SIEMENS AKTIENGESELLSCHAFT
Form 20-F
December 05, 2003

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As filed with the Securities and Exchange Commission on December 5, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g)

OF THE SECURITIES EXCHANGE ACT OF 1934 o

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2003. þ

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________. o

Commission file number: 1-15174

Siemens Aktiengesellschaft

(Exact name of Registrant as specified in its charter)

Federal Republic of Germany

(Jurisdiction of incorporation or organization)

Wittelsbacherplatz 2

D-80333 Munich
Federal Republic of Germany
(Address of principal executive offices)

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

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

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

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

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

The number of outstanding shares of each of the issuer s classes of capital or common stock as of September 30, 2003: 890,866,301 common shares, no par value.

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

Yes þ No o Not applicable o

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

Item 17 o Item 18 þ

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FORWARD LOOKING STATEMENTS

This Form 20-F contains certain forward-looking statements and information relating to Siemens that are based on beliefs of its management as well as assumptions made by and information currently available to Siemens. When used in this document, the words anticipate, believe, estimate, expect, intend, plan and project and similar expressions, as they relate to Siemens or its management, are intended to id forward-looking statements. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors 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, including, among others, changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products by other companies, lack of acceptance of new products or services by Siemens targeted customers, changes in business strategy and various other factors, both referenced and not referenced in this Form 20-F. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected, intended, planned or projected. We do not intend, and do not assume any obligation, to update these forward-looking statements.

In this Form 20-F, references to we, us, Company or Siemens are to Siemens Aktiengesellschaft and, unless the context otherwise requires to its consolidated subsidiaries. In Item 4: Information on the Company, we use the terms we and us to refer to a specific Siemens group. On February 22, 2001, our shareholders approved a stock split of one share for every two shares held. The stock split took effect for trading purposes on April 30, 2001. See Item 3: Key Information Dividends. Except as otherwise specified, the share data in this document reflect this stock split.

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PART I

ITEM 1: IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2: OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3: KEY INFORMATION

SELECTED CONSOLIDATED FINANCIAL AND STATISTICAL DATA

The United States Generally Accepted Accounting Principles (U.S. GAAP) selected financial data set forth below as of and for each of the years in the three-year period ended September 30, 2003 should be read in conjunction with, and are qualified in their entirety by reference to, the consolidated financial statements and the Notes thereto presented elsewhere in this document.

INCOME STATEMENT DATA

	Year ended September 30,				
	2003	**2002**	**2001**	**2000**	**1999**
	(in millions, except per share data)				
Net sales	74,233	84,016	87,000	77,484	68,069
Income before income taxes	3,372	3,475(1)	2,678(1)	12,239(1)	2,118
Net income	2,445	2,597(1)	2,088(1)	8,860(1)	1,209
Basic earnings per share	2.75(2)	2.92(1)	2.36(1)	9.97(1)	1.36
Diluted earnings per share	2.75(2)	2.92(1)	2.36(1)	9.97(1)	1.36

(1) Includes gains on sales of significant business interests.

(2) In fiscal 2003, earnings per share amounts are reported after cumulative effects of a change in an accounting principle. Earnings per share amounts before cumulative effects of a change in an accounting principle amount to 2.71 and 2.71 for basic earnings per share and diluted earnings per share, respectively.

BALANCE SHEET DATA

	At September 30,				
	2003	**2002**	**2001**	**2000**	**1999**
	(in millions)				
Total assets	77,605	77,939	90,118	81,654	71,720
Long-term debt	11,433	10,243	9,973	6,734	4,753
Shareholders equity	23,715	23,521	23,812	28,480	19,138

Capital stock	2,673	2,671	2,665	1,505	1,521

The number of shares outstanding at September 30, 2003, 2002, 2001, 2000 and 1999 was 890,866,301, 890,374,001, 888,230,245, 882,930,900 and 892,186,410, respectively, after stock split.

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DIVIDENDS

The following table sets forth in euros and in dollars the dividend paid per share for the years ended September 30, 1999, 2000, 2001, 2002 and the proposed dividend per share for the year ended September 30, 2003. The table does not reflect the related tax credits available to German taxpayers who receive dividend payments. Owners of our shares who are United States residents should be aware that they will be subject to German withholding tax on dividends received. See Item 10: Additional Information Taxation.

	Dividend paid per share	
Year ended September 30,	**Euro**	**Dollar**
1999	0.67(3)	0.66(3)
2000	1.60(1)(3)	1.41(1)(3)
2001	1.00	1.14
2002	1.00	1.08
2003	1.10(2)	

(1) Includes a special dividend of 0.67 per share.

(2) Proposed by the Managing Board and the Supervisory Board; to be approved by the shareholders at the shareholders annual meeting on January 22, 2004.

(3) Adjusted for stock split.

On February 22, 2001, our shareholders approved an increase in our share capital from capital reserves, thereby creating new shares in an amount equal to 50% of our outstanding shares. This stock split became effective for trading purposes on April 30, 2001. As a result, the number of our outstanding shares increased by 295,812,450 shares, from 591,624,900 shares to 887,437,350 shares, based on the number of shares outstanding as of February 22, 2001. These new shares were distributed to shareholders at a ratio of one additional share for every two shares owned. In this document, we refer to this distribution as the stock split. See Notes to the consolidated financial statements for further information.

EXCHANGE RATE INFORMATION

We publish our consolidated financial statements in euros (euro or). Deutsche Mark, DEM or DM means the sub-unit of the euro designated as such within the European Union, or, with respect to any time or period before January 1, 1999, means the lawful currency of the Federal Republic of Germany. 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 shareholders annual meeting at which the dividends were approved. As used in this document, the term noon buying rate refers to the rate of exchange for either euro or Deutsche Mark, expressed in U.S. dollar per euro or Deutsche Mark, 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.

