the award. The Supervisory Board will also decide on a target system (target value for 100 percent and target curve) for the performance of Siemens stock relative to at present five competitors (ABB, General Electric, Philips, Rockwell, Schneider). The reference period for measuring the target will be the same as the four-year vesting period for the Stock Awards. After this vesting period expires, the Supervisory Board will determine how much better or worse Siemens stock has performed relative to that of those competitors. This determination will yield a target attainment of between 0 percent and 200 percent (the cap). If the target attainment is above 100 percent, the members of the Managing Board will receive an additional cash payment based on how far the figure outperforms the target. If the target attainment is less than 100 percent, a number of Stock Awards equivalent to the shortfall from the target will expire without replacement.

The requirements of the Share Ownership Guidelines will remain basically unchanged. However, the amount of the obligation will henceforth be determined on the basis of the average base compensation for the past four years. Accordingly, changes that have been made to the base compensation in the meantime will be taken into account. Moreover, it will be possible to credit non-forfeitable stock awards (Bonus Awards) toward compliance with the Share Ownership Guidelines.

Formerly, members of the Managing Board were able to participate in the Share Matching Plan for employees and executives. Under the new remuneration system, they will no longer be able to do so.

Concerning the rules governing compensatory payments, the severance settlement in the event of a change of control will now be equivalent to no more than two years' compensation uniformly for all Managing Board members. The calculation of the annual compensation will include the target amount for the Stock Awards. In addition, compensation or severance payments will be reduced in the future by 15 percent as a lump-sum allowance for discounted value and for income earned elsewhere. However, this reduction will apply only to the portion of the compensatory or severance payment that was calculated without taking account of the first six months of the remaining term of the Managing Board member's contract.



**Supervisory Board remuneration**

The remuneration of the members of the Supervisory Board was determined at the Annual Shareholders Meeting through shareholder approval of a proposal by the Managing and Supervisory Boards. Details of the remuneration are set forth in the Articles of Association of Siemens AG. The remuneration of the members of the Supervisory Board is commensurate with compensation paid by companies of comparable size and reflects the

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responsibilities and scope of work of the Supervisory Board members as well as the Company's economic situation and performance. The Chairman and deputy chairmen of the Supervisory Board, as well as the Chairmen and members of the Audit Committee and the Chairman's Committee, and to a lesser extent the Compliance Committee and the Finance and Investment Committee, receive additional compensation.

The current remuneration policies for the Supervisory Board were authorized at the Annual Shareholders' Meeting of January 27, 2009. Details are set out in § 17 of the Articles of Association of Siemens AG. As a result, the remuneration of Supervisory Board members for fiscal 2010 includes three components:

- a fixed compensation component,
- a short-term compensation component based on earnings per share, and
- a long-term compensation component based on earnings per share.

Under this concept, each Supervisory Board member receives fixed compensation of € 50,000 annually as well as short-term variable compensation of € 150 for each € 0.01 by which earnings per share as disclosed in the Consolidated Financial Statements exceed a minimum amount of € 1.00; this minimum amount is increased annually by ten percent, beginning with the fiscal year starting on October 1, 2009. In addition, variable long-term compensation of € 250 is paid for each € 0.01 by which the average earnings per share over the last three completed fiscal years as disclosed in the Consolidated Financial Statements exceed the amount of € 2.00; this minimum amount is increased annually by ten percent, beginning with the fiscal year starting on October 1, 2009. The determination of the Supervisory Board's remuneration is based on basic earnings per share (basic EPS) from continuing operations as disclosed in the Consolidated Financial Statements prepared in accordance with the accounting principles to be applied in each case.

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	2010			Total	2009			Total
	Fixed compensation	Short-term variable compensation	Long-term variable compensation		Fixed compensation	Short-term variable compensation	Long-term variable compensation	
<b>Supervisory Board members as of September 30,</b>								
Gerhard Cromme <sup>(1)</sup>	200,000	206,400	81,000	487,400	200,000	96,000	88,000	384,000
Berthold Huber <sup>(1)(2)</sup>	100,000	103,200	40,500	243,700	78,125	37,500	34,375	150,000
Dr. Josef Ackermann <sup>(1)</sup>	100,000	103,200	40,500	243,700	83,333	40,000	36,667	160,000
Lothar Adler <sup>(1)(2)</sup>	100,000	103,200	40,500	243,700	90,625	43,500	39,875	174,000
Jean-Louis Beffa <sup>(1)</sup>	62,500	64,500	25,313	152,313	53,906	25,875	23,719	103,500
Gerd von Brandenstein <sup>(1)</sup>	62,500	64,500	25,313	152,313	62,500	30,000	27,500	120,000
Dieter Scheitor	47,222	48,733	19,125	115,080	47,917	23,000	21,083	91,920
Dr. Hans Michael Gaul <sup>(1)</sup>	112,500	116,100	45,563	274,163	112,500	54,000	49,500	216,000
Peter Gruss	47,222	48,733	19,125	115,080	50,000	24,000	22,000	96,000
Bettina Haller <sup>(1)(2)</sup>	87,500	90,300	35,438	213,238	75,000	36,000	33,000	144,000
Werner Mönibus	50,000	51,600	20,250	121,850	37,500	18,000	16,500	72,000
Werner Mönibus <sup>(2)</sup>	50,000	51,600	20,250	121,850	50,000	24,000	22,000	96,000
Dr. Ingrid Leibinger-Kammüller	47,222	48,733	19,125	115,080	50,000	24,000	22,000	96,000
Håkan Samuelsson <sup>(1)(2)</sup>	62,500	64,500	25,313	152,313	56,250	27,000	24,750	108,000
Håkan Samuelsson <sup>(1)</sup>	62,500	64,500	25,313	152,313	59,896	28,750	26,354	114,900
Dieter Scheitor <sup>(1)(2)</sup>	87,500	90,300	35,438	213,238	87,500	42,000	38,500	168,000
Birgit Steinborn	50,000	51,600	20,250	121,850	50,000	24,000	22,000	96,000
Birgit Steinborn <sup>(1)(2)</sup>	87,500	90,300	35,438	213,238	81,250	39,000	35,750	156,000
Dr. Gert Vallance of Tumme	87,500	90,300	35,438	213,238	83,854	40,250	36,896	160,900
Dr. Gert Vallance of Tumme <sup>(1)(2)(4)</sup>	62,500	64,500	25,313	152,313	31,250	15,000	13,750	60,000
<b>Supervisory Board</b>								
Dieter Scheitor <sup>(2)(3)</sup>					45,833	22,000	20,167	88,000
Werner Mönibus <sup>(2)(4)</sup>					43,750	21,000	19,250	84,000
	<b>1,566,666</b>	<b>1,616,799</b>	<b>634,505</b>	<b>3,817,970<sup>(5)</sup></b>	<b>1,530,989</b>	<b>734,875</b>	<b>673,636</b>	<b>2,940,000</b>

- (1) Dr. Gerhard Cromme as Chairman of the Supervisory Board and of the Chairman's Committee, the Compliance Committee, the Finance and Investment Committee, and member of the Audit Committee; Berthold Huber as Deputy Chairman of the Supervisory Board and member of the Chairman's Committee; Dr. Josef Ackermann as Deputy Chairman of the Supervisory Board and member of the Chairman's Committee; Lothar Adler as member of the Chairman's Committee, the Compliance Committee and the Finance and Investment Committee; Jean-Louis Beffa and Gerd von Brandenstein as members of the Finance and Investment Committee; Dr. Hans Michael Gaul as Chairman of the Audit Committee and member of the Compliance Committee; Bettina Haller as member of the Audit Committee and the Compliance Committee; Werner Mönibus and Håkan Samuelsson as members of the Finance and Investment Committee; Dieter Scheitor as member of the Audit Committee and the Finance and Investment Committee; Birgit Steinborn as member of the Audit Committee and the Finance and

Investment Committee; Lord Iain Vallance of Tummel as member of the Audit Committee and the Compliance Committee; and Sibylle Wankel as member of the Compliance Committee, each receive higher fixed and variable compensation.

- (2) Both the employee representatives on the Supervisory Board who represent the employees pursuant to § 3 (1) No. 1 of the German Codetermination Act (*Mitbestimmungsgesetz, MitbestG*) and the representatives of the trade unions on the Supervisory Board declared their readiness to transfer their compensation to the Hans Boeckler Foundation, in accordance with the guidelines of the Confederation of German Trade Unions (DGB).
- (3) Hans-Jürgen Hartung succeeded Ralf Heckmann on the Supervisory Board by court appointment as of the end of the Annual Shareholders Meeting on January 27, 2009.
- (4) Sibylle Wankel, formerly a substitute member of the Supervisory Board, became a full member of the Supervisory Board as successor to Heinz Hawreliuk with effect from April 1, 2009.
- (5) In addition, the members of the Supervisory Board are entitled to receive a meeting attendance fee of 1,000 for each meeting of the Supervisory Board and its committees that they attend. In fiscal 2010 Dr. Gerhard Cromme received meeting fees of 26,000 (2009: 28,000); Lothar Adler 20,000 (2009: 17,000); Dr. Hans Michael Gaul 17,000 (2009: 20,000); Bettina Haller 17,000 (2009: 16,000); Lord Iain Vallance of Tummel 17,000 (2009: 17,000); Dieter Scheitor 14,000 (2009: 17,000); Birgit Steinborn 14,000 (2009: 14,000); Dr. Josef Ackermann 13,000 (2009: 6,000); Berthold Huber 12,000 (2009: 7,000); Sibylle Wankel 11,000 (2009: 5,000); Jean-Louis Beffa 8,000 (2009: 9,000); Gerd von Brandenstein 8,000 (2009: 11,000); Werner Mönius 8,000 (2009: 10,000); Håkan Samuelsson 8,000 (2009: 9,000); Hans-Jürgen Hartung 6,000 (2009: 4,000); Harald Kern 6,000 (2009: 8,000); Dr. Rainer Sieg 6,000 (2009: 8,000); Michael Diekmann 5,000 (2009: 7,000); Prof. Dr. Peter Gruss 5,000 (2009: 8,000); Dr. Nicola Leibinger-Kammüller 5,000 (2009: 8,000); Ralf Heckmann 0 (2009: 12,000), and Heinz Hawreliuk 0 (2009: 11,000).

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The Chairman of the Supervisory Board is entitled to receive 300 percent, and each of the deputy chairmen 150 percent, of the fixed and the variable compensation of an ordinary member. Furthermore, each member of the Audit Committee and the Chairman's Committee is entitled to receive additional compensation amounting to 50 percent of the fixed and the variable compensation of an ordinary member, while the chairmen of these committees are entitled to receive additional compensation amounting to 100 percent of the fixed and the variable compensation of an ordinary member. In addition, each member of the Compliance Committee and the Finance and Investment Committee is entitled to receive additional compensation amounting to 25 percent of the fixed and the variable compensation of an ordinary member, while the chairmen of these committees are entitled to receive additional compensation amounting to 50 percent of the fixed and the variable compensation of an ordinary member. The aggregate compensation of the Chairman of the Supervisory Board is not to exceed 400 percent of the fixed and the variable compensation of an ordinary member. If a Supervisory Board member does not attend a meeting of the Supervisory Board, one third of the aggregate fixed and variable compensation due to that member is reduced by the percentage of Supervisory Board meetings not attended by the member in relation to the total number of Supervisory Board meetings held during the fiscal year.

In addition, the members of the Supervisory Board are entitled to receive a meeting attendance fee of 1,000 for each meeting of the Supervisory Board and its committees that they attend.

The members of the Supervisory Board are reimbursed for out-of-pocket expenses incurred in connection with their duties and for any sales tax to be paid on their remuneration. In consideration for the performance of his duties, the Chairman of the Supervisory Board is furthermore entitled to an office with secretarial support and use of the Siemens carpool service.

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

## **Other**

The Company provides a group insurance policy for board and committee members and certain employees of the Siemens organization that is taken out for one year and renewed annually. The insurance covers the personal liability of the insured in the case of a financial loss associated with employment functions. The insurance policy for fiscal 2010 includes a deductible for the members of the Managing Board and the Supervisory Board in compliance with the requirements of the German Stock Corporation Act (AktG) and the German Corporate Governance Code which replaced prior individual commitments. As part of these commitments, with effect from October 1, 2005, the Company and the individual members of the Managing Board and the Supervisory Board had agreed on a deductible up to an amount equivalent to 20 percent of the fixed salary or the fixed compensation component, respectively.

## **Stock-based compensation**

### **Stock option plan**

We have a stock option plan, the 2001 Stock Option Plan under which options were granted to members of our Managing Board, members of the top management of our domestic and foreign subsidiaries and other eligible employees. The authority to distribute options under this plan expired on December 13, 2006. This plan enabled the issuance of non-transferable options exercisable for up to an aggregate of 55 million of our shares, of which options exercisable for no more than 3.3 million shares could have been granted to members of the Managing Board, options exercisable for up to an aggregate of 8.8 million shares could have been granted to members of the top managements of domestic and foreign subsidiaries, and options exercisable for up to 42.9 million shares could have been granted to other eligible employees.

As of October 31, 2010, we had outstanding options exercisable for 928,357 shares under our option plan.

No options were issued to members of our Managing Board during fiscal 2011, 2010 and 2009. Since the authority to distribute options under this plan expired on December 13, 2006, no further options will be granted under this plan.

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The exercise price for options under the 2001 Stock Option Plan is 120% of the average opening price of our shares on the Xetra-system of the Frankfurt Stock Exchange during the five trading days preceding the day of grant of the options. Holders of options under the 2001 Stock Option Plan may exercise them during fixed time periods after the publication of our quarterly, half-year or yearly results within a three-year period following a holding period of two years plus one week. In addition, options under the 2001 Stock Option Plan may be exercised only if the trading price of our shares on the Frankfurt Stock Exchange reaches the option exercise price at least once during the five-year term of the options.

