**Solution:**

(1)

The annual interest received by the bondholders is given by the expression:

Interest Received = €2.5 x 1.375% = €34.375 million

(2)

Let us consider the amount received for conversion. Suppose we indeed converted our Siemens' bonds to shares.

Consider having €1,000 worth of bonds. Then, we get 17.8 shares from the conversion arrangement.

Since the value of each share was €65.70, the total value of these bonds upon conversion is €65.70 x 17.8 = €1,169.46.

Add to this the fact that Siemens pays the €3.00 per share gives €53.4 additional income, leading to €1,222.86 as the current estimated value of the shares.

This is clearly higher than the value of bonds at that time, so it is a good idea to convert the bonds to shares. In this way, we will have higher valuation at hand.

(3)

If the share price was $62, then we would have the valuation to be (€62 + €3) x 17.8 = €1,157, which is clearly a higher valuation than the bond, encouraging the investor to consider converting the bond to shares before maturity.

If the share price was €50, then we would have the valuation to be (€50 + €3) x 17.8 = €943.4, which is clearly a lower valuation than the bond, encouraging the investor to consider keeping the bond for maturity.