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In order that you may ascertain how the trends in our financial results might have appeared had they been expressed in U.S. dollars, the table below shows the average noon buying rates in The City of New York for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York for U.S. dollar per euro for our fiscal years. Since the euro did not exist prior to January 1, 1999, the exchange rates in the table for the period prior to January 1, 1999 do not represent actual exchange rates between the euro and the U.S. dollar, rather they represent exchange rates for Deutsche Marks into U.S. dollars translated into euro using the fixed conversion rate of 1 per 1.95583 DM. The exchange rate trend between the U.S. dollar and the Deutsche Mark reflected in the table below might have been different from the exchange rate trend that would have existed between the U.S. dollar and the euro during such period, had the euro been in existence. The average is computed using the noon buying rate on the last business day of each month during the period indicated.

Fiscal year ended September 30,	Average
1999	1.0955
2000	0.9549
2001	0.8886
2002	0.9208
2003	1.0919

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

	High	Low
June 2003	1.1870	1.1423
July	1.1580	1.1164
August	1.1390	1.0871
September	1.1650	1.0845
October	1.1833	1.1596
November	1.1995	1.1417

On November 28, 2003, the noon buying rate was U.S.$1.1995 per 1.00.

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 (referred to as ADSs) on the New York Stock Exchange. We will declare any cash dividends in euro and exchange rate fluctuations will affect the U.S. dollar amounts received by holders of ADSs on conversion of cash dividends on the shares represented by the ADSs.

RISK FACTORS

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

Our business is affected by the economic downturn: Our business has been negatively impacted by a prolonged economic downturn. The business environment is influenced by numerous political uncertainties, including the situations in the Middle East as well as South America and other regions, which continue to impact macroeconomic parameters and the international capital markets. Investment sentiment will continue to be weak for our customers in important industry segments and regional markets in the U.S., Europe, Asia and South America. In fiscal 2003, the prevailing weak economic conditions negatively affected a number of our business Groups, especially Information and Communication Networks (ICN) and Siemens Dematic (SD), each incurring a significant loss.

Our Information and Communications business area is particularly affected by the current market conditions in the telecommunications industry. Capital expenditure budgets of telecommunication carriers have been reduced drastically worldwide and many infrastructure customers are burdened by prohibitive debt levels because

they borrowed heavily to build, expand or upgrade systems for which there is currently weak demand. The rate at which the telecommunications industry recovers will have a material impact on the financial performance of ICN, Information and Communication Mobile (ICM) and Siemens Business Services (SBS).

Our Power Generation (PG) Group also faces changing market conditions with reduced demand for new power generation equipment especially in the U.S., where significant investments in gas turbine power plants and combined-cycle power plants were made in the last three years. Gas turbine overcapacities will contribute to increasing price pressure. PG is responding to these risks by adjusting its capacities, optimizing its manufacturing network and continuously improving the efficiency of its gas turbines.

In light of these economic conditions, in fiscal year 2003, we continued prior year s cost-cutting initiatives across our business Groups. These include adjusting existing capacities through consolidation of manufacturing facilities, streamlining product portfolios and reducing headcount. The resulting impact of these cost-reduction measures on our profitability will be influenced by the actual amount of cost savings achieved and by our ability to sustain these ongoing efforts.

We operate in highly competitive markets, which are subject to price pressure and rapid changes: The worldwide markets for our products are highly competitive in terms of pricing, product and service quality, development and introduction time, customer service and financing terms. We face strong competitors, some of which are larger and may have greater resources in a given business area. Siemens faces downward price pressure especially in ICN, ICM, SBS, Automation & Drives (A&D) and Medical Solutions (Med) and is exposed to market downturns or slower growth, particularly in the highly volatile mobile communications market of ICM and the automotive supplier market of Siemens VDO Automotive (SV). Some industries in which we operate are undergoing consolidation, which may result in stronger competitors and a change in our relative market position. In some of our markets new products must be developed and introduced rapidly in order to capture available opportunities, and this can result in quality problems. Our operating results depend to a significant extent on our ability to adapt to changes in the market and reduce the costs of producing high-quality new and existing products.

Our businesses must keep pace with technological change 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 new technologies. To meet our customers needs in these businesses, we must continuously design new, and update existing, products and services and invest in and develop new technologies. This is especially true for our ICN, ICM, SBS and SV business Groups. For example, ICN and ICM are currently involved in developing marketable components, products and systems for a new generation of wireless communications technology, known as UMTS. Introducing new products such as these requires a significant commitment to research and development, which may not result in success. Our sales may suffer if we invest in technologies that do not function as expected or are not accepted in the marketplace or if our products or systems are not brought to market in a timely manner or become obsolete.

We may have difficulty in identifying and executing acquisitions, strategic alliances and joint ventures and in executing divestitures: Our strategy involves divesting our interests in some businesses and strengthening other business areas through acquisitions, strategic alliances or joint ventures. Transactions such as these are inherently risky because of the difficulties of integrating people, operations, technologies and products that may arise. Strategic alliances may also pose risks for us because we compete in some business areas with companies with which we have strategic alliances. We may incur significant acquisition, administrative and other costs in connection with these transactions, including costs related to integration of acquired or restructured businesses. There can be no assurance that any of the businesses we acquire can be successfully integrated or that they will perform well once integrated. Acquisitions may also lead to potential write-downs due to unforeseen business developments that may adversely affect our earnings.

Our financial results and cash flows may be adversely affected by cost overruns or additional payment obligations in connection with our project businesses: Certain of our operations Groups, including ICN, ICM, SBS, Industrial Solutions & Services (I&S), SD, PG, Power Transmission & Distribution (PTD) and Transportation Systems (TS), perform a significant portion of their business, especially large projects, under long-term contracts that are awarded on a competitive bidding basis. The profit margins realized on such fixed-priced

contracts may vary from original estimates as a result of changes in costs and productivity over their term. We sometimes bear the risk of quality problems, cost overruns or contractual penalties caused by unexpected technological problems, unforeseen developments at the project sites, problems with our subcontractors or other logistic 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 or non-payment, or could result in contract termination. There can be no assurance that all of our fixed-priced contracts can be completed profitably. See Item 4: Information on the Company Long-Term Contracts and Contract Losses.