The options may be settled in newly issued shares of common stock of Siemens AG from the conditional capitals reserved for this purpose, in treasury stock or in cash. The alternatives available to optionees are determined by the Managing Board and subsequently approved by the Supervisory Board.

**Stock Awards**

In November 2004, we introduced Stock Awards as another means of providing stock-based compensation to our Managing Board, members of the top management of our domestic and foreign subsidiaries, and other eligible employees. Stock Awards are commitments to issue or transfer shares of Siemens AG to the grantee. Each stock award is subject to a vesting period of four years (if granted on or before September 30, 2007) or three years (if granted thereafter). Upon expiration of the vesting period, the grantee receives a corresponding number of shares of Siemens AG without additional payment.

Stock Awards cannot be transferred, sold, pledged or otherwise encumbered. They can be inherited only by spouses or in the absence of a spouse by children of the grantee. Stock Awards are not entitled to dividends paid during the vesting period.

The Supervisory Board decides annually after the end of each fiscal year how many Stock Awards to grant to the members of the Managing Board, and the Managing Board decides annually how many Stock Awards to grant to members of the top management of our domestic and foreign subsidiaries and other eligible employees. Stock Awards may be granted only once a year within 30 days after publication of the yearly results.

In November 2010, the Company decided to grant a total of 1,372,306 Stock Awards with a grant date of November 12, 2010 of which an amount of 128,284 Stock Awards were granted to members of our Managing Board and 1,244,022 Stock Awards were granted to members of the top managements of domestic and foreign subsidiaries and other eligible employees of the Company.

The fair value of the Stock Awards is recorded at the market price of the Siemens share on the grant date less the present value of dividends expected during the waiting period. The following table sets forth information as to the Stock Awards we granted during fiscal 2011, 2010 and 2009:

	<b>With respect to Stock Awards granted in fiscal 2011</b>	<b>With respect to Stock Awards granted in fiscal 2010</b>	<b>With respect to Stock Awards granted in fiscal 2009</b>
Number of Stock Awards granted	1,372,306	1,361,586	1,992,392
Value per Stock Awards at grant date	77.76	60.79	37.65
Total value of Stock Awards granted	106.7 million	82.8 million	75.0 million

For further details, including the number of Stock Awards granted to the individual members of our Managing Board and their fair value, see Compensation report.

Stock Awards may be settled in newly issued shares of common stock of Siemens AG from authorized capital which may be reserved for this purpose, in treasury stock or in cash. The settlement method will be determined subsequently by the Managing Board and the Supervisory Board.



**Table of Contents****Share Matching Plan**

Since fiscal year 2009, the members of the Managing Board as well as certain members of the top management of our domestic and foreign subsidiaries of the Company and other eligible employees of the Siemens group (the Plan Participants ) may also participate in the new Share Matching Plan (the Plan ). After expiration of a three-year vesting period, each Plan Participant is entitled to receive, without further payment, one matching share of Siemens stock for every three Siemens shares acquired and continuously held under the Plan. In December 2009, the members of the Managing Board acquired a total amount of 20,510 shares of Siemens stock under the Plan and are, hence, entitled to receive, after expiration of the three-year vesting period and provided that the shares were continuously held, a total amount of 6,837 matching shares. Furthermore, in December 2009, all Plan Participants, excluding the members of the Managing Board, acquired a total amount of 1,318,462 shares of Siemens stock under the Plan and are, hence, entitled to receive, after expiration of the three-year vesting period and provided that the shares were continuously held, a total amount of 439,487 matching shares. For further details, including the number of matching share entitlements under the Plan of the individual members of our Managing Board, see Compensation report.

In July 2010, the Supervisory Board resolved certain adjustments to the remuneration system for the Managing Board with effect from October 1, 2010. In this connection, the Supervisory Board decided that as of fiscal 2011, the members of the Managing Board will no longer be able to participate in the Share Matching Plan. For further details on the adjustments to the remuneration system for the Managing Board, see Compensation report.

**Share ownership**

As of October 13, 2010, the current Managing Board members held a total of 291,827 Siemens shares as well as stock options and stock awards on Siemens shares (exercisable within sixty days), representing less than 0.04 percent of the capital stock of Siemens AG. As of the same day, the current members of the Supervisory Board held a total of 5,146 Siemens shares as well as stock options and stock awards on Siemens shares (exercisable within sixty days), representing less than 0.01 percent of the capital stock of Siemens AG. These figures do not include 11,459,406 shares, or 1.25 percent of the capital stock, over which the von Siemens-Vermögensverwaltung GmbH (vSV), a German limited liability company, has voting control under powers of attorney based on an agreement between among others members of the Siemens family, including Mr. Gerd von Brandenstein, and vSV. These shares are voted together by vSV based on proposals by a committee representing members of the Siemens family. Mr. Gerd von Brandenstein is the current chairman of the executive committee and has a casting vote in case of a deadlock. The vSV is described in more detail under Item 7: Major shareholders and Related party transactions Major shareholders.

For detailed information regarding the individual share ownership of each Managing Board member see Compensation report Managing Board compensation.

Pursuant to § 15a of the German Securities Trading Act (*Wertpapierhandelsgesetz*, WpHG), members of the Managing and Supervisory Boards are required to disclose purchases or sales of shares of Siemens AG or financial instruments based on such shares if the total amount of transactions of a board member and any closely associated person is at least 5,000 during any calendar year. Any transactions reported to Siemens AG in accordance with this requirement were duly published and can be found on the Company's Internet website at [www.siemens.com/directors-dealings](http://www.siemens.com/directors-dealings). For more information on this disclosure requirement, see Item 10: Additional Information Articles of Association and relevant provisions of German law Disclosure requirement.

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**ITEM 7: MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

**Major shareholders**

The von Siemens Vermögensverwaltung GmbH (vSV) is a German limited liability company and party to an agreement with, among others, members of the Siemens family. In order to bundle and represent their interests, the family established a family partnership. The vSV holds, on a sustained basis, powers of attorney allowing it to vote approximately 1.25 percent of our outstanding shares on behalf of members of the Siemens family. The family partnership or one of its committees makes proposals to the vSV with respect to the exercise of voting rights at Shareholders Meetings of the Company, which are taken into account by the vSV when acting within the bounds of its professional discretion. One of these committees is the executive committee, which is currently chaired by Mr. Gerd von Brandenstein, who is also a member of our Supervisory Board; he has a casting vote in the committee in case of a deadlock.

The Werner Siemens Stiftung Zug, Switzerland, a family sponsored foundation, has notified us that as of January 2, 2008, it held 27,739,285 shares, or 3.03 percent of our common shares, thus exceeding the 3 percent reporting threshold set forth in the German Securities Trading Act. We have received no further notification since that date.

BlackRock, Inc., New York, USA, has notified us that as of December 1, 2009, it held, directly or indirectly, 35,834,651 shares, or 3.92 percent of our common shares. We have received no further notification since that date.

To our knowledge and based on public filings, there is no single person that may be considered a beneficial owner of 5 percent or more of our outstanding shares. However there are entities, mostly banks or other financial institutions, which according to information they provided to us at various points over the last three fiscal years reached, exceeded or fell below the reporting threshold set forth in the German Securities Trading Act. Such information has been made publicly available.

As of September 30, 2010, we held 44,366,416 shares, or 4.85 percent of our common shares, which we had repurchased and held as treasury shares. For further information on share repurchases see Item 10: Repurchase of own shares and Item 16E: Purchases of equity securities by the issuer and affiliated purchasers. For further information on shares held in treasury see Notes to Consolidated Financial Statements.

Based on our share register, we had 707,908 shareholders of record as of September 30, 2010, and U.S. record holders held approximately 14.44 percent of our common shares at that date. In addition, the records of the depositary under our ADR Program, JPMorgan, show that there were 402 registered holders of our American Depositary Shares (ADSs) at that date. In September 2010, we commissioned an analysis of our shareholder structure, which showed that shareholders in the U.S. held roughly 21% of our share capital as of September 30, 2010.

**Related party transactions**

As reflected in the information in the tables above under Item 6: Directors, senior management and employees Management Supervisory Board and Managing Board, some of our board members hold, or in the last year have held, positions of significant responsibility with other entities. We have relationships with almost all of these entities in the ordinary course of our business whereby we buy and sell a wide variety of products and services on arm's length terms. Dr. Josef Ackermann is the Chairman of the Management Board of Deutsche Bank AG. Our transactions with Deutsche Bank AG are conducted on arm's length basis and include securities underwriting, other investment banking services, and credit, money market and foreign exchange business as well as transaction banking services. Michael Diekmann is the Chairman of the Board of Management of Allianz SE. Our transactions with Allianz SE are conducted on arm's length basis and include insurance business and asset management.

During the last fiscal year, there were no loans outstanding to members of our management.

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We have relationships with many joint ventures and associates in the ordinary course of business whereby we buy and sell a wide variety of products and services generally on arm's length terms. For information regarding our subsidiaries, joint ventures and associated companies in fiscal 2010, see Notes to Consolidated Financial Statements and Item 19: List of subsidiaries and associated companies.

As of September 30, 2010, loans given to joint ventures and associates amount to 427 million in total including a tranche of 250 million, nominal in relation to a Shareholder Loan Agreement between Siemens and NSN, an interest-free loan of 32 million granted to NSN, and an interest-free loan of 13 million granted to EN. For further information concerning loans that Siemens granted to NSN, see Notes to Consolidated Financial Statements.

For additional information, see Notes to Consolidated Financial Statements.

**ITEM 8: FINANCIAL INFORMATION**

Information required by this Item is incorporated by reference to Item 4: Information on the Company Legal proceedings, Item 5: Operating and financial review and prospects and Item 18: Financial Statements.

**ITEM 9: THE OFFER AND LISTING**

**Trading markets**

The principal trading market for our shares is the Frankfurt Stock Exchange. Our shares are also traded on the other German stock exchanges in Berlin, Düsseldorf, Hamburg, Hanover, Munich and Stuttgart and on the London Stock Exchange and the Swiss Stock Exchange in Zurich. In addition, we were notified by the Italian stock exchange that our shares have been admitted to trading on the MTA International in Milan. The ADRs of Siemens AG, each evidencing one ADS, which represents one share, trade on the New York Stock Exchange under the symbol SI.

**Table of Contents****Market price information**

The table below sets forth, for the calendar periods indicated, the high and low closing sales prices on the Frankfurt Stock Exchange for the common shares of Siemens as reported by the Electronic cash market trading system (Xetra). The table also shows, for the periods indicated, the closing highs and lows of the DAX, a German stock index which measures the performance of the 30 largest German companies in terms of order book volume and market capitalization, and the average daily trading volume of our common shares on Xetra. See the discussion under Item 3:

Key Information Exchange Rate Information, for information with respect to rates of exchange between the U.S. dollar and the euro applicable during the periods set forth below.

	Price per common share		DAX		Average daily trading volume <sup>(1)</sup> (millions of shares)
	High	Low	High	Low	
	( )				
<b>Annual highs and lows</b>					
2005	73.78	56.20	5,458.6	4,178.1	4.728
2006	79.77	61.37	6,611.8	5,292.1	5.313
2007	111.17	75.32	8,105.7	6,447.7	7.422
2008	107.29	35.52	7,949.1	4,127.4	7.571
2009	69.00	38.36	6,011.6	3,666.4	4.409
2010 <sup>(2)</sup>	86.00	61.67	6,843.6	5,434.3	3.877
<b>Quarterly highs and lows</b>					
<b>2008</b>					
First quarter	107.29	66.42	7,949.1	6,182.3	8.907
Second quarter	77.10	67.90	7,225.9	6,418.3	5.958
Third quarter	79.38	64.91	6,609.6	5,807.1	6.059
Fourth quarter	63.73	35.52	5,806.3	4,127.4	9.510
<b>2009</b>					
First quarter	56.19	38.36	5,026.3	3,666.4	5.909
Second quarter	54.99	42.97	5,144.1	4,131.1	4.324
Third quarter	66.45	46.00	5,736.3	4,572.7	3.615
Fourth quarter	69.00	60.20	6,011.6	5,353.4	3.825
<b>2010</b>					
First quarter	74.42	61.67	6,156.9	5,434.3	4.054
Second quarter	79.23	68.25	6,332.1	5,670.0	4.815
Third quarter	79.37	70.94	6,351.6	5,816.2	3.220
Fourth quarter <sup>(2)</sup>	86.00	75.56	6,843.6	6,134.2	3.189
<b>Monthly highs and lows</b>					
<b>2010</b>					
June	79.23	71.98	6,293.0	5,868.6	4.063
July	76.85	71.65	6,209.8	5,816.2	3.256
August	78.45	70.94	6,351.6	5,899.5	2.999
September	79.37	73.65	6,298.3	6,083.9	3.406
October	83.80	75.56	6,639.2	6,134.2	3.209

November <sup>(2)</sup>	86.00	81.83	6,843.6	6,604.9	3.166
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(1) Data from Datastream International.

(2) Up to and including November 24, 2010.

On November 24, 2010, the closing sale price per Siemens AG common share on Xetra was 85.32 which was equivalent to \$113.81 per common share, translated at the noon buying rate for euros on such date.

**Table of Contents****Trading on the New York Stock Exchange**

Official trading of Siemens AG ADSs on the New York Stock Exchange (NYSE) commenced on March 12, 2001. Siemens AG ADRs trade under the symbol SI.

