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Exposure Draft „Revenue from Contracts with Customers“: Impact of the proposed concept on preparers

Dear Françoise,

In December 2008, the IASB issued the Discussion Paper „Preliminary Views on Revenue Recognition in Contracts with Customers“. Siemens – like many other preparers and constituents – has analysed in detail the expected impact and has given extensive input to the proposed new single revenue recognition concept both in writing (for your reference please find attached our related Comment Letter jointly with Business Europe) and during meetings with the IASB staff.

On 24 June 2010, the IASB published the Exposure Draft „Revenue from Contracts with Customers“ (ED) and has invited interested parties to comment on the proposed model. Our first analysis of the ED revealed that the feedback provided on the Discussion Paper was not adequately considered in the ED.

Our major concern relates to the application of the proposed model to customer-specific project business (construction contracts). For instance, we object to the idea of dividing construction contracts into different units for accounting purposes. This is because unbundling construction contracts into different accounting units results in disconnecting the accounting for a construction contract from the management of a construction contract. Construction contracts are typically managed as a whole so that the process of unbundling is artificial and, if applied, will lack commercial substance. While the proposed model would have a significant impact on a company's systems that it applies to construction contracts we are also of the opinion that the proposed model results in information that is not decision useful because it does not faithfully represent the underlying transactions. This lack of decision usefulness becomes apparent, for example, when considering the calculation of provisions for imminent losses (ie onerous test). The proposed model requires performing an onerous test on the level of the individual accounting units despite the contract being managed as a whole. As a result, the accounting for a construction contract may result in a loss for a specific accounting unit even though the overall contract may provide a stable, positive margin.

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In addition, from our experience the accounting for customer-specific contracts must be operational and provide for enough flexibility in order to adequately reflect subsequent changes in the substance of a contract (eg changes in the required goods and services to fulfil the contract).

We generally think that the current requirements that apply to construction contracts are well established and provide decision useful information to readers of financial statements. Compared to the existing requirements, the proposed model is likely to impose massive additional one-time and ongoing costs of implementation for preparers of financial statements. In our view, the IASB has not yet proven that the benefits of the proposed model justify the related costs for preparers. This also applies to the retrospective application of the model and the excessive disclosure requirements.

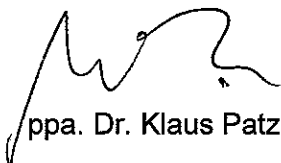
In light of the importance of this project for most preparers, we urge EFRAG taking a stance in discussions with the IASB and other constituents in order to preserve the existing accounting model for construction contracts. Given the IASB's expectation to publish a final standard no later than June 2010, the concerns of constituents must be expressed on a timely basis. Otherwise, it might be too late for the IASB to consider significant changes to the proposed model in the final document.

We very much hope that EFRAG addresses our concerns that are shared by many preparers. Please do not hesitate to contact me or Christoph Karl (christoph.j.karl@siemens.com, phone: +49 (0) 89 636 35443) should you wish to discuss any of the issues or require additional input. We are prepared to support any initiative on this matter. We look forward to the respective actions undertaken by EFRAG.

We have also expressed our views in a similar letter sent to the Chairman of the IASB, Sir David Tweedie.

Yours sincerely,

Siemens Aktiengesellschaft



ppa. Dr. Klaus Patzak

Enclosure

cc: Joe Kaeser, CFO Siemens AG
Liesel, Knorr, DRSC