We face operational risks in our value chain processes: Our value chain comprises all the steps in our operations, from research and development, to production to marketing and sales. 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. We face such risks, for example, in connection with the high production volumes at PG or TS.

We are dependent upon the ability of third parties to deliver parts, components and services on time: We rely on third parties to supply us with parts, components and services. Using third parties to manufacture, assemble and test our products reduces our control over manufacturing yields, quality assurance, product delivery schedules and costs. The third parties that supply us with parts and components also have other customers and may not have sufficient capacity to meet all of their customers needs, including ours, during periods of excess demand. Component supply delays can affect the performance of certain of our operations Groups. Although we work closely with our suppliers to avoid supply-related problems, there can be no assurance that we will not encounter supply problems in the future or that we will be able to replace a supplier that is not able to meet our demand. These shortages and delays could materially harm our business. Unanticipated increases in the price of components due to market shortages could also adversely affect the performance of certain of our business Groups.

We are exposed to currency risks and interest rate risks: We are particularly exposed to fluctuations in the exchange rate between the U.S. dollar and the euro, because a high percentage of our business volume is conducted in the U.S. and as exports from Europe. Our 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 hedging activities are described in more detail under Item 11: Quantitative and Qualitative Disclosure About Market Risk. Exchange rate and interest rate fluctuations may, however, influence our financial results. Exchange rate fluctuations particularly have an effect on ICN, ICM, A&D, SD, PG, SV, PTD, Med and Osram. A strengthening of the euro may also change our competitive position as many of our competitors may benefit from having a substantial portion of their costs based in weaker currencies, enabling them to offer their products at lower prices. For more details regarding currency risks, interest rate risks and other market risks, please see Item 11: Quantitative and Qualitative Disclosure About Market Risk.

Our financing activities subject us to various risks including credit and interest rate risk: We provide to our customers various forms of direct and indirect financing in connection with large projects such as those undertaken by ICN, ICM, PG and TS. Financing of GSM or UMTS wireless network equipment for ICM customers who lack established credit histories may cause special credit risks for us. We also finance a large number of smaller customer orders, through for example, the leasing of telephone systems and medical equipment, in part through, Siemens Financial Services (SFS). SFS additionally incurs credit risk by financing third-party equipment. For additional information on customer financing see Item 5: Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Resources and Capital Requirements Off-balance sheet arrangements Customer financing. We also sometimes take a security interest in the projects we finance. We may lose money if any of our customers are not able to pay us, if the value of the property that we have taken a security interest in declines, if interest rates or foreign exchange rates fluctuate, or if the projects in which we invest are unsuccessful. Siemens evaluates such financing requirements on a very selective basis and has forgone, and will continue to forgo, new business contracts if the financing risks are not justifiable.

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The funded status of our off-balance sheet pension benefit plans and its financial statement impact is dependent on several factors: Significant changes in investment performance or a change in the portfolio mix of invested assets can result in corresponding increases and decreases in the valuation of plan assets, particularly equity securities, or in a change of the expected rate of return on plan assets. Pension plan valuation assumptions can also affect the funded status. For example, a change in discount rates would result in a significant increase or decrease in the valuation of pension obligations, affecting the reported funded status of our pension plans as well as the net periodic pension cost in the following financial year. Similarly, changes in the expected return on plan assets assumption can result in significant changes in the net periodic pension cost in the following financial year. Changes in other pension plan assumptions, such as discount rate, expected return on plan assets, the compensation increase rate and pension progression, can also materially impact net periodic pension expense.

We are dependent upon hiring and retaining highly qualified management and technical personnel: Competition for highly qualified management and technical personnel remains intense in the industries in which our business Groups operate. In many of our business areas we further intend to extend our service businesses significantly, for which we will need highly skilled employees. Our future success depends in part on our continued ability to hire, assimilate and retain engineers and other qualified personnel. There can be no assurance that we will continue to be successful in attracting and retaining highly qualified employees in the future.

We are subject to regulatory and similar risks associated with our international operations: Changes in regulatory requirements, tariffs and other trade barriers and price or exchange controls could limit operations and make the repatriation of profits difficult. In addition, the uncertainty of the legal environment in some regions could limit our ability to enforce our rights. We expect that sales to emerging markets will continue to be an increasing portion of total sales, as our business naturally evolves and as developing nations and regions around the world increase their demand for our offerings. Emerging market operations present several risks, including volatility in gross domestic product, civil disturbances, economic and governmental instability, the potential for nationalization of private assets, and the imposition of exchange controls. In particular, our sizeable operations in China are influenced by a legal system that is still developing and is subject to change. The demand for many of the products of our business Groups, particularly those that derive their revenue from large projects, can be affected by expectations of future demand, prices and gross domestic product in the markets in which those Groups operate.

We are subject to environmental and other government regulations: Some of the businesses in which we operate are highly regulated. Med, for example, is subject to the restrictive regulatory requirements of the Food and Drug Administration (FDA) in the U.S. Current and future environmental and other government regulations, or changes thereto, may result in significant increases in our operating or product costs. We could also face liability for damage or remediation for environmental contamination at the facilities we design or operate. See Item 4: Information on the Company Environmental Matters for a discussion of significant environmental matters. We accrue for environmental risks when it is probable that an obligation has been incurred and the amount can be reasonably estimated. With regard to certain environmental risks, we maintain liability insurance at levels that our management believes are appropriate and in accordance with industry practice. There can be no assurance that (i) we will not incur environmental losses beyond the limits, or outside the coverage, of such insurance or that any such losses would not have a material adverse effect on the results of our operations or financial condition or (ii) our provisions for environmental remediation will be sufficient to cover the ultimate loss or expenditure.