The following table sets forth, for the calendar periods indicated, the high and low closing sales prices per Siemens AG ADR as reported on the NYSE Composite Tape:

	<b>Price per ADS</b>	
	<b>High</b>	<b>Low</b>
	(\$)	
<b>Annual highs and lows</b>		
2005	87.02	71.73
2006	98.76	76.66
2007	158.48	98.21
2008	157.14	44.54
2009	102.87	47.86
2010 <sup>(1)</sup>	118.76	84.80
<b>Quarterly highs and lows</b>		
<b>2008</b>		
First quarter	157.14	104.93
Second quarter	120.60	106.70
Third quarter	122.20	92.57
Fourth quarter	90.20	44.54
<b>2009</b>		
First quarter	77.77	47.86
Second quarter	77.98	57.42
Third quarter	97.99	63.94
Fourth quarter	102.87	87.61
<b>2010</b>		
First quarter	99.97	84.80
Second quarter	102.72	84.92
Third quarter	106.96	89.78
Fourth quarter <sup>(1)</sup>	118.76	103.31
<b>Monthly highs and lows</b>		
<b>2010</b>		
June	97.15	84.92
July	100.05	90.23
August	103.83	89.78
September	106.96	94.07
October	116.34	103.31
November <sup>(1)</sup>	118.76	112.25

(1) Up to and including November 24, 2010.

On November 24, 2010, the closing sales price per Siemens AG ADS on the New York Stock Exchange as reported on the NYSE Composite Tape was \$114.50.



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### **ITEM 10: ADDITIONAL INFORMATION**

#### **Articles of association and relevant provisions of german law**

This section summarizes the material provisions of our Articles of Association (*Satzung*) and German law to the extent that they affect the rights of our shareholders. The description is only a summary and does not describe every detail of our Articles of Association or of German law.

#### **Organization**

We are a stock corporation incorporated in the Federal Republic of Germany under the German Stock Corporation Act (*Aktiengesetz*). We are registered in the Commercial Register (*Handelsregister*) maintained by the local courts in Berlin Charlottenburg, Germany, under the entry number 12300, and in Munich, Germany, under the entry number 6684. Copies of our Articles of Association are publicly available from the Commercial Register in Berlin and Munich, and an English translation is on file with the Securities and Exchange Commission in the United States. You can also find them in German on our website [www.siemens.com/investor/de/corporate\\_governance.htm](http://www.siemens.com/investor/de/corporate_governance.htm) and in English at [www.siemens.com/investor/en/corporate\\_governance.htm](http://www.siemens.com/investor/en/corporate_governance.htm).

#### **Corporate governance**

Siemens AG fully complies with the recommendations of the German Corporate Governance Code ( Code ), which was first issued in 2002 and later expanded, most recently in May 2010.

The Managing Board and the Supervisory Board of Siemens AG, respectively, discussed compliance with the Code s recommendations, in particular with regard to the amendments of May 26, 2010. Based on these deliberations, the Boards approved the Declaration of Conformity with the Code which is set forth below, posted on our website and updated as necessary. Siemens voluntarily complies with the Code s non-binding suggestions.

Our listing on the New York Stock Exchange ( NYSE ) subjects us to a number of provisions under U.S. securities laws (including the Sarbanes-Oxley Act ( SOA )) as well as to the rules and regulations of the U.S. Securities and Exchange Commission ( SEC ) and the NYSE. To facilitate our compliance with the SOA, we have, among other things, established a Disclosure Committee, comprising the heads of our Corporate Units. This committee is responsible for reviewing certain financial and non-financial information and advising our Managing Board in its decision-making about disclosure. We have also introduced procedures that require the management of our Sectors, Divisions, Cross-Sector Businesses, Cross Sector Services, Regional Clusters and certain Corporate Units, supported by certifications of management of entities under their responsibility, to certify various matters, thereby providing a basis for our CEO and CFO to certify our financial statements to the SEC. Consistent with the requirements of the SOA, we have also implemented procedures for handling accounting complaints and a Code of Ethics for Financial Matters; the Code of Ethics was approved in its updated version in July 2010.

For further information about significant differences between Siemens corporate governance and NYSE Corporate Governance Standards, please refer to Item 16G: Corporate governance Significant differences between Siemens corporate governance and NYSE Corporate Governance Standards.

#### **Management and control structure**

##### **Supervisory Board**

As a German stock corporation, Siemens is subject to German corporate law. It has a two-tier management and oversight structure, consisting of a Managing Board and a Supervisory Board. As required by the German Codetermination Act (*Mitbestimmungsgesetz*), the Company's shareholders and its employees each select one-half of the Supervisory Board's members. The term of office of the current members of the Supervisory Board expires at the close of the Annual Shareholders' Meeting in 2013.

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At its meeting on September 22, 2010, the Supervisory Board approved the following goals regarding its composition, pursuant to Sec. 5.4.1 of the Code:

The composition of the Supervisory Board of Siemens AG shall be such that qualified control and advising for the Managing Board is ensured. The candidates proposed for election to the Supervisory Board shall have the expertise, skills and professional experience necessary to carry out the functions of a Supervisory Board member in a multinational company and to safeguard the reputation of Siemens in public. In particular, care shall be taken in regard to the personality, integrity, commitment, professionalism and independence of the individuals proposed for election. The goal is to ensure that, in the Supervisory Board as a whole, all know-how and experience is available that is considered essential in view of Siemens' activities.

Taking the Company's international orientation into account, care shall also be taken to ensure that the Supervisory Board has an adequate number of members with extensive international experience. The goal for the next Supervisory Board election in 2013 is to make sure that the present considerable share of Supervisory Board members with international background is maintained.

In its election proposals, the Supervisory Board shall also pay particular attention to the appropriate participation of women. Qualified women shall already be included in the initial process of selecting potential candidates for new elections or for the filling of Supervisory Board positions that have become vacant and shall be considered, as appropriate, in nominations. There are currently four women on our Supervisory Board. Our goal is, at the minimum, to maintain and, if possible, to increase this number at the next Supervisory Board election in 2013. It is also intended that a woman join the Nominating Committee following this Supervisory Board election.

A sufficient number of independent members shall belong to the Supervisory Board. Material and not only temporary conflicts of interest, such as organizational functions or advisory capacities with major competitors of the Company, shall be avoided. In addition, the Supervisory Board members shall have sufficient time to be able to devote the necessary regularity and diligence to their mandate.

The age limitation established in the Bylaws of the Supervisory Board will be taken into consideration. In addition, no more than two former members of the Managing Board of Siemens AG shall belong to the Supervisory Board.

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

The Supervisory Board oversees and advises the Managing Board in its management of the Company's business. At regular intervals, it discusses business development, planning, strategy and implementation. It reviews the annual stand-alone financial statements of Siemens AG, the Consolidated Financial Statements of Siemens worldwide, management's discussion and analysis of these financial statements and the proposal for the appropriation of net income. It also discusses Siemens' quarterly and half-yearly reports and approves the annual stand-alone financial statements of Siemens AG as well as the Consolidated Financial Statements of Siemens, taking into account both the audit reports issued by the independent auditors thereon and the results of the review conducted by the Audit Committee. In addition, it is responsible for monitoring the Company's adherence to statutory provisions, official regulations and internal Company policies (compliance); the Compliance Committee performs the compliance duties assigned to it by a decision of the Supervisory Board and pursuant to the Bylaws for the Compliance Committee. In addition, the Supervisory Board appoints the members of the Managing Board and determines each member's duties. Important Managing Board decisions – such as major acquisitions, divestments and financial measures – require

Supervisory Board approval, unless the Bylaws for the Supervisory Board specify that such authority is delegated to the Finance and Investment Committee of the Supervisory Board. In the Bylaws for the Managing Board, the Supervisory Board has established rules that govern the work of the Managing Board, in particular the allocation of duties among individual Managing Board members, matters reserved for the Managing Board as a whole, and the required majority for Managing Board decisions.

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The Supervisory Board currently has six committees whose duties, responsibilities and procedures fulfill the requirements of the Code, reflect applicable SOA requirements and incorporate applicable NYSE rules, as well as certain NYSE rules with which Siemens AG complies voluntarily. Each committee's chairperson provides the Supervisory Board with regular reports regarding the activities of the relevant committee.

The **Chairman's Committee** comprises the Chairman and Deputy Chairmen of the Supervisory Board as well as one further employee representative to be elected by the Supervisory Board and performs the collective tasks of a nominating, compensation and corporate governance committee to the extent that such tasks are not performed by the Nominating Committee (see below) or German law requires such tasks to be performed by the Supervisory Board in full session. In particular, the Chairman's Committee makes proposals regarding the appointment and dismissal of Managing Board members, handles contracts with members of the Managing Board, prepares the determination of the Managing Board compensation and the review of the Managing Board compensation system at the Supervisory Board's plenary board meetings. In preparing recommendations on the appointment of Managing Board members, the Chairman's Committee takes into account a candidate's professional qualifications, international experience and leadership qualities, the long-range plans for succession as well as diversity, and the composition of the Managing Board regarding an appropriate consideration of women. The Chairman's Committee is responsible for reviewing the Company's corporate governance guidelines, submits recommendations for their improvement and prepares the proposal regarding the Declaration of Conformity with the Code by the Supervisory Board. Furthermore, the Chairman's Committee submits recommendations regarding the composition of Supervisory Board committees to the Supervisory Board and decides whether to approve business transactions with Managing Board members and parties related to them.

The **Audit Committee** comprises the Chairman of the Supervisory Board, two of the Supervisory Board's shareholder representatives and three of the Supervisory Board's employee representatives. Under German law, the Audit Committee must include at least one independent member of the Supervisory Board who has knowledge and experience in the application of accounting principles or the auditing of financial statements. The Chairman of the Audit Committee, Dr. Hans Michael Gaul, satisfies these German statutory requirements. The Supervisory Board has designated Dr. Gaul in addition to Dr. Gerhard Cromme as an audit committee financial expert, as defined by the regulations of the SEC adopted pursuant to Section 407 of the SOA. The Supervisory Board monitors the independence of the members of the Audit Committee. With regard to the independence requirements under the Securities Exchange Act, Siemens relies on the exemption provided by Rule 10A-3(b)(1)(iv)(C). We believe that such reliance does not materially adversely affect the ability of the Audit Committee to act independently or to satisfy the other requirements of Rule 10A-3.

The Audit Committee oversees the accounting process. Furthermore, in addition to the work performed by the independent auditors, the Audit Committee discusses the Company's financial statements prepared quarterly, half-yearly and annually by the Managing Board. On the basis of the independent auditors' report on the annual financial statements, the Audit Committee makes, after its own review, recommendations to the Supervisory Board about whether or not to approve the annual stand-alone financial statements of Siemens AG and the Consolidated Financial Statements of Siemens. It concerns itself with the Company's risk monitoring system and oversees the effectiveness of the internal control system, in particular as it relates to financial reporting, the risk management system and the internal audit system. The internal corporate audit unit reports regularly to the Audit Committee. In addition, the Audit Committee monitors the independent audit of financial statements, including in particular the independence and qualifications of the independent auditors as well as the independent auditors' services, and performs the other functions assigned to it under the SOA.

The **Compliance Committee** comprises the Chairman of the Supervisory Board, two of the Supervisory Board's shareholder representatives and three of the Supervisory Board's employee representatives. The Compliance Committee monitors the Company's adherence to statutory provisions, official regulations and internal Company

policies.

The **Nominating Committee**, which comprises the Chairman of the Supervisory Board and two of the Supervisory Board's shareholder representatives, is responsible for making recommendations to the Supervisory Board's shareholder representatives on the shareholder candidates for election to the Supervisory Board by the Annual Shareholders Meeting. In preparing these recommendations, it shall take into consideration that the

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candidates must possess the knowledge, abilities and experience needed to perform their duties and that they must be independent, and it shall also pay attention to diversity and in particular to an appropriate participation of women.

The **Mediation Committee**, comprising the Chairman of the Supervisory Board, the First Deputy Chairman (who is elected in accordance with the German Codetermination Act), one of the Supervisory Board's shareholder representatives and one of the Supervisory Board's employee representatives, submits proposals to the Supervisory Board in the event that the Supervisory Board cannot reach the two-thirds majority required for the appointment or dismissal of Managing Board members.

The **Finance and Investment Committee** comprises the Chairman of the Supervisory Board, three of the Supervisory Board's shareholder representatives and four of the Supervisory Board's employee representatives. It shall based on the Company's overall strategy, which is the focus of an annual strategy meeting of the Supervisory Board prepare discussions and resolutions of the Supervisory Board on questions relating to the financial situation and structure of the Company as well as on fixed asset and financial investments. In addition, the Supervisory Board has delegated the authority to decide on the approval of transactions and measures, which would require the approval of the Supervisory Board, but the value of which is below 600 million, to the Finance and Investment Committee. The Finance and Investment Committee also exercises the rights of the Supervisory Board pursuant to § 32 of the German Codetermination Act to make decisions regarding the exercise of ownership rights resulting from interests in other companies. § 32 (1) sentence 2 of the German Codetermination Act sets forth that decisions made by the Finance and Investment Committee pursuant to § 32 of the German Codetermination Act only require the votes of the shareholder representatives.

## **Managing Board**

The Managing Board, as the Company's top management body, is committed to serving the interests of the Company and achieving sustainable growth in Company value. The members of the Managing Board are jointly responsible for the entire management of the Company and decide on the basic issues of business policy and corporate strategy as well as on the annual and multi-year planning.

The Managing Board prepares the Company's quarterly and half-yearly reports, the annual stand-alone financial statements of Siemens AG and the Consolidated Financial Statements of Siemens. In addition, the Managing Board is responsible for monitoring the Company's adherence to statutory provisions, official regulations and internal Company policies (compliance) and works to achieve compliance with these provisions and policies within the Siemens group. The Managing Board cooperates closely with the Supervisory Board, informing it regularly, promptly and fully on all issues related to Company strategy and strategy implementation, planning, business development, financial position, earnings, compliance and risks. When filling managerial positions in the Company, the Managing Board takes diversity into consideration and, in particular, aims for an appropriate consideration of women.

The Bylaws for the Managing Board provide for the establishment of committees to deal with specific tasks. Currently, there is one Managing Board committee, the Equity and Employee Stock Committee. It is comprised of three members of the Managing Board and oversees the utilization of authorized capital in connection with the issuance of employee stock and the implementation of various capital measures. Furthermore, the committee determines the scope and conditions of the share-based compensation components and/or programs for employees and managers (with the exception of the Managing Board).

## **Shareholder relations**

Four times a year, Siemens AG reports to shareholders on its business development, financial position and earnings. An ordinary Annual Shareholders' Meeting normally takes place within the first four months of each fiscal year. The

Managing Board facilitates shareholder participation in the meeting through electronic communications in particular the Internet and enables shareholders who are unable to attend the meeting to vote by proxy. The Managing Board may provide for the shareholders to participate in the Shareholders Meeting without the need to be present at the venue and without a proxy, and to exercise some or all of their rights fully or partially by means of electronic communication. Furthermore, the Managing Board may provide for the shareholders to



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exercise their right to vote, without participating at the meeting, in writing or by means of electronic communication. The reports, documents and information required by law, including the Annual Report, may be downloaded from the Internet. The same applies to the agenda for the Annual Shareholders Meeting and to possible counterproposals or shareholders election nominations, if any, that are required to be disclosed.

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

As part of our investor relations activities, we inform our investors comprehensively about developments within the Company. For communication purposes, Siemens AG makes extensive use of the Internet: at [www.siemens.com/investor](http://www.siemens.com/investor), quarterly, half-yearly and annual reports, ad hoc announcements, analyst presentations, and press releases are published, as is the financial calendar for the current year which contains the publication dates of all significant financial communications and the date of the Annual Shareholders Meeting.

## **Business conduct guidelines and code of ethics**

Our business conduct guidelines and our code of ethics for financial matters form the basis of our compliance program.

The business conduct guidelines, introduced by the Managing Board in 2001 and amended and restated in 2009, contain binding standards for law-abiding behavior and precise rules regarding, among others, compliance with applicable fair competition and anticorruption laws, handling of donations and gifts, avoidance of conflicts of interest, prohibition of insider trading, and protection of Company assets. They also specify procedures for dealing with complaints. The Business conduct guidelines are binding on all Company employees and Managing Board members worldwide. The members of our Supervisory Board also comply with these guidelines where applicable.

Furthermore, in 2003 the Managing Board and the Supervisory Board implemented a code of ethics for financial matters, as required by the SOA rules. This code of ethics for financial matters has been amended and restated by the Company with effect from September 24, 2010. For further information about such amended and restated code of ethics for financial matters, please refer to Item 16B: Code of ethics.

Both the business conduct guidelines and the code of ethics for financial matters are available on our internet website.

The business conduct guidelines and the code of ethics for financial matters are complemented by numerous other rules that are applicable Company-wide.

As required by the SOA rules, procedures for the receipt, retention and treatment of potential complaints regarding accounting practices as well as procedures for handling relevant reports from specific attorneys (internal and external) have been implemented. Such complaints and comments, including those submitted anonymously, are processed by the Chief Counsel Compliance in the case of complaints related to accounting practices, and by the General Counsel in the case of reports from specific attorneys.

In addition to the existing internal procedures for reporting and handling complaints, an external attorney has been engaged to act as an independent ombudsman to provide a confidential communication channel for Siemens

employees and third parties. Since August 2007, our customers, suppliers, business partners and all other third parties as well as our employees worldwide have been offered the opportunity to submit reports on violations to the Tell Us Compliance Helpdesk, either by telephone or online 24 hours a day on seven days per week. The external provider specializes in the secure and confidential handling of sensitive information. In addition, the Company encourages employees to use a centralized question-and-answer platform. Since September 2007, the Ask Us Compliance Helpdesk provides employees with an opportunity to ask questions on compliance-relevant topics.

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This relates both to the application of compliance-relevant regulations in the day-to-day business and the understanding of requirements for agreements with external partners.

Our Articles of Association, the Bylaws for the Supervisory Board and its most important committees, the Bylaws for the Managing Board, all declarations of conformity with the Code, the report on compliance with the provisions of the Code and various other corporate governance related documents may be found on our Internet website at [www.siemens.com/investor/en/corporate\\_governance.htm](http://www.siemens.com/investor/en/corporate_governance.htm).

**Declaration of conformity with the German Corporate Governance code**

At their meetings on September 15 and September 22, 2010, respectively, the Managing Board and the Supervisory Board of Siemens AG approved the following Declaration of Conformity pursuant to § 161 of the German Stock Corporation Act:

Declaration of Conformity by the Managing Board and the Supervisory Board of Siemens  
Aktiengesellschaft with the German Corporate Governance Code

Siemens AG fully complies and will continue to comply with the recommendations of the German Corporate Governance Code ( Code ) in the version of May 26, 2010, published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette ( elektronischer Bundesanzeiger ). Since making its last Declaration of Conformity dated October 1, 2009, Siemens AG has fully complied with the recommendations of the Code in the version of June 18, 2009.

Berlin and Munich, October 1, 2010

Siemens Aktiengesellschaft

The Managing Board

The Supervisory Board

**Objects and purposes**

According to Section 2 of our Articles of Association, the objects and purposes of our Company are:

to manufacture, distribute and supply industrial products in the fields of electrical engineering and electronics, mechanical engineering, precision mechanics as well as related sectors of engineering, including research and development in these fields;

to develop, plan, distribute, supply, assemble and commission trade-specific and customer-specific systems, solutions and facilities in the fields of electrical engineering and electronics, mechanical engineering and precision mechanics as well as related sectors of engineering; and

to render industrial and other business-related services.

Our Articles of Association authorize us to engage in business of any kind and to take any and all measures related to, or which are directly or indirectly useful in promoting our objects. We may also operate both domestic and foreign factories, establish branch offices, found, acquire, consolidate with, or participate in other companies, conclude or participate in other management contracts and enter into joint ventures.

**Directors**

Under German law, our Supervisory Board members and Managing Board members owe duties of loyalty and care to our Company. They must exercise the standard of care of a prudent and diligent businessman and bear the burden of proving they did so if their actions are contested. Both boards have a duty to take into account the interests of our shareholders and our workers and, to some extent, are also required to observe the public interest. Those who violate their duties are jointly and severally liable to the Company for any damage that their violations have caused

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unless their actions were validly approved by a resolution at a prior shareholders meeting with a simple majority of the votes cast.

No board member may vote on a matter that concerns formal approval of his or her own acts or in which he or she has a material interest, and no member of either our Supervisory Board or our Managing Board may receive loans from us.

There is no mandatory retirement age for members of either board under our Articles of Association. According to the Managing Board's Bylaws, however, the age of a member of the Managing Board shall not exceed 65 years. Similarly, the Bylaws of the Supervisory Board set forth that only persons who are not older than 70 years shall be nominated to be elected as members of the Supervisory Board.

According to our Share Ownership Guidelines, being effective since October 1, 2008, there is a mutually determined share ownership commitment by the members of our Managing Board and other top executive managers.

See also Item 6: Directors, senior management and employees Management Supervisory Board, and Directors, senior management and employees Management Managing Board for further information about the Supervisory Board and the Managing Board.

## **Rights, preferences and restrictions attaching to our shares**

### **Voting rights**

Our shareholders vote at shareholders meetings. A shareholders meeting may be called by either our Managing Board or our Supervisory Board. The Annual Shareholders Meeting must take place within the first eight months of each fiscal year. In addition, shareholders whose combined shares amount to at least one twentieth of the capital stock may request in writing the convening of a Shareholders Meeting, stating the purpose and reasons for it. Shareholders whose combined shares represent at least one twentieth of the capital stock or a proportionate ownership of at least 500,000 in capital stock may also require that particular items be placed on the agenda and published.

Under German law and our Articles of Association, we must publish notices that are required by law or by our Articles of Association in the Electronic German Federal Gazette. Notices of Shareholders Meetings must be published at least 30 days prior to the deadline stated in the notice by which we ask our shareholders to notify us that they intend to attend the meeting. Under German law and our Articles of Association, we are also entitled, with their approval, to submit information to registered shareholders by way of remote data transmission.

In order to be entitled to participate in and vote at a meeting, a shareholder must be registered in the share register on the meeting date and must have notified us in text form or electronically that he or she wished to attend the meeting. Between the date of notification receipt and the meeting date must be at least six full days or such lesser period as our Managing Board may have specified in the notice of the Shareholders Meeting.

The Managing Board may provide for the shareholders to participate in the Shareholders Meeting without the need to be present at the venue and without a proxy, and to exercise some or all of their rights fully or partially by means of electronic communication. Furthermore, the Managing Board may provide for the shareholders to exercise their right to vote, without participating at the meeting, in writing or by means of electronic communication. At our Shareholders Meetings, each share carries one vote. In certain cases, a shareholder can be prevented from exercising his or her voting rights. This rule applies, for example, if we discharge one of our shareholders from liability or assert a claim against one of our shareholders. Resolutions are generally passed with a simple majority of the votes cast at the meeting. Resolutions that require a capital majority are passed with a simple majority of the issued capital present at

the meeting, unless statutory law or our Articles of Association require otherwise. Under the German Stock Corporation Act, a number of significant resolutions must be passed by a vote

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of at least 75% of the share capital present at the meeting. This 75% majority requirement applies to the following matters, among others:

amendments of a company's articles of association (except amendments that would impose an additional duty upon shareholders or change certain rights and obligations attaching to a company's shares, which in addition require the approval of all shareholders concerned);

capital increases and decreases;

exclusion of preemptive rights in connection with a capital increase;

creation of authorized capital or conditional capital or the issue of convertible bonds and bonds with warrants attached;

dissolution of a company;

merger or consolidation of a company with another stock corporation or certain other corporate transformations;

transfer of all or virtually all of the assets of a company; and

approval of any direct control, profit and loss pooling or similar intercompany agreements.

Although we must notify shareholders of an ordinary or extraordinary shareholders' meeting as described above, neither the German Stock Corporation Act nor our Articles of Association provide for a minimum quorum requirement. Accordingly, holders of a minority of our shares could control the outcome of actions not requiring a specified majority of our outstanding share capital.

Neither German law nor our Articles of Association restrict the right of non-resident or foreign owners of our shares to hold or vote the shares.

## **Dividend rights**

Under applicable German law, we may declare and pay dividends only from our annual net income as reported in the German statutory, unconsolidated financial statements of Siemens AG. For each fiscal year, our Managing Board approves our unconsolidated financial statements and submits them to our Supervisory Board with its proposal for the allocation of our annual net income. The proposal sets forth what portion of the annual net income should be paid out as dividends, transferred to profit reserves or carried forward to the next fiscal year. Upon approval by our Supervisory Board, our Managing Board and our Supervisory Board submit their combined proposal to the shareholders at the Annual Shareholders' Meeting. The general assembly of shareholders ultimately determines the allocation of annual net income including the amount of any annual dividend. Our Managing and Supervisory Boards may not allocate more than one half of our annual surplus to other profit reserves. In determining the distribution of profits, however, our shareholders may allocate additional amounts to profit reserves and may carry forward profits in part or in full. Our shareholders receive dividend distributions in proportion to the number of shares they hold.

There are two different types of dividends: cash dividends and dividends in kind. Dividends approved at a Shareholders' Meeting are payable on the first stock exchange trading day after that meeting, unless otherwise decided at the Shareholders' Meeting. If an investor holds shares that are entitled to dividends through a clearing system, the dividends will be paid according to that clearing system's rules. If an investor holds physical certificates, he or she may

no longer exercise dividend or other rights attaching to the shares without surrendering the physical certificates to a financial institution that maintains securities accounts. We will publish notice of dividends paid as well as of the paying agent or agents whom we have appointed in the Electronic German Federal Gazette.



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### **Liquidation rights**

In accordance with the German Stock Corporation Act, if we are liquidated, any liquidation proceeds remaining after all of our liabilities have been discharged are distributed to our shareholders in proportion to the capital stock held by them.

### **Preemptive rights**

Under the German Stock Corporation Act, our shareholders generally have preemptive rights. Preemptive rights are preferential rights to subscribe for issues of new shares in proportion to the number of shares that a shareholder already holds in the corporation's existing share capital. These rights do not apply to shares issued out of conditional capital or if a capital increase has occurred and our shareholders have waived their preemptive rights in connection with that increase. Preemptive rights also apply to securities other than shares if they may be converted into shares, such as options, securities with warrants, profit-sharing certificates and securities with dividend rights. Under German law, preemptive rights may be transferred separately from the underlying shares and may be traded on any of the German stock exchanges on which our shares are traded until a certain number of days prior to the last date on which the preemptive rights may be exercised.

The German Stock Corporation Act allows companies to exclude or restrict preemptive rights in connection with capital increases only in limited circumstances and only in the same shareholders' resolution that authorizes the capital increase. At least 75% of the share capital represented at the meeting that approves a capital increase has to vote for exclusion or restriction of preemptive rights in connection with that increase. In addition to being approved by the shareholders, any exclusion or restriction of preemptive rights requires a justification, which our Managing Board has to set forth in a written report to our shareholders. The justification requires a showing that our interest in excluding or restricting preemptive rights outweighs the shareholders' interest in exercising these rights.

If our Managing Board, with the approval of the Supervisory Board, increases our share capital for cash in accordance with our Articles of Association, it may, for example, with the approval of the Supervisory Board, exclude preemptive rights:

in order to grant holders of conversion or option rights that we or any of our subsidiaries have issued, as protection against the effects of dilution, preemptive rights to subscribe for new Siemens shares to the extent they would be entitled to upon exercising such rights;

if the issue price of the new shares is not significantly lower than their stock market price and the total of newly issued shares as defined under German law represent 10% or less of our capital stock existing at the time we issue the new shares; or

in order to make use of any fractional amounts after excluding shareholders' preemptive rights thereon.