Our business could suffer as a result of current or future litigation: We are subject to numerous risks relating to legal proceedings to which we are currently a party or that could develop in the future. In the ordinary course of our business we become implicated in lawsuits, including suits involving allegations of improper delivery of goods or services, product liability and product defects and quality problems and intellectual property infringement. For additional information with respect to legal proceedings see Item 4: Information on the Company Legal Proceedings. There can be no assurance that the results of these or other legal proceedings will not materially harm our business, reputation or brand. We maintain liability insurance for legal risks at levels our management believes are appropriate and in accordance with industry practice. We accrue for litigation risks when it is probable that an obligation has been incurred and the amount can be reasonably estimated. There can be no assurance that (i) we will not incur losses relating to litigation beyond the limits, or outside the coverage, of

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such insurance or that any such losses would not have a material adverse effect on the results of our operations or financial condition or (ii) our provisions for litigation related losses will be sufficient to cover our ultimate loss or expenditure.

ITEM 4: INFORMATION ON THE COMPANY

OVERVIEW

Siemens traces its origins to 1847. Beginning with advances in telegraph technology, the Company quickly expanded its product line and geographic scope, and was already a multi-national business by the end of the 19th century. The Company formed a partnership under the name Siemens & Halske in 1847, reorganized as a limited partnership in 1889 and again 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 2003, Siemens employed an average of 419,300 people in approximately 190 countries worldwide. In fiscal 2003, we had net sales of 74.233 billion. Our balanced business portfolio is based on leadership in electronics and electrical engineering. We have combined this expertise with a commitment to original research and development to build strong global market positions in equipment for telecommunications and networking, industrial automation, power generation and medical diagnostics. We are also a major world competitor in rail transportation systems, automotive electronics and lighting. 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 this area include power generation, power transmission and distribution, medical solutions and rail systems. In fields with more industry-specific cycles, customers tend to have shorter horizons for their spending decisions and greater sensitivity to current economic conditions. Our activities in this area include information and communications, automation and drives and lighting. Some activities, especially information and communications and medical solutions, are also influenced by technological change and the rate of acceptance of new technologies by end users.

In a difficult economic environment in fiscal 2003, we vigorously pursued a strategy we call Operation 2003, aimed at bolstering profit margins, cutting costs, improving asset management and generating further strong cash flows while solidifying our revenue base after several years of significant changes to our business portfolio. These portfolio changes were integral to the precursor of Operation 2003, known as the Ten-Point Plan. These portfolio activities, along with the Ten-Point Plan included listing our shares on the New York Stock Exchange, converting our accounting to U.S. GAAP, divesting our semiconductor unit Infineon, and other measures aimed at increasing shareholder value and the transparency of our financial reporting.

In the remainder of this section, we detail the Operation 2003 strategy; highlight portfolio optimization activities in recent years; and describe the long-term, broad-based management strategies that span all of our businesses and will guide our growth in the years ahead.

OPERATION 2003

The overriding purpose of Operation 2003 is to increase profitability through a set of strategic programs and initiatives aimed at achieving specific earnings margin targets for our business Groups and generating cash during a period of slow macroeconomic growth.

During fiscal 2003, Group profit from operations increased to 4.295 billion compared to 3.756 billion in fiscal 2002. Group profit margins rose at 10 of the 13 Groups in our Operations component and at Siemens Financial Services (SFS). For a definition of our Operations component see Item 5: Operating and Financial Review and Prospects Basis of Presentation.

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Net cash from operating and investing activities in fiscal 2003 was 1.773 billion, including 5.712 billion in net cash from operating activities. Net cash provided by operating activities included cash outflows of 1.192 billion in supplemental cash contributions to Siemens pension trusts. Net cash used in investing activities of 3.939 billion included investments and marketable securities of 957 million, and 929 million for a strategic acquisition at Power Generation (PG).

PORTFOLIO ACTIVITIES

Since fiscal 2001, we have completed the following significant transactions aimed at realigning our businesses in order to achieve sustainable growth in profitability:

Dispositions

- Divestiture of a majority of our original interest in Infineon Technologies AG through various means including a public offering, the transfer of an approximate 15% stake to the Siemens German Pension Trust (Siemens Pension Trust e.V.), the transfer of 200 million shares to an irrevocable, non-voting trust, open market sales and various other steps, as described below. Also, for further information on our deconsolidation of Infineon, see Notes to the consolidated financial statements;
- Transfer of our nuclear power business into a joint venture with Framatome;
- Divestiture of businesses and assets related to the acquisition of Atecs Mannesmann AG;
- Divestiture of Unisphere Networks, Inc.;
- Divesture of several business activities to Kohlberg Kravis Roberts & Co. L.P. (KKR), including units that we acquired as part of our acquisition of the Atecs Mannesmann group, the Metering division of our Power Transmission and Distribution Group, the Ceramics division of our PG Group and a regional service business belonging to our Information & Communication Networks (ICN) Group;
- Contribution of the Patient Care System and Electro Cardiography System businesses of our Medical business Group into a joint venture with Drägerwerk AG in exchange for a 35% interest in the joint venture Dräger Medical AG & Co. KGaA (Dräger Medical), headquartered in Lubeck, Germany, in June 2003. The contribution agreement obligates Siemens to contribute to Dräger Medical the net proceeds from the sales of its Life Support Systems business. By consenting to this sale, Siemens and Drägerwerk AG received approval of the joint venture transaction by antitrust authorities. In August 2003, Siemens signed a contract toward the sale of its Life Support Systems business to Getinge AB, Sweden. The transaction closed in October 2003.

Acquisitions

- Acquisition of Acuson Corporation, a medical ultrasound producer by our Medical business Group;
- Acquisition of Efficient Networks Inc., a DSL equipment provider in the United States by ICN;
- Acquisition of Atecs Mannesmann AG (Atecs), a large German automotive and automation technology group;
- Acquisition of the industrial turbine business of Alstom S.A. (Alstom), Paris, which was structured in two transactions; in the first transaction in April 2003, PG acquired the small gas turbine business of Alstom; and in the second transaction in July 2003, PG acquired the medium-sized gas and steam turbine businesses of Alstom.