In addition, our shareholders have waived their preemptive rights with respect to shares issued to employees, with respect to shares issued in exchange for an in-kind contribution out of authorized capital and with respect to treasury stock; see also Repurchase of our own shares.

Additionally, our shareholders have waived their preemptive rights in certain cases with respect to the issuance of bonds with conversion rights or warrants:

if the issue price of the bonds is not significantly lower than their theoretical market price computed in accordance with generally accepted actuarial methods, and if the total number of shares to be issued on the

basis of bond issues under the authorization as defined under German law in combination with other shares issued or sold during the effective period of the authorization does not exceed 10% of the capital stock existing at the time of the exercise of the authorization;

to the extent that the exclusion is necessary with regard to fractional amounts resulting from the subscription ratio;

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in order to grant holders of conversion or option rights on Siemens shares subscription rights as compensation against the effects of dilution to the extent to which they would be entitled upon exercising such rights; or

to the extent that the bonds were issued against non-cash contributions, in particular within the context of business combinations or when acquiring companies or interests therein.

### **Restrictions on voting rights or transfer of shares**

Shares issued to employees under our former employee stock schemes until 2008 are subject to company-imposed private law restrictions on disposal for two to five years. As a matter of principle, eligible employees may not dispose of any shares transferred to them in this way prior to the expiration of the holding period.

Shares issued to employees worldwide under the stock scheme implemented since the beginning of fiscal 2009, i.e. the Share Matching Plan for Senior Managers and Employees, are freely transferable to the extent legally permissible. However, participants are required to own and hold the shares issued to them under the rules of the Plan for a vesting period of about three years; during which the participants have to have been continuously employed by Siemens AG or another Siemens company, in order to receive one matching share free of charge for each three shares. Any sale or transfer of the shares prior to the end of the vesting period will forfeit the right to receive matching shares for the shares sold or transferred. For more information on the share matching plan please see Item 6: Directors, senior management and employees Compensation report.

The von Siemens-Vermögensverwaltung GmbH (vSV) has, on a sustained basis, powers of attorney allowing it to vote, as of October 13, 2010, 11,459,406 shares on behalf of members of the Siemens family whereby aforementioned shares constitute a part of the overall number of shares held by members of the Siemens family. The vSV is a German limited liability company and party to an agreement with, among others, members of the Siemens family (family agreement). In order to bundle and represent their interests, the members of the Siemens family established a family partnership. This family partnership or one of its committees makes proposals to the vSV with respect to the exercise of the voting rights at Shareholders Meetings of the Company, which are taken into account by the vSV when acting within the bounds of its professional discretion. Pursuant to the family agreement, the shares under powers of attorney are voted by the vSV collectively.

### **Disclosure requirement**

Our Articles of Association do not require our shareholders to advise us when their holdings exceed specified thresholds. Under the German Securities Trading Act, however, holders of the voting rights of an issuer whose home country is the Federal Republic of Germany and whose securities are admitted to trading on an organized market are required to notify without undue delay and in writing the issuer in which they hold the securities and the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, BaFin) of the level of their holdings whenever such holdings reach, exceed or fall below certain thresholds. These thresholds are set at 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% of the issuer's outstanding voting rights. These thresholds may also be reached by mutually adding third party voting rights, if the holders of such voting rights agreed to permanently act in concert while exercising their voting rights.

In addition, anyone who holds, directly or indirectly, financial instruments that afford a right to acquire, at the holder's option, voting shares issued by a company whose home country is the Federal Republic of Germany must, without undue delay, notify the issuer and the BaFin if the thresholds mentioned above, with the exception of the 3% threshold, have been reached, exceeded or fallen below. In making the threshold calculations, positions in voting rights must be aggregated with positions in such financial instruments.

The issuer must publish the notifications received without undue delay, but no later than three trading days following receipt of the notification. A domestic issuer must also publish the total number of voting rights at the end of each calendar month during which the number of voting rights has increased or decreased. The calculation of the percentage of voting rights must be based on the latest publication of the total number of voting rights in the issuer. If a shareholder fails to notify the issuer or the German Federal Financial Supervisory Authority as required, he or

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she cannot exercise any rights associated with the shares for as long as the default continues and, if the violation (i) was due to gross negligence or intent and (ii) reached a certain degree of non-compliance, suspension of such rights continues for six months after the late or corrected notification.

Holders of voting rights are required to notify the issuer within 20 days after reaching or exceeding the 10% threshold about their intentions with respect to the voting rights and the origin of the funds used for the acquisition of voting rights.

In addition, the German Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz, WpÜG*) requires the publication within seven days of the acquisition of control, which is defined as holding of at least 30% of the voting rights in a target company.

The WpHG requires directors to report their dealings in an issuer's shares. Specifically, persons with managerial responsibilities in a publicly-traded issuer must notify both the issuer and the BaFin about their transactions in the issuer's shares and derivatives or other financial instruments linked to those shares. The same obligation applies to persons closely associated with these managers, such as spouses, dependent children, or other relatives sharing the same household. Similarly, the reporting obligation also applies to legal entities, trusts and partnerships that are managed or controlled by any such manager or associated person, or that are set up for the benefit of such a person, or whose economic interests are substantially equivalent to those of such person. Nevertheless, there is no notification obligation until the total amount of transactions of a covered manager and all of his or her associated persons reaches at least 5,000 during any calendar year. Such information can be found on our Internet website at [www.siemens.com/directors-dealings](http://www.siemens.com/directors-dealings). For further information about such transactions see also Item 6: Directors, senior management and employees Share ownership.

## **Repurchase of our own shares**

We may not acquire our own shares unless so authorized by a resolution duly adopted by our shareholders at a general meeting or in other very limited circumstances set forth in the German Stock Corporation Act.

The German Stock Corporation Act generally limits share repurchases to 10% of our share capital. In addition, any shareholders' resolution that authorizes us to repurchase shares may be in effect for a period no longer than 5 years. The resolution currently in effect is valid until July 25, 2011. According to this resolution, shares that are repurchased may be (i) sold via a stock exchange or through a public sales offer made to all shareholders; (ii) retired, (iii) used to meet the obligations under the 2001 Siemens Stock Option Plan in accordance with the resolution passed at the Annual Shareholders Meeting on February 22, 2001; (iv) offered for purchase to individuals currently or formerly employed by the Company or any of its consolidated subsidiaries as well as to board members of any of the Company's consolidated subsidiaries or granted and transferred to such individuals with a holding period of at least two years; (v) offered and transferred with the approval of the Supervisory Board to third parties against non-cash contributions, particularly in connection with business combinations or the acquisition of companies or interests therein; (vi) sold with the approval of the Supervisory Board to third parties against payment in cash if the price (excluding incidental transaction costs) at which such Siemens shares are to be sold is not significantly lower than the market price of Siemens stock on the trading day, as determined during the opening auction of the XETRA trading platform (or a comparable successor system); or (vii) used to meet obligations under convertible bonds or warrant bonds issued by the Company or any of its consolidated subsidiaries. In addition, the Supervisory Board is authorized to offer repurchased shares to the members of the Managing Board of the Company for purchase as share-based compensation under the same terms and conditions as those offered to the Company's employees or to grant and transfer such shares to members of the Managing Board with a vesting period of at least two years.

In addition to the above mentioned resolution regarding the repurchase of own shares, a resolution is in effect that authorizes the Company to repurchase its own shares by using equity derivatives, such as put and call options and a combination of put and call options. The term of such options must be chosen in a way that the repurchase of the Company's own shares upon the exercise of the options will take place no later than July 25, 2011.

On November 7, 2007, Siemens announced a Share Buyback Program adopted by the Management Board and approved by the Supervisory Board. The Share Buyback Program provides for repurchase of shares for a total

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amount of up to 10 billion through the end of fiscal 2010. Shares repurchased under the Share Buyback Program are purchased solely for the purpose of cancellation and for the purpose of issuing them to employees and members of the Managing Board. For further information about Siemens' Share Buyback Program see Item 16E: Purchases of equity securities by the issuer and affiliated purchasers and Notes to Consolidated Financial Statements.

## **Jurisdiction**

Our Articles of Association provide that by subscription to or by otherwise acquiring shares or interim certificates for shares, a shareholder submits to the jurisdiction of the courts of our legal domicile in all disputes with us or our governing bodies.

## **Material contracts**

Not applicable.

## **Exchange controls**

At present, Germany does not restrict the movement of capital between Germany and other countries or individuals except certain persons and entities associated with Osama bin Laden, the Al-Qaida network and the Taliban and certain other individuals and countries subject to embargoes in accordance with German law and applicable resolutions adopted by the United Nations and the EU.

For statistical purposes, with certain exceptions, every corporation or individual residing in Germany must report to the German Central Bank any payment received from or made to a non-resident corporation or individual if the payment exceeds 12,500 (or the equivalent in a foreign currency). Additionally, corporations and individuals residing in Germany must report to the German Central Bank any claims of a resident against, or liabilities payable to, a non-resident corporation or individual exceeding an aggregate of 5 million (or the equivalent in a foreign currency) at the end of any calendar month. In this case all items (i.e. also items with values below 5 million) have to be reported. Resident corporations and individuals are also required to report annually to the German Central Bank any stakes of 10% or more they hold in the equity or voting power of non-resident corporations with a balance sheet total of more than 3 million. Corporations residing in Germany with a balance sheet total in excess of 3 million must report annually to the German Central Bank any stake of 10% or more in the company held by an individual or a corporation located outside Germany.

## **Taxation**

### **German taxation**

The following discussion is a summary of the material German tax consequences for beneficial owners of our shares or ADSs (i) who are non-German residents for German income tax purposes (i.e., generally persons whose residence, habitual abode (gewöhnlicher Aufenthalt), statutory seat or place of effective management and control is not located in Germany) and (ii) whose shares or ADSs do not form part of the business property of a permanent establishment or a fixed base in Germany, and are not held with a German paying agent (including a German branch of a non-German financial services institution). Throughout this section we refer to these owners as Non-German holders.

This summary is based on German tax laws and typical tax treaties to which Germany is a party as they are in effect on the date hereof and is subject to changes in German tax laws or such treaties. The following discussion does not purport to be a comprehensive discussion of all German tax consequences that may be relevant for Non-German holders. You should consult your tax advisor regarding the German tax consequences of the purchase, ownership and

disposition of our shares or ADSs and the procedures to follow to obtain a refund of German taxes withheld from dividends.



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### **Taxation of the company in Germany**

German corporations are currently subject to a corporate income tax rate of 15%. Moreover, a solidarity surcharge of 5.5% on the net assessed corporate income tax is levied, so that the corporate income tax and the solidarity surcharge, in the aggregate, amount to a tax rate of 15.825%.

In addition, German corporations are subject to profit-related trade tax on income, the exact amount of which depends on the municipality in which the corporation maintains its business establishment(s). Trade tax is not a deductible item in calculating the corporation's tax base for corporate income tax and trade tax purposes.

### **Imposition of withholding tax**

Dividend distributions are subject to a current withholding tax of 25%. Moreover, a solidarity surcharge of 5.5% on the withholding tax is levied, resulting in a total withholding tax rate from dividends of 26.375%. Corporate Non-German holders will generally be entitled to a refund in the amount of two-fifths of the withholding tax (including solidarity surcharge). This does not preclude a further reduction of withholding tax, if any, available under a relevant tax treaty.

For many Non-German holders (e.g. U.S. holders), the withholding tax rate is currently reduced under applicable income tax treaties. Under most income tax treaties to which Germany is a party, the rate of dividend withholding tax is reduced to 15%. To reduce the withholding to the applicable treaty rate of 15%, a Non-German holder must apply for a refund of withholding taxes paid. The application for refund must be filed with the German Federal Tax Office (Bundeszentralamt für Steuern, An der Kuppe 1, D-53225 Bonn, Germany; <http://www.bzst.bund.de/>). The relevant forms can be obtained from the German Federal Tax Office or from German embassies and consulates. Special rules apply to U.S. holders (as defined below).

### **Refund procedure for U.S. holders**

Under the current income tax convention between the United States and Germany (the Treaty), a partial refund of the 25% withholding tax equal to 10% of the gross amount of the dividend and a full refund of the solidarity surtax can be obtained by a U.S. holder.

To claim the refund of amounts withheld in excess of the Treaty rate, a U.S. holder must submit (either individually or, as described below, through the Data Medium Procedure participant) a claim for refund to the German tax authorities. Individual claims for refunds may be made on a special German form which must be filed with the German Federal Tax Office (Bundeszentralamt für Steuern, D-53221 Bonn, Germany). Copies of this form may be obtained from the German Federal Tax Office at the same address or from the Embassy of the Federal Republic of Germany, 4645 Reservoir Road, N.W., Washington, D.C. 20007-1998, or can be downloaded from the homepage of the German Federal Tax Office (<http://www.bzst.bund.de/>). Claims must be filed within a four-year period from the end of the calendar year in which the dividend was received.

As part of the individual refund claim, an eligible U.S. holder must submit to the German tax authorities the original bank voucher (or a certified copy thereof) issued by the paying agent documenting the tax withheld, and an official certification on Internal Revenue Service (IRS) Form 6166. This certification can be obtained from the Internal Revenue Service by filing a request for certification (generally on an IRS Form 8802, which will not be processed unless a user fee is paid) with the Internal Revenue Service, P.O. Box 71052, Philadelphia, PA 19176-6052. U.S. holders should consult their own tax advisors regarding how to obtain an IRS Form 6166.

If the U.S. holder's bank or broker elects to participate in the Data Medium Procedure, an IT-supported quick-refund procedure (the DMP), such bank or broker (the DMP Participant) will perform administrative functions necessary to claim the Treaty refund for the beneficiaries. The refund beneficiaries must confirm to the DMP Participant that they meet the conditions of the Treaty provisions and that they authorize the DMP Participant to file applications and receive notices and payments on their behalf. Further each refund beneficiary must confirm that (i) it is the beneficial owner of the dividends received; (ii) it is resident in the U.S. in the meaning of the Treaty; (iii) it does not have its domicile, residence or place of management in Germany; (iv) the dividends received do not

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form part of a permanent establishment or fixed base in Germany; and (v) it commits, as it participates in the DMP, not to claim separately for refund.

The beneficiaries also must provide an IRS Form 6166 certification with the DMP Participant (see general instructions, in the second preceding paragraph, above, regarding how to obtain a Form 6166). The DMP Participant is required to keep these documents in its files and prepare and file a combined claim for refund with the German tax authorities by electronic media. The combined claim provides evidence of a U.S. holder's personal data including its U.S. Tax Identification Number.

The German tax authorities reserve the right to audit the entitlement to tax refunds for several years following their payment pursuant to the Treaty in individual cases. The DMP Participant must assist with the audit by providing the necessary details or by forwarding the queries to the respective refund beneficiaries.

The German tax authorities will issue refunds denominated in euros. In the case of shares held through banks or brokers participating in the Depository, the refunds will be issued to the Depository, which will convert the refunds to dollars. The resulting amounts will be paid to banks or brokers for the account of the U.S. holders.

### **Capital gains**

Under German domestic tax law as currently in effect, capital gains earned by a Non-German holder from the sale or other disposition of shares or ADSs are subject to tax in Germany only if such Non-German holder has held, directly or indirectly, shares or ADSs representing 1% or more of the registered share capital of the company at any time during the five-year period immediately preceding the disposition. Based on the current provisions, capital gains generally are not taxable if the above mentioned threshold is not exceeded and certain further conditions are met.

U.S. holders that qualify for benefits as U.S. residents under the Income Tax Treaty are exempt from taxation in Germany on capital gains derived from the sale or disposition of shares or ADSs.

Shareholders whose shares are held in an account with a German bank or financial services institution (including a German branch of a non-German bank or financial services institution) are urged to consult their own advisors. This summary does not discuss their particular tax situation.

### **Inheritance and gift tax**

Under German law, in principle, German gift or inheritance tax will be imposed only on transfers by a holder of shares or ADSs at death or by way of gift, if

- (i) the decedent or donor, or the heir, donee or other transferee has his residence or habitual abode (gewöhnlicher Aufenthalt) in Germany at the time of the transfer;
- (ii) the shares or ADSs are part of the business property of a permanent establishment in Germany;
- (iii) the decedent or donor, or the heir, donee or other transferee is a citizen of Germany, is not a resident in Germany, but has not been continuously outside of Germany for a period of more than five years; or
- (iv) the shares or ADSs subject to such transfer form part of a portfolio that represents 10% or more of the registered share capital of the company and has been held, directly or indirectly, by the decedent or donor, respectively, actually or constructively together with related parties.

The right of the German government to impose inheritance or gift tax on a Non-German holder may be limited by an applicable estate tax treaty (such as the U.S.-German Inheritances and Gifts Tax Treaty of December 3, 1980).

**Other taxes**

No German transfer, stamp or similar taxes apply to the purchase, sale or other disposition of shares or ADSs by a Non-German holder. Currently, net worth tax is not levied in Germany.

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### **U.S. Federal income taxation**

This section describes the material U.S. federal income tax consequences of owning our shares or ADSs. It applies to U.S. holders (as defined below) who hold shares or ADSs as capital assets for U.S. federal income tax purposes and are eligible for benefits as a U.S. resident under the Treaty with respect to an investment in the shares or ADSs. This section does not address all material U.S. federal income tax consequences of owning shares or ADSs. It does not address special classes of holders, some of which may be subject to other rules, including:

tax-exempt entities;

life insurance companies;

dealers in securities;

traders in securities that elect a mark-to-market method of accounting for securities holdings;

investors liable for alternative minimum tax;

partnerships, or other entities classified as partnerships, for U.S. federal income tax purposes;

investors that actually or constructively own 10% or more of our voting stock;

investors that hold shares or ADSs as part of a straddle or a hedging or conversion transaction; or

investors whose functional currency is not the U.S. dollar.

This section is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed Treasury regulations, and published rulings and court decisions, as well as on the Treaty, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of The Depository Trust Company and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

A U.S. holder is a beneficial owner of shares or ADSs and, for U.S. federal income tax purposes, a citizen or resident of the United States, a domestic corporation or otherwise subject to U.S. federal income taxation on a net income basis in respect of shares or ADSs.

This discussion addresses only U.S. federal income taxation. U.S. holders should consult their own tax advisor regarding the United States federal, state, local and other tax consequences of owning and disposing of shares and ADSs in your particular circumstances. In particular, you should confirm that you are eligible as a U.S. resident for benefits under the Treaty in respect of your investment in the shares or ADSs.

A U.S. holder of the ADSs generally will be treated for U.S. federal income tax purposes as the beneficial owner of the shares represented by those ADSs, in which case no gain or loss will be recognized upon an exchange of the shares for ADSs or an exchange of the ADSs for shares.

### **Taxation of dividends**

U.S. holders must include the gross amount of dividends paid on the shares or ADSs, without reduction for German withholding tax, in ordinary income as foreign source dividend income on the date that they receive them (or, in the case of ADSs, on the date that The Depository Trust Company receives them), translating dividends paid in euro into U.S. dollars using the exchange rate in effect on such date, regardless of whether the payment in fact is converted into U.S. dollars.

In the case of non-corporate U.S. holders, the U.S. dollar amount of dividends paid to them in taxable years beginning before January 1, 2011 with respect to the shares or ADSs will be subject to taxation at a maximum rate of 15% if the dividends are qualified dividends, provided that the shares or ADSs are held for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends paid on the shares or ADSs generally will be treated as qualified dividends if we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid,

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a passive foreign investment company (PFIC). Based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC for U.S. federal income tax purposes with respect to our 2009 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2010 taxable year. However, as PFIC status is a factual matter that must be determined annually at the close of each taxable year, there can be no certainty as to our actual PFIC status in any particular year until the close of the taxable year in question.

German tax withheld from dividends will be treated, up to the 15% rate provided under the Treaty, as a foreign income tax that, subject to generally applicable limitations under U.S. tax law, is eligible for credit against the U.S. federal income tax liability of U.S. holders or, if they have elected to deduct such taxes, may be deducted in computing taxable income. Dividends will be income from sources outside the United States. Dividends will, depending on the respective circumstances, be passive or general income for purposes of computing the foreign tax credit allowable to a U.S. holder. The rules governing the foreign tax credit are complex. Each U.S. holder is urged to consult its own tax advisor concerning whether, and to what extent, a foreign tax credit will be available under the Treaty with respect to dividends received from us. To the extent a refund of the tax withheld is available to a U.S. holder under the Treaty, the amount of tax withheld that is refundable will not be eligible for credit against the U.S. federal income tax liability. Fluctuations in the dollar-euro exchange rate between the date that a U.S. holder includes a dividend in taxable income and the date when the related refund of German withholding tax is received may give rise to foreign currency gain or loss, which generally is treated as ordinary income or loss for U.S. federal income tax purposes. See Refund procedure for U.S. holders above for the procedures for obtaining a tax refund.

## **Taxation of sales or other taxable dispositions**

Sales or other taxable dispositions of shares or ADSs by U.S. holders generally will give rise to U.S. source capital gain or loss equal to the difference between the U.S. dollar value of the amount realized on the disposition and the U.S. holder's U.S. dollar basis in the shares or ADSs. Any such capital gain or loss generally will be long-term capital gain or loss, subject to taxation at reduced rates for non-corporate taxpayers, if the shares or ADSs were held for more than one year. The deductibility of capital losses is subject to limitations.

## **Information reporting and backup withholding**

Dividend payments made to holders and proceeds paid from the sale, exchange, redemption or disposal of shares or ADSs may be subject to information reporting to the Internal Revenue Service. Such payments may be subject to backup withholding taxes unless the holder (i) is a corporation or other exempt recipient or (ii) provides a taxpayer identification number on a properly completed IRS Form W-9 and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-U.S. status in connection with payments received within the United States or through a U.S.-related financial intermediary.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder's U.S. federal income tax liability. A holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

## **Documents on display**

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, we file reports and other information with the Securities and Exchange Commission. These

materials, including this annual report and the exhibits thereto, may be inspected and copied at the Commission's Public Reference Room at 100 F Street N.E., Washington, D.C. 20549. Copies of the materials may be obtained from the Public Reference Room of the Commission at 100 F Street N.E., Washington, D.C. 20549 at prescribed rates. The public may obtain information on the operation of the Commission's Public Reference Room by calling the Commission in the United States at 1-800-SEC-0330. Our filings, including this annual report,



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are also available on the Commission's website at [www.sec.gov](http://www.sec.gov). In addition, material filed by us can be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005 and is also available on the New York Stock Exchange's website at [www.nyse.com](http://www.nyse.com).

**ITEM 11: QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

For quantitative and qualitative disclosures about market risks see Note 33 to Consolidated Financial Statements.

**ITEM 12: DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

**American depositary shares**

The ADSs of Siemens Aktiengesellschaft, each representing one of our common shares, trade on the New York Stock Exchange under the symbol "SI". The ADSs are evidenced by American Depositary Receipts, or ADRs, issued by JPMorgan Chase Bank, N.A. ( "JPMorgan" ) as depositary under the Deposit Agreement, as amended in May 2007, among Siemens Aktiengesellschaft, JPMorgan and all holders and beneficial owners from time to time of ADRs issued under the deposit agreement ( "Deposit Agreement" ).

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The following is a summary of the fee provisions of the Deposit Agreement. For more complete information regarding ADRs, you should read the entire Deposit Agreement, as amended, and the form of ADR.

**Persons depositing or withdrawing shares or ADS holders must pay:**

**For:**

U.S.\$5.00 for each 100 ADSs (or portion thereof) issued, delivered, reduced, cancelled or surrendered (as the case may be)

Issuances of ADSs, including, without limitation, issuances

- against deposits of shares,
- in respect of distributions of shares,
- in respect of rights,
- in respect of other distributions,
- pursuant to a stock dividend or stock split or pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or deposited securities

Withdrawal of deposited securities upon surrender of ADSs

Cancellation or reduction of ADSs

U.S.\$1.50 per ADR

Transfers on the register

A fee equal to the fee which would have been charged by the depository if the relevant securities distributed had been shares and the shares had been deposited for issuance of ADSs

Distributions or sales of securities

An aggregate fee of U.S.\$0.02 per ADS (or portion thereof) per calendar year

Services performed by the depository in administering the ADRs

Fees and expenses incurred by the depository

Expenses incurred by the depository in delivering deposited securities or otherwise in connection with the depository's or its custodian's compliance with applicable law, rules or regulations

Cable, telex and facsimile transmission and delivery charges incurred at the request of persons depositing, or holders of ADSs delivering shares, ADRs or deposited securities

Transfer or registration fees for the registration or

transfer of deposited securities on any applicable register

Converting foreign currency to U.S. dollars  
As necessary

Stock transfer or other taxes and other governmental charges

Any other charge payable by the depositary, any of its agents (including the custodian), or the agents of the depositary's agents in connection with the servicing of the shares or other deposited securities  
As necessary

The fees and charges described above may at any time and from time to time be changed by agreement between the depositary and Siemens with notice thereof provided to holders of ADSs in the manner required by the form of ADR.

The depositary may sell (by public or private sale) sufficient securities and property received in respect of share distributions, rights and other distributions prior to their deposit to pay the applicable charges. The depositary may deduct its expenses for converting foreign currency to U.S. dollars from such foreign currency. Both (i) the fee for

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services performed by the depositary in administering the ADRs, and (ii) any other charge payable by the depositary, any of its agents, or the agents of the depositary's agents in connection with the servicing of the shares or other deposited securities, are payable at the sole discretion of the depositary by billing holders of ADSs or by deducting such charge from one or more cash distributions.

**Direct payments by the depositary to Siemens**

JPMorgan, as depositary, has agreed to reimburse certain reasonable Siemens expenses related to our ADR program and incurred by us in connection with the program. In the year ended September 30, 2010, the depositary reimbursed us for an aggregate amount of \$1,729,812. The amounts reimbursed by the depositary are not pro rata related to the fees collected by the depositary from ADR holders. The table below sets forth the types of expenses that the depositary has agreed to reimburse us for and the amounts reimbursed in the fiscal year ended September 30, 2010.

<b>Category</b>	<b>Amount reimbursed in the fiscal year ended September 30, 2010 (in \$)</b>
Investor relations <sup>(1)</sup>	424,979
Printer and filing fees	53,768
NYSE listing fee	34,776
Proxy solicitation services	79,492
Share register and ADR holder identification expenses <sup>(2)</sup>	1,047,100
Market data service subscription fees	89,697

(1) Includes costs related to roadshows, travel, conference facilities, technical equipment support, consulting services, advertising and other investor relations expenses.

(2) Includes costs of \$606,800 related to share register expenses, for which reimbursement was claimed in fiscal 2009. The amounts, however, were reimbursed in fiscal 2010.

**Indirect payments and waived fees**

As part of its service as depositary, JPMorgan has agreed to waive its fees for the standard costs associated with the administration of the ADR program, associated operating expenses, investor relations advice and related out-of-pocket expenses estimated to total U.S.\$275,000 per contract year.