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

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ECONOMIC VALUE ADDED (EVA)

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

SIEMENS MANAGEMENT SYSTEM

In addition to implementing Operation 2003, we also conducted a thorough review of our management system, in order to make it clearer and easier to understand. We expanded our top+ business excellence program at the start of fiscal 2004, integrating it into a reorganized Siemens Management System consisting of three programs:

Innovation has been a hallmark of Siemens since its inception, and our commitment to innovation remains strong, with a total 5.067 billion of research and development (R&D) expenses and approximately 7% of sales invested in R&D in fiscal 2003. Innovation cycles are increasingly shorter. The role of management is to identify opportunities to bring innovation to market as rapidly and profitably as possible, and to execute on those opportunities as productively as possible. Our focus will be on common technology platforms to leverage our resources across our Groups.

Customer focus means meeting a customer s needs rather than simply selling a preexisting product or service. In practice, we market our products, solutions and services not only through our business Groups but also take advantage of cross-selling opportunities. We intend to maximize our customer and market penetration through various initiatives, including cross-selling programs. Throughout our Groups, we will initiate further emphasis of our service business to stimulate sales. It is important to treat our customers as partners, to involve them in our development processes and to provide them with competitive advantages through intelligent solutions.

Global competitiveness the third component of the Siemens Management System, concerns our ability to compete and market our products on a worldwide basis. Siemens is present in approximately 190 countries and benefits from its multicultural mix of managers and employees in these countries. It is our primary goal to secure competitive strength by utilizing and optimizing all parts of our worldwide value chain including procurement, production and hardware, development of software, shared services, and back-office functions. In addition, we plan to expand our presence at lower-cost locations.

CORPORATE STRUCTURE

Our corporate structure consists of fifteen different business Groups active in seven different business areas.

The majority of our business is devoted to providing products and services to customers based on Siemens historical expertise in innovative electrical engineering and electronics. We call this component of our business Operations, which is divided into the 13 operating Groups. These Groups typically design, manufacture, market, sell, and service products and systems, or help customers use and manage those products and systems. A Group is equivalent to a reportable segment as defined by U.S. GAAP.

Another component of our Company is made up of two Groups, involved in non-manufacturing activities such as financing, leasing, and real estate.

For a detailed description of our business Groups, see Description of Business.

In addition, we hold non-controlling interests in a number of businesses. Other than Infineon, the most significant of these is our interest in BSH Bosch und Siemens Hausgeräte GmbH, which manufactures consumer household appliances, often referred to as white goods.

Our business Groups are supported by regional units and central corporate departments. Our regional units include sales units in each region where we operate to complement the sales efforts of our individual business

Groups and take advantage of cross-marketing opportunities. Our corporate departments also support the business Groups with financial resources, human resources, planning and development and information and communications infrastructures.

We operate through hundreds of subsidiaries, some of which are organized along the lines of our business Groups and others of which are organized on a geographic basis.

DESCRIPTION OF BUSINESS

We review below each of our operations and financial services Groups:

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INFORMATION AND COMMUNICATIONS

Information and Communication Networks (ICN)

	Year ended September 30, 2003
Total sales	7.122 billion
External sales as percentage of Siemens net sales	8.88%
Group profit	(366) million
Net capital employed	722 million
Employees	33 thousand

The Information and Communication Networks Group develops, manufactures and sells comprehensive public and enterprise communication systems, including related hardware and software, and provides a wide variety of consultancy, maintenance and other services. ICN s worldwide customer base comprises service providers, such as network operators and internet service providers, as well as private companies, ranging from small businesses to large multinational enterprises.

Our focus has shifted from traditional communication systems that carry primarily voice (narrowband networks) to systems that can combine voice, data and multimedia, such as video transmissions (broadband or next generation networks). Our carrier business upgrades existing voice-centered networks primarily to allow the transmission of voice, data and multimedia, based on internet protocol (often referred to as IP convergence), so that service providers can address new revenue opportunities while protecting their significant investments in their existing networks. For our new customers, we also design and build new IP-based networks. Our enterprise business offers comprehensive communication products and solutions designed to increase productivity of enterprises by converging their voice and data networks on a single unified network infrastructure and by integrating real-time communication applications.

In order to make our cost structure more efficient and to focus our sales and product development efforts in the carrier business on comprehensive solutions, in fiscal 2003, we streamlined our carrier organization by combining the product offerings of the former *Wireline Networks*, *Optical Networks* and *Access Solutions* divisions into a new *Carrier Networks* division. The separate service offerings of the three former divisions were also merged and organized in a new division *Carrier Service*. As a result, our Group now comprises these two new divisions, together with the existing *Enterprise Networks* division.

Carrier Networks. This division is a leading system provider for public fixed-line communication network infrastructure. We offer innovative and comprehensive solutions designed to reduce the operating costs of our carrier customers and to increase the efficiency of their networks. Additionally, we provide applications developed to increase our customers revenues by allowing them to offer more products and services such as telephone and video conferencing and to thus carry more IP-converged traffic over their networks. Our customers worldwide include telephone operators, cable and other alternative operators, data carriers, internet service providers and application service providers.

Our product portfolio addresses each of the following three segments of telecommunication networks access, transport and control. For network access, we provide products and solutions that upgrade the part of a telephone network between a home or a business and the first network switching system (the last mile) to carry not only voice but data requiring very high bandwidth. We also offer broadband equipment for homes and businesses, including modems for high-speed internet access. For network transport, we offer transport solutions for optical networks, which use light waves to transmit communications signals through fiber optic cables. Our transport solutions combine hardware and software designed to deliver higher transmission rates between network elements. For network control, we provide solutions which switch and direct voice, data and video signals from one part of a network to another. Our portfolio includes products for voice switching in traditional networks and for voice and data switching in IP converged networks as well as interfaces between these narrowband and broadband networks. All our carrier products are offered under the common brand, SURPASS®.