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**PART II**

**ITEM 13: DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Not applicable.

**ITEM 14: MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable.

**ITEM 15: CONTROLS AND PROCEDURES**

**Disclosure controls and procedures**

As of September 30, 2010, Siemens performed an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures. The evaluation was performed with the participation of key corporate senior management and senior management of each business sector under the supervision of the CEO, Peter Löscher, and CFO, Joe Kaeser. The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported in a timely manner and accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. The Company's management, including the CEO and CFO, concluded that, as of September 30, 2010, Siemens' disclosure controls and procedures were effective.

**Management's annual report on internal control over financial reporting**

The management of Siemens is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable accounting principles and includes those policies and procedures that:

pertain to the maintenance of records that in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

No system of internal control over financial reporting, including one determined to be effective, may prevent or detect all misstatements. It can provide only reasonable assurance regarding financial statement preparation and presentation. Also, projections of the results of any evaluation of the effectiveness of internal control over financial reporting into future periods are subject to the inherent risk that the relevant controls may become inadequate due to changes in

circumstances or that the degree of compliance with the underlying policies or procedures may deteriorate.

Siemens management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2010. In making this assessment, it used the criteria set forth in the Committee of Sponsoring Organizations of the Treadway Commission (COSO)'s publication Internal Control Integrated Framework. As a result of this evaluation, management has concluded that the Company's internal control over financial reporting was effective as of September 30, 2010.

The effectiveness of the Company's internal control over financial reporting as of September 30, 2010 has been audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (EY), an independent registered public accounting firm, as stated in their report, which is included below.

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**Report of independent registered public accounting firm**

To the Supervisory Board of Siemens Aktiengesellschaft:

We have audited Siemens Aktiengesellschaft's internal control over financial reporting as of September 30, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Siemens Aktiengesellschaft's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Siemens Aktiengesellschaft maintained, in all material respects, effective internal control over financial reporting as of September 30, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of Siemens Aktiengesellschaft and subsidiaries as of September 30, 2010 and 2009, and the related consolidated statements of income, comprehensive income, cash flows and changes in equity for each of the two years in the period ended September 30, 2010, and our report dated November 25, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Munich, Germany  
November 25, 2010

**Changes in internal control over financial reporting**

There were no changes in the Company's internal control over financial reporting during fiscal 2010 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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Our Supervisory Board has determined that two members of the Company's Audit Committee, Dr. Gerhard Cromme and Dr. Hans Michael Gaul, are financial experts. Dr. Cromme and Dr. Gaul are independent, as that term is defined in Rule 10A-3 under the Securities Exchange Act for purposes of the listing standards of the New York Stock Exchange applicable to Siemens.

**ITEM 16B: CODE OF ETHICS**

The Company has adopted an amended and restated Code of Ethics for Financial Matters (Code) with effect from September 24, 2010. The Code was primarily amended to reflect the current organizational structure of Siemens and to more clearly specify the persons to whom it applies. The Code now applies to the principal officers of Siemens AG and its subsidiaries, including the members of the Managing Board of Siemens AG, the Corporate Vice President and Controller of Siemens AG, the CEOs, CFOs and Heads of Accounting & Controlling at various levels within the Siemens organizational structure and certain mandatory internal certifiers, as defined in the Code, who are part of the Siemens Sarbanes-Oxley Act section 302 certification process. In connection with these amendments, the Code was also generally updated without materially changing the Company's approach to any of the elements of the code of ethics definition enumerated in Item 16.B(b) of Form 20-F. A copy of the Code is available on the Company's website at [www.siemens.com/corporate\\_governance](http://www.siemens.com/corporate_governance).

**ITEM 16C: PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Fees related to professional services rendered by the Company's principal accountant, Ernst & Young (EY), for the fiscal years 2010 and 2009 were as follows:

<b>Type of Fees</b>	<b>Year ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(in millions of )</b>	
Audit Fees	40.9	40.5
Audit-Related Fees	5.3	4.6
Tax Fees	1.0	4.2
All Other Fees	0.1	
Total	47.3	49.3

Audit fees and audit-related fees consist of fees associated with the services pre-approved by the Audit Committee described below. Tax fees include primarily fees for support services provided in connection with the documentation of transfer pricing arrangements and require specific pre-approval by the Audit Committee.

As of September 30, 2010, 42 percent of total fees relate to Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Germany.

**Audit Committee pre-approval policies**

In accordance with German law, Siemens' independent auditor is appointed by the Annual Shareholders' Meeting based on a recommendation of the Supervisory Board. The Audit Committee of the Supervisory Board prepares the board's recommendation on the election of the Company's independent auditor. Subsequent to the auditor's appointment, the Audit Committee engages the auditor and in its sole authority approves the terms and scope of the audit and all audit engagement fees. In addition, it monitors the auditor's independence.

In order to ensure the integrity of independent audits, Siemens' Audit Committee has established a policy to approve all permissible services provided by our independent auditor prior to the auditor's engagement. As part of this approval process, the Audit Committee adopted pre-approval policies and procedures pursuant to which the Audit Committee annually pre-approves certain types of services to be performed by Siemens' independent auditor. Under the policies, the Company's independent auditor is not allowed to perform any non-audit services which may

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impair the auditor's independence under the rules of the U.S. Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board. Furthermore, the Audit Committee has limited the sum total of all audit-related fees which may be incurred during a fiscal year. At the beginning of fiscal year 2010, this limit was reduced to provide that fees for all non-audit services, including audit-related services, tax services and other services, may not exceed 30 percent of the audit fees agreed upon for the respective fiscal year. Previously, the limit was 40 percent, and applied only to audit-related services.

In fiscal 2010, the Audit Committee has generally pre-approved the performance by EY of audit and audit-related services, including, among others, the following:

**Audit services**

Annual audit of Siemens' Consolidated Financial Statements and its internal control over financial reporting

Quarterly review of Siemens' interim consolidated financial statements

Audit and review services that are required by statute or regulation, including statutory audits of financial statements of Siemens AG and of its subsidiaries under the rules of their respective countries

Opening balance sheet audits in connection with acquisitions, including audits with regard to the allocation of purchase prices

**Audit-related services**

Voluntary local GAAP audits

Due diligence relating to actual or contemplated acquisitions and carve-outs, including consultation in accounting matters

Post-closing audits

Carve-out audits and attestation services in the context of carve-outs

Certification services required by regulation, law or contractual agreement

Consultation concerning financial accounting and reporting standards based on the auditor's knowledge of Siemens-specific circumstances, including:

Accounting advice relating to actual or contemplated transactions or events

Advice on the introduction and review of new or revised accounting guidelines and requirements

Training regarding accounting-related topics

Comfort letters

Employee benefit plan audits

SAS 70 reports

Attestation services subject to regulatory requirements, including regulatory advice

Attestation and audits in connection with the European Community Directive on Waste Electrical and Electronic Equipment

Attestation of compliance with provisions or calculations required by agreements

Attest services in accordance with applicable standards, other than audit services required by statute or other regulation

Services that are not generally pre-approved as audit or audit-related services require specific pre-approval by the Audit Committee. An approval may not be granted if the service falls into a category of services not permitted by

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current law or if it is inconsistent with ensuring the auditor's independence, as expressed in the four principles promulgated by the U.S. Securities and Exchange Commission: (1) an auditor may not act as management or an employee of the audit client; (2) an auditor may not audit his or her own work; (3) an auditor may not serve in an advocacy role for his or her client; and (4) an auditor may not provide services creating a mutual or conflicting interest between itself and the audit client.

While non-audit-related services are not prohibited by law, except for certain types of non-audit services enumerated in the SEC's rules, the Audit Committee has decided as a matter of policy not to engage the principal accountant to provide non-audit-related services unless there is a compelling advantage to the Company in using the principal accountant and it can clearly be shown that there is no impairment of independence.

**ITEM 16D: EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Information required by this Item is incorporated by reference to Item 10: Additional information Corporate governance Management and control structure Supervisory Board.

**ITEM 16E: PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

The following table sets out certain information concerning purchases by us during fiscal 2010:

<b>Period</b>	<b>(a) Total number of shares purchased</b>	<b>(b) Average price paid per share (in )</b>	<b>(c) Total number of shares purchased as part of publicly announced plans or programs<sup>(1)</sup></b>	<b>(d) Maximum number of shares that may yet be purchased under the plans or programs at month-end<sup>(2)</sup></b>
October 10/1/09 - 10/31/09				91,420,342
November 11/1/09 - 11/30/09				91,420,342
December 12/1/09 - 12/31/09				91,420,342
January 1/1/10 - 1/31/10				91,420,342
February 2/1/10 - 2/28/10				91,420,342
March 3/1/10 - 3/31/10				91,420,342
April 4/1/10 - 4/30/10				91,420,342
May 5/1/10 - 5/31/10				91,420,342
June 6/1/10 - 6/30/10				91,420,342
July 7/1/10 - 7/31/10				91,420,342
August 8/1/10 - 8/31/10				91,420,342
September 9/1/10 - 9/30/10				91,420,342
<b>Total</b>				

- (1) On November 7, 2007, Siemens announced a Share Buyback Program adopted by the Management Board and approved by the Supervisory Board. The Share Buyback Program provided for repurchase of up to 10 billion of shares through the end of fiscal 2010. As of September 30, 2010, 56,201,421 shares amounting to 4.350 billion have been repurchased. Shares repurchased under the Share Buyback Program were purchased solely for the purpose of cancellation or for the purpose of issuing them to employees and members of the Managing Board. In fiscal 2010 and 2009, no shares were repurchased under this program.
- (2) The maximum number of shares that may yet be purchased under the plans or programs at month-end for the months from October 2009 to February 2010, as presented in the table above, represents the 91,420,342 Siemens shares authorized for repurchase by the Annual Shareholders Meeting on January 27, 2009. Under the currently effective resolution of the Annual Shareholders Meeting of January 26, 2010, which took effect on March 1, 2010 and remains in force until July 25, 2011, Siemens may repurchase up to 10% of its capital stock as of the date of the Shareholders resolution, which represents 91,420,342 Treasury shares.

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The table above omits Siemens shares purchased by pension and other postretirement benefit plans sponsored by Siemens which purchased those shares independently of Siemens. In fiscal 2010, the principal Siemens sponsored pension and other postretirement benefit plans purchased 2,372,219 shares of Siemens AG common stock at an average price of 68.41 per share.

For further information on shares held in treasury see Notes to Consolidated Financial Statements.

### **ITEM 16F: CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

### **ITEM 16G: CORPORATE GOVERNANCE**

#### **Significant differences between Siemens corporate governance and NYSE corporate governance standards**

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

As a company incorporated in Germany, Siemens AG must primarily comply with the German Stock Corporation Act and the German Codetermination Act and follows the recommendations of the German Corporate Governance Code. Furthermore, Siemens complies with applicable rules and regulations of the markets on which its securities are listed, such as the NYSE, and also voluntarily complies with many of the NYSE requirements that by their terms apply only to U.S. domestic issuers. For additional information on our corporate governance, please refer to Item 6: Directors, senior management and employees and to Item 10: Additional information.

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

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

**Independence** In contrast to the NYSE Standards, which require the board of directors to affirmatively determine the independence of the individual directors with reference to specific tests of independence, German law does not require the Supervisory Board to make such affirmative findings on an individual basis. German law requires that the Audit Committee must include at least one independent member of the Supervisory Board who has knowledge and experience in the application of accounting principles or the auditing of financial statements. At the same time, the Bylaws for Siemens Supervisory Board contain several provisions to help ensure the independence of the Supervisory Board's advice and supervision. Furthermore, the members of the Supervisory and Managing Boards are strictly independent of one another: a member of one board is legally prohibited from being concurrently active on the other.

Supervisory Board members have independent decision-making authority and are legally prohibited from following any direction or instruction. Moreover, Supervisory Board members may not enter into advisory, service or certain other contracts with Siemens, unless approved by the Supervisory Board.



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***Committees*** In contrast to the NYSE Standards, which require the creation of several specified board committees, composed of independent directors and operating pursuant to written charters that set forth their tasks and responsibilities, the Supervisory Board of Siemens AG has combined the functions of a nominating, compensation and corporate governance committee substantially in its Chairman's Committee and has delegated part of the remaining functions to the Nominating Committee. Nevertheless, certain responsibilities, e.g. determination of the compensation of the members of the Managing Board, have not been delegated to a committee because German law requires the Supervisory Board to perform the function in full session. Both the Audit Committee and the Chairman's Committee have written bylaws adopted by the Supervisory Board which address their respective tasks and responsibilities. The NYSE Standards were taken into consideration in drawing up these bylaws.

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

In addition, the Supervisory Board of Siemens AG has a Finance and Investment Committee and a Mediation Committee, the latter of which is required by German law. Neither of these two committees is required under the NYSE Standards.

***Shareholder Approval of Equity Compensation Plans; Stock Repurchases*** The NYSE Standards generally require U.S. domestic companies listed on the NYSE to obtain shareholder approval of all equity compensation plans (including stock option plans) and any material revisions to such plans. Under German law, the creation of authorized or contingent capital to issue shares and/or stock options requires the approval by our shareholders. This includes shareholder approval of the key points of a stock option plan as part of a decision regarding the creation of contingent capital or the repurchase and use of Siemens shares for servicing the stock option plan. Under German law, share buybacks generally require the prior authorization by shareholders. Such approval was last given at our January 26, 2010 Annual Shareholders' Meeting, and this matter will generally be voted upon the expiration of each authorization.

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**PART III**

**ITEM 18: FINANCIAL STATEMENTS**

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**Siemens**

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**Report of independent registered public accounting firm**

To the Supervisory Board of Siemens Aktiengesellschaft:

We have audited the accompanying consolidated statements of financial position of Siemens Aktiengesellschaft and subsidiaries (the Company) as of September 30, 2010 and 2009, and the related consolidated statements of income, comprehensive income, cash flows and changes in equity for each of the two years in the period ended September 30, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and subsidiaries at September 30, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the two years in the period ended September 30, 2010, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the European Union.

As discussed in Note 2 to the financial statements, the Company changed its method of accounting for changes in ownership interests in subsidiaries and business combinations as a result of the adoption of IAS 27 (amended 2008), Consolidated and Separate Financial Statements, and IFRS 3 (revised 2008), Business Combinations, effective October 1, 2009.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The additional information in the Compensation section as of and for the years ended September 30, 2010 and 2009 presented in Item 6, Directors, Senior Management and Employees, which is not a required part of the financial statements, has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as whole.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Siemens Aktiengesellschaft's internal control over financial reporting as of September 30, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 25, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Munich, Germany  
November 25, 2010

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**Report of independent registered public accounting firm**

The Supervisory Board of Siemens AG:

We have audited the accompanying consolidated statements of income, income and expense recognized in equity and cash flows of Siemens AG and subsidiaries (the Company) for the year ended September 30, 2008. The consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of its operations and its cash flows of the Company for the year ended September 30, 2008, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ KPMG AG

Wirtschaftsprüfungsgesellschaft

Munich, Germany

November 21, 2008

**Table of Contents****SIEMENS****CONSOLIDATED STATEMENTS OF INCOME****For the fiscal years ended September 30, 2010, 2009 and 2008****(in millions of , per share amounts in )**

	<b>Note</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Revenue		75,978	76,651	77,327
Cost of goods sold and services rendered		(54,331)	(55,941)	(56,284)
Gross profit		21,647	20,710	21,043
Research and development expenses		(3,846)	(3,900)	(3,784)
Marketing, selling and general administrative expenses		(11,130)	(10,896)	(13,586)
Other operating income	<b>6</b>	856	1,065	1,047
Other operating expense	<b>7</b>	(1,611)	(632)	(2,228)
Income (loss) from investments accounted for using the equity method, net	<b>8</b>	(40)	(1,946)	260
Interest income	<b>9</b>	2,161	2,136	2,404
Interest expense	<b>9</b>	(1,890)	(2,213)	(2,208)
Other financial income (expense), net	<b>9</b>	(336)	(433)	(74)
Income from continuing operations before income taxes		5,811	3,891	2,874
Income taxes	<b>10</b>	(1,699)	(1,434)	(1,015)
Income from continuing operations		4,112	2,457	1,859
Income (loss) from discontinued operations, net of income taxes	<b>4</b>	(44)	40	4,027
Net income		4,068	2,497	5,886
Attributable to:				
Non-controlling interests		169	205	161
Shareholders of Siemens AG		3,899	2,292	5,725
Basic earnings per share	<b>36</b>			
Income from continuing operations		4.54	2.60	1.91
Income (loss) from discontinued operations		(0.05)	0.05	4.50
Net income		4.49	2.65	6.41
Diluted earnings per share	<b>36</b>			
Income from continuing operations		4.49	2.58	1.90
Income (loss) from discontinued operations		(0.05)	0.05	4.49
Net income		4.44	2.63	6.39

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****For the fiscal years ended September 30, 2010, 2009 and 2008****(in millions of )**

		<b>2010</b>	<b>2009</b>	<b>2008</b>
Net income		4,068	2,497	5,886
Currency translation differences		1,220	(506)	(313)
Available-for-sale financial assets	<b>11</b>	19	72	(122)
Derivative financial instruments	<b>31, 32</b>	(149)	329	(237)
Actuarial gains and losses on pension plans and similar commitments	<b>24</b>	(2,054)	(1,249)	(1,719)
Other comprehensive income, net of tax <sup>(1)</sup>		(964)	(1,354)	(2,391)
<b>Total comprehensive income</b>		<b>3,104</b>	<b>1,143</b>	<b>3,495</b>
Attributable to:				
Non-controlling interests		212	203	159
Shareholders of Siemens AG		2,892	940	3,336

(1) Includes income (expense) resulting from investments accounted for using the equity method of 24, 71 and (38), respectively, for the fiscal years ended September 30, 2010, 2009 and 2008.

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

**Table of Contents****SIEMENS****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

As of September 30, 2010 and 2009

(in millions of )

	Note	9/30/10	9/30/09
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		14,108	10,159
Available-for-sale financial assets	11	246	170
Trade and other receivables	12	14,971	14,449
Other current financial assets <sup>(1)</sup>	13	2,610	2,407
Inventories	14	14,950	14,129
Income tax receivables		790	612
Other current assets	15	1,258	1,191
Assets classified as held for disposal	4	715	517
Total current assets		49,648	43,634
Goodwill	16	15,763	15,821
Other intangible assets	17	4,969	5,026
Property, plant and equipment	18	11,748	11,323
Investments accounted for using the equity method	19	4,724	4,679
Other financial assets <sup>(1)</sup>	20	11,296	10,525
Deferred tax assets	10	3,940	3,291
Other assets		739	627
Total assets		102,827	94,926
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Short-term debt and current maturities of long-term debt	23	2,416	698
Trade payables		7,880	7,593
Other current financial liabilities <sup>(1)</sup>	21	1,401	1,600
Current provisions	25	5,138	4,191
Income tax payables		1,816	1,936
Other current liabilities	22	21,794	20,311
Liabilities associated with assets classified as held for disposal	4	146	157
Total current liabilities		40,591	36,486
Long-term debt	23	17,497	18,940
Pension plans and similar commitments	24	8,464	5,938
Deferred tax liabilities	10	577	776
Provisions	25	3,332	2,771
Other financial liabilities <sup>(1)</sup>		990	706
Other liabilities	26	2,280	2,022



Total liabilities		73,731	67,639
Equity	27		
Common stock, no par value <sup>(2)</sup>		2,743	2,743
Additional paid-in capital		5,986	5,946
Retained earnings		22,998	22,646
Other components of equity		(8)	(1,057)
Treasury shares, at cost <sup>(3)</sup>		(3,373)	(3,632)
Total equity attributable to shareholders of Siemens AG		28,346	26,646
Non-controlling interests		750	641
Total equity		29,096	27,287
Total liabilities and equity		102,827	94,926

(1) Due to the retrospective application of an amended accounting pronouncement in fiscal 2010, certain derivatives, not qualifying for hedge accounting, were reclassified from current to non-current (see Note 2 to the Consolidated Financial Statements).

(2) Authorized: 1,111,513,421 and 1,111,513,421 shares, respectively.  
Issued: 914,203,421 and 914,203,421 shares, respectively.

(3) 44,366,416 and 47,777,661 shares, respectively.

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

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**CONSOLIDATED STATEMENTS OF CASH FLOW**  
**For the fiscal years ended September 30, 2010, 2009 and 2008**  
**(in millions of )**

	Note	2010	2009	2008
Cash flows from operating activities				
Net income		4,068	2,497	5,886
Adjustments to reconcile net income to cash provided				
Amortization, depreciation and impairments <sup>(1)</sup>		4,118	2,871	3,182
Income taxes		1,688	1,492	831
Interest (income) expense, net <sup>(2)</sup>		(271)	69	(208)
(Gains) losses on sales and disposals of businesses, intangibles and property, plant and equipment, net		(306)	(434)	(5,092)
(Gains) losses on sales of investments, net <sup>(3)</sup>		(72)	(351)	(35)
(Gains) losses on sales and impairments of current available-for-sale financial assets, net		13	11	(5)
(Income) losses from investments <sup>(1)(3)</sup>		59	1,974	(297)
Other non-cash (income) expenses		(59)	354	383
Change in current assets and liabilities				
(Increase) decrease in inventories		(75)	(62)	(1,631)
(Increase) decrease in trade and other receivables		(51)	1,104	(1,088)
(Increase) decrease in other current assets <sup>(4)</sup>		(206)	103	448
Increase (decrease) in trade payables		112	(1,070)	719
Increase (decrease) in current provisions <sup>(5)</sup>		629	(549)	1,448
Increase (decrease) in other current liabilities <sup>(4)(5)</sup>		1,307	(762)	4,362
Change in other assets and liabilities <sup>(2)(4)(5)</sup>		(257)	(357)	73
Additions to assets held for rental in operating leases <sup>(6)</sup>		(623)	(463)	(583)
Income taxes paid		(1,951)	(1,536)	(1,564)
Dividends received		538	441	337
Interest received		688	769	875
Net cash provided by (used in) operating activities continuing and discontinued operations		9,349	6,101	8,041
<b>Net cash provided by (used in) operating activities continuing operations</b>		<b>9,447</b>	<b>6,246</b>	<b>8,738</b>
Cash flows from investing activities				
Additions to intangible assets and property, plant and equipment <sup>(6)</sup>		(2,336)	(2,460)	(3,138)
Acquisitions, net of cash acquired		(485)	(208)	(5,407)
Purchases of investments <sup>(3)</sup>		(422)	(972)	(151)
Purchases of current available-for-sale financial assets		(138)	(52)	(16)
(Increase) decrease in receivables from financing activities		(192)	(495)	(2,445)
Proceeds from sales of investments, intangibles and property, plant and equipment <sup>(3)</sup>		589	1,224	803
Proceeds and (payments) from disposals of businesses		93	(234)	10,481
Proceeds from sales of current available-for-sale financial assets		44	35	49

Net cash provided by (used in) investing activities continuing and discontinued operations		(2,847)	(3,162)	176
<b>Net cash provided by (used in) investing activities continuing operations</b>		<b>(2,768)</b>	<b>(2,968)</b>	<b>(9,446)</b>
Cash flows from financing activities				
Purchase of common stock	27			(4,350)
Proceeds from re-issuance of treasury stock		147	134	248
Proceeds from issuance of long-term debt	23		3,973	5,728
Repayment of long-term debt (including current maturities of long-term debt)		(45)	(1,076)	(691)
Change in short-term debt and other financing activities		(721)	(356)	(4,635)
Interest paid		(440)	(759)	(829)
Dividends paid	27	(1,388)	(1,380)	(1,462)
Dividends paid to non-controlling interest holders		(199)	(161)	(138)
Net cash provided by (used in) financing activities continuing and discontinued operations		(2,646)	375	(6,129)
<b>Net cash provided by (used in) financing activities continuing operations</b>		<b>(2,823)</b>	<b>36</b>	<b>3,730</b>
Effect of exchange rates on cash and cash equivalents		167	(39)	(99)
Net increase (decrease) in cash and cash equivalents		4,023	3,275	1,989
Cash and cash equivalents at beginning of period		10,204	6,929	4,940
Cash and cash equivalents at end of period		14,227	10,204	6,929
Less: Cash and cash equivalents of assets classified as held for disposal and discontinued operations at end of period		119	45	36
Cash and cash equivalents at end of period (Consolidated Statements of Financial Position)		14,108	10,159	6,893

- (1) Amortization, depreciation and impairments, in fiscal 2010, includes 1,145 related to the goodwill impairment at Healthcare's Diagnostics Division. In fiscal 2009, (income) losses from investments include 1,634 related to an impairment of our equity method investment NSN. Impairments, net of reversals of impairments, on non-current available-for-sale investments are reclassified retrospectively to conform to the current year presentation.
- (2) Pension related interest income (expense) is reclassified retrospectively to conform to the current year presentation.
- (3) Investments include equity instruments either classified as non-current available-for-sale financial assets, accounted for using the equity method or classified as held for disposal. Purchases of investments includes certain loans to investments accounted for using the equity method.
- (4) Includes effects from the retrospective application of an amended accounting pronouncement in fiscal 2010, which resulted in the reclassification of certain derivatives, not qualifying for hedge accounting, from current to non-current. In addition, the prior-year presentation related to derivatives qualifying for cash flow hedge accounting was reclassified to conform to the current year presentation.
- (5) In fiscal 2010, the current portion of long-term provisions and accruals was reclassified. Prior-year amounts were adjusted to conform to the current year presentation.

- (6) Following a change in accounting pronouncements with the beginning of fiscal year 2010 additions to assets held for rental in operating leases, in previous years reported under additions to intangible assets and property, plant and equipment, were retrospectively reclassified from net cash provided by (used in) investing activities to net cash provided by (used in) operating activities. For further information, see Notes to the Consolidated Financial Statements.

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

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## SIEMENS

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

For the fiscal years ended September 30, 2010, 2009 and 2008

(in millions of )

	Common stock	Additional paid-in capital
Balance at October 1, 2007	2,743	6,080
Net income		
Other comprehensive income, net of tax		
Dividends		
Issuance of common stock and share-based payment		(1)
Purchase of common stock		
Re-issuance of treasury stock		(67)
Other changes in equity		(15)
<b>Balance at September 30, 2008</b>	<b>2,743</b>	<b>5,997</b>
Balance at October 1, 2008	2,743	5,997
Net income		
Other comprehensive income, net of tax		
Dividends		
Issuance of common stock and share-based payment		63
Re-issuance of treasury stock		(114)
Other changes in equity		
<b>Balance at September 30, 2009</b>	<b>2,743</b>	<b>5,946</b>
Balance at October 1, 2009	2,743	5,946
Net income		
Other comprehensive income, net of tax		
Dividends		
Issuance of common stock and share-based payment		60
Re-issuance of treasury stock		(20)
Other changes in equity		
<b>Balance at September 30, 2010</b>	<b>2,743</b>	<b>5,986</b>

(1) Retained earnings includes actuarial gains and losses on pension plans and similar commitments of (2,053), (1,248) and (1,716), respectively, in the fiscal years ended September 30, 2010, 2009 and 2008.

- (2) In the fiscal year ended September 30, 2010, Other comprehensive income includes non controlling interests of (1) relating to Actuarial gains and losses on pension plans and similar commitments, 44 relating to Currency translation differences, relating to Available-for-sale financial assets and relating to Derivative financial instruments.

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

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