For multimedia applications, we provide open application programming interfaces to members of our SURPASS partner program, weSURPASS®. This allows weSURPASS partners to develop features and applications that enhance the value of SURPASS for its users.

Our portfolio is complemented by the data routing products of Juniper Networks for which we act as a global reseller.

Carrier Service. This new division was launched to target the growing market for carrier services. It provides services for the network operation processes of our customers. The service portfolio comprises network maintenance and professional services. Network maintenance includes comprehensive service packages, including customer interaction center, network care, repair and replacement services and evolution services, which allow networks to keep pace with technological developments. Our professional services focus on operational outtasking and also include consulting, design and education.

Enterprise Networks. This division provides comprehensive real-time communication products and solutions for enterprises, government agencies and other organizations. Our products and services are based on our enterprise IP convergence architecture, called HiPath®. Our portfolio contains a comprehensive range of communications platforms, a broad offering of traditional and IP phones and software-based telephone applications for personal computers, IP-based applications for customer relationship management and remote office environments, a wide array of installation and maintenance, professional and managed services, and network security systems and solutions. In addition, our open real-time communications application suite OpenScape® merges telephony services with voice over IP and collaborative applications, such as multimedia conferencing, into a fully integrated real-time framework that simplifies business processes. As a result of the general shift towards open standards IP communications solutions, we are moving from a hardware-based business to a more software and solution-driven business. Thus, our focus is on optimizing an enterprise s business processes through software solutions which are integrated in its existing IT structure. We design our solutions to provide customers with a prompt return on investment and to open new business opportunities for them, such as through the integration of fax, e-mail, internet and video into existing telephone call center systems.

To strengthen our activities in real-time communications software and to drive the development of our global HiPath IP communications architecture, we acquired a majority holding in Cycos AG, a software company specializing in Unified Messaging products and solutions. This technology enables the reception, output and administration of various types of electronic messages, such as voice mail, e-mail, fax and short-message service (SMS) on different devices.

Enterprise Networks serves its customers with systems installation, systems integration, maintenance, consulting and training services worldwide through local Siemens companies and independent distributors.

Based on its strategy to address the next generation of networks, ICN recently introduced its LifeWorks® concept as its vision for the future of telecommunications worldwide. LifeWorks is a unified communications platform that uses our SURPASS carrier technology and our HiPath enterprise technology in order to integrate the technologies, devices and applications of enterprises and carriers and to produce a single, homogeneous communications environment where information can be accessed at any time and from any remote point.

ICN operates its own sales force in Germany and uses dedicated personnel in Siemens worldwide network of regional sales units. Our global presence and our expertise in voice and IP communication allow us to deliver ready-for-use network solutions on a wide scale and of varied complexity throughout the world. Some of our more significant carrier customers include Deutsche Telekom, SBC, France Telecom, Telecom Italia and China Telecom, while our more significant enterprise customers include DaimlerChrysler, Ford Motor Company, Deutsche Bank, RWE, EON and governmental institutions, including certain departments of the United States federal government. In spite of declining markets, we have not experienced a significant change in the number of our carrier customers or in the number of our enterprise customers. Our larger contracts with both our carrier and enterprise customers often involve tens of millions of euros. We have no customer who contributed more than 5% of total sales in fiscal 2003.

We have provided, and expect to continue to provide, some of our customers with various forms of direct and indirect financing in connection with large infrastructure projects.

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We derive approximately two thirds of our sales from Europe, with 33% from Germany, and a smaller but significant amount from the Americas, mainly the U.S.

In line with our strategy to concentrate our manufacturing plants worldwide, we reduced the number of manufacturing plants with majority shareholding from 13 as of the end of fiscal 2002 to four as of the end of fiscal 2003.

In fiscal 2003, we spent 839 million, or 11.8% of ICN total sales, on research and development, compared to 1.154 billion, or 12% of total sales, in fiscal 2002. We are focused on improving the efficiency of our research and development activities, which includes reducing and transferring development sites to low-cost countries as well as directing research and development efforts on targeted projects in order to decrease overhead costs and development time.

ICN has established a number of smaller joint ventures in order to share costs and risks of developing new technologies, to manufacture products under local conditions and to ease market entry. In addition, we enter into strategic alliances in order to achieve a leading position in the market for real-time communications. A typical example is our strategic alliances with leading enterprise IT companies, such as IBM, Microsoft and SAP.

ICN s market continues to be characterized by:

- Growth in the amount and speed of data communications traffic due to the increased availability of broadband access, multimedia applications, such as messaging and games, and real-time communications;
- Continued convergence of voice, data and video communications and increasing volatility of such converged digital traffic within networks; and
- Lower levels of capital expenditures by carriers and enterprises in established voice infrastructure.

ICN is challenged by a changing competitive landscape. In addition to our traditional competitors, such as Alcatel, Lucent, Nortel and Avaya, recent entrants, such as Huawei and ZTE, are beginning to use an aggressive price strategy to target our traditional customers. As a result of the importance of IP convergence and the applications business, we also face new competitors which formerly focused on software, IT services or data networks, such as Microsoft, SAP, Cisco Systems and IBM.

For ICN, market conditions remained difficult in fiscal 2003 largely due to the ongoing downturn in capital expenditures among telecommunications operators. The enterprise market suffered from a weak world-economy and reduced IT spending, particularly in the United States and Germany. Given these market conditions, ICN s orders declined by approximately 19% in fiscal 2003.

In response to the decline of ICN s volume and changes in the competitive landscape, we have undertaken comprehensive adjustments to our cost structure and business portfolio and intensified our efforts in working capital management. We are continuing to implement our Profitability and Cash Turnaround (PACT) Program, begun in fiscal 2001, which is aimed at improving management of working capital, cutting costs, reducing personnel, consolidating our worldwide manufacturing structure and improving portfolio management. During fiscal 2003, we also reduced our employees by approximately 6,000, thus completing the total headcount reduction announced since we initiated the PACT Program, from 54,000 to 33,000. For additional information with respect to severance charges see Item 5: Operating and Financial Review and Prospects Segment Information Analysis Operations Information and Communications Information and Communication Networks.

The large size of some of our projects occasionally exposes us to risks associated with technical performance, a customer, or a country. See Long-Term Contracts and Contract Losses.

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Information and Communication Mobile (ICM)

	Year ended September 30, 2003
Total sales	9.964 billion
External sales as percentage of Siemens net sales	13.22%
Group profit	180 million
Net capital employed	1.367 billion
Employees	27 thousand

Information and Communication Mobile designs, manufactures and sells a broad range of communication devices, applications and interfaces, and mobile network products and systems including mobile, cordless and corded fixed-line telephones and radio base stations, base station controllers and switches for mobile communications networks as well as mobile and intelligent network systems. Since its formation in fiscal 2000, ICM has become one of the world s leading providers of mobile devices and mobile infrastructure.

In fiscal 2003, our Group comprised five divisions: *Mobile Phones*, *Cordless Products*, *Wireless Modules*, *Mobile Networks* and *Solutions*. As part of a Group-wide realignment of products, services and sales, our *Solutions* division was integrated into the *Mobile Networks* division as of October 1, 2003.

Mobile Phones. We offer digital mobile phones for all customer segments based on the widely distributed mobile phone GSM standard as well as on the GPRS extension of GSM technology, which allows faster data transmission rates. We build our major mobile phone products from common platforms to reduce production costs while allowing us to readily tailor features for different market segments. To broaden our mobile phone line, we continue to introduce high-end products, such as smart phones, with multimedia capabilities. The core of our sales come from medium-and lower-priced phones designed for the consumer market.

During fiscal 2003, we launched a variety of new products, including:

- the SL55 phone with a distinctive design which allows it to slide open to reveal its keypad and a high level of miniaturization;
- business phones, such as S55 and ST55, with bar design and features such as multimedia messaging (MMS), Bluetooth technology, an attachable or fully integrated camera, and high resolution color display;
- fun phones, such as M55, MC60 and C60, with fashionable design and features such as MMS, JAVA technology, colorful displays, entertaining and easy to use menus, integrated or attached camera, polyphonic ringer, external light indicators that can change the color and intensity of their light, color display, and replaceable (CLIPit) covers;
- market entry phones, including the A55, designed to appeal to first-time users or price sensitive customers;
- a third generation, 3G, phone, the U10, which is based on our technical collaboration with Motorola and has a large variety of multimedia features, including video and MP3 player; and
- a new line of fashion accessory phones under the Xelibri brand, featuring cutting edge handset design.

During fiscal 2003, we introduced or delivered to the market several phones tailored for the United States market, including the A56, C56, CT56, S56, M56, SL56 and SX56 in order to take advantage of the shift to GSM wireless networks in the United States. Some are marketed exclusively through AT&T and others we designed for Cingular Wireless. In addition, Siemens and AT&T are co-branding the SX56, which is a combination phone and pocket personal computer already available in the United States. For Asian markets we offer the CL50 clamshell phone tailored to regional specific needs.

Currently, we rely on Infineon and Intel as significant suppliers of semiconductors and other components for mobile handsets. As common in our industry, we use electronic manufacturing services (EMS) providers, who

supply us with manufacturing capacity. We also use original design manufacturing (ODM) suppliers, who supply us with certain product design and technology features which we use to serve market specific needs.

Cordless Products. Our cordless products portfolio, based on digitally enhanced cordless technology (DECT), covers the entire range of products for the consumer, home office, and small business segments.

In fiscal 2003, we replaced the fourth generation of the Gigaset product family with the next generation of Gigaset DECT Phones, which have been launched in the European market. We also launched the W-LAN 802.11b and g product family for the consumer market in Europe, which enable home wireless networks using the Wi-Fi standard. Furthermore, we started to serve the low-priced segments of the market by introducing products under a separate brand. Cordless Products is also playing a leading role in the introduction of standardized MMS protocols for the fixed network in Europe.

Wireless Modules. Our Wireless Modules division produces communication modules which enable wireless voice communications and machine-to-machine data transfer. Our customers include them in personal data assistants, smart phones, vending machines, traffic control systems, burglar alarms, measuring instruments, navigation systems, automotive communication systems and other electronic systems and devices.

Our communication modules are based on the GSM and GPRS standards. In fiscal 2003, our MC 45 module was the first tri-band 900/1800/1900 MHz GPRS class 10 module to be introduced in the market and our TC45 was the first dual-band 900/1800 MHz GPRS module with integrated JAVATM technology to be introduced in the market. The TC45 allows easy integration of application-specific software.

Mobile Networks. The Mobile Networks division provides wireless network operators with a complete range of products for building, expanding, and enhancing GSM, GSM-Railway, GPRS, EDGE and UMTS (W-CDMA) mobile network technologies as well as microwave networks. The division s product portfolio includes base stations and switching systems for mobile communications networks and microwave technology systems for faster and more cost-effective network rollout. Additionally, the division offers hardware and software platforms that enable the delivery of prepaid, payment and location-based services. Based on industry estimates of market share, our Mobile Networks division is among the leading global providers of GSM and W-CDMA networks and prepaid services.

The universal mobile telecommunications system (UMTS) standard used in 3G networks offers faster and more reliable transmission of voice, data and multimedia communications over mobile phones through higher efficiency and speed of radio transmission. These new types of mobile network are expected to provide a platform for wireless Internet access and a variety of new applications. Supported by Mobisphere, our joint venture with NEC, we have already been awarded 25 commercial contracts for 3G network projects. Despite the uncertainty surrounding the timing of the build-out and deployment of UMTS networks, we believe we are well positioned in the European UMTS market at this still early stage. We are currently working on a number of rollouts of W-CDMA infrastructure in Europe and Asia. Through a new joint venture with Huawei discussed below, we intend to further the progress we have made in the development of TD-SCDMA (a Chinese standard for 3G networks) in cooperation with the China Academy of Telecommunications and Technology.

Solutions. This division offers its customers the integration and hosting of mobile applications and content packages. The Solutions division focuses on customized solutions in the areas of multimedia services, messaging services and location-dependent services, which use the Mobile Networks division s platforms as well as third-party technology platforms to provide applications and content tailored to customer needs. The division provides these solutions in conjunction with a comprehensive partner program. In addition, we offer first-class messaging solutions together with strategic partners. Our main customers are mobile network operators and also mobile internet service providers. We offer them customized solutions including project-driven design, integration and hosting services.

In fiscal 2003, our Siemens Mobile Acceleration GmbH continued to make strategic investments in start-up companies in the mobile business field.

In fiscal 2003, our Mobile Networks division entered a strategic alliance with Cisco to develop mobile IP products. The Mobile Networks division also signed a memorandum of understanding to participate as a 51%

owner in a joint venture with Huawei Technologies to develop, manufacture and market TD-SCDMA technology. We expect to make a significant investment in the joint venture in order to be able to utilize the spectrum allocated by the Chinese government to TD-SCDMA in October 2002. Our other divisions also continue to be actively involved in collaborative ventures. For example, Mobile Phones participates in Symbian, a joint venture involving wireless industry leaders, including Nokia, Ericsson, Matsushita, Psion and Sony Ericsson, for the development of open standard operating systems, to promote smart phones based on Symbian operating systems.

ICM is also a member of OMA, the Open Mobile Alliance, which is a standardization body for mobile applications. OMA has approximately 320 member companies covering the entire value chain of the mobile telecommunications business: mobile operators, wireless vendors, IT vendors and content/ service vendors. OMA s goal is the creation of an open mobile software and services market through the global standardization of mobile services architecture.

In fiscal 2003, we spent 1.123 billion, or 11.3% of ICM s total sales, on research and development, compared to 1.231 billion, or 11.1% of total sales, in fiscal 2002. The Mobile Phones division is developing the first products based on the Symbian OS/Series 60 operating system that feature multimedia capabilities such as audio and video streaming. Cordless Products is a leading technology and innovation driver for the new fixed-line MMS standard in Europe. In addition to Mobile Networks significant long-term development efforts in UMTS, it has focused development efforts on GPRS and EDGE (which is a further enhancement of GPRS data transmission speeds) technology. With other leading industry participants, such as Ericsson, Huawei, NEC and Nortel, Mobile Networks also launched the Common Platform Radio Interface (CPRI) initiative. The CPRI focuses on a 3G radio base station design that divides the radio base station into a radio and a control part, by establishing one new public interface as the sole connecting point between the two parts. This is intended to allow each of the two parts to better benefit from technology advancements in its respective area.

The technology relevant to our business continues to grow more and more complex, and the functionality of different products increasingly overlaps. As a result, ICM, like other competitors in the wireless market, may be more likely to face patent infringement and other intellectual property-related claims, which could have a negative impact on our competitive position.

Our Mobile Phones and Cordless Products customers are primarily large telecommunications operators, distribution companies and consumer retailers. Our Cordless Products division also sells cordless and corded telecommunications equipment to ICN for resale to business customers as part of complete telecommunications solutions. Customers of our Wireless Modules division primarily include information and communication device manufacturers, car manufacturers, IT vendors and other businesses. Customers of our Mobile Networks division primarily include mobile network operators. Customers of our Solutions division also include mobile network operators, as well as service providers and a variety of enterprises.

In fiscal 2003, we made further progress in building our North American customer base as network providers in the United States continue to shift to GSM technology. AWS (AT&T Wireless) and Cingular are among Mobile Phone s major customers. In South America, we are taking advantage of the shift from TDMA to GSM technology and the build-out of GSM in general to grow our handset business.

We have provided and expect to continue to provide some of our customers with various forms of direct and indirect financing in connection with large infrastructure projects, including build-outs of 3G networks.

Our products and services are sold through our own sales units in approximately 70 countries, as part of Siemens worldwide network of regional sales units.

We derive over half of our sales from Europe and a smaller but significant amount from the Asia Pacific region.

We have approximately ten significant manufacturing and assembly locations worldwide, including six in Europe, of which four are located in Germany.

With increasing mobile phone penetration and the maturing of the GSM network market, the markets for mobile phones and especially for wireless network products have continued to suffer, particularly in Europe. Since fiscal 2001, demand for mobile phones was impacted by unfavorable economic conditions, and the industry

suffered from excess inventories, oversupply and significantly reduced market prices for mobile handsets. Following the significant decline in fiscal 2002, the wireless network market has declined at an even greater rate in fiscal 2003. The prospects for stabilization and recovery in both the mobile phone and network markets will depend on various factors, including: the timing and rate of investment in third-generation UMTS infrastructure and products, the timing and success of the commercial launch of 3G products and services and their widespread acceptance by consumers, and a general improvement in consumer confidence. These developments remain uncertain, in part due to the development of worldwide economic conditions and the severe financial constraints to which many wireless network providers are subject.

Given the sustained weakness of the market, ICM has continued its productivity programs, which were initiated in fiscal 2001. During the course of fiscal 2003, the total number of ICM employees was reduced by approximately 6%. In July 2003, we announced our intention to further increase our productivity by an additional 1 billion in cost reduction throughout the entire Group, including an additional planned reduction of 2,300 jobs, through fiscal 2004. For additional information with respect to severance charges see Item 5: Operating and Financial Review and Prospects Segment Information Analysis Operations Information and Communications Information and Communication Mobile.

On an ongoing basis, demand for our products, systems and solutions depends on continuing growth in communications and information technology use in the areas and standards we serve. The mobile phone industry is in transition from a voice-centered market to one that includes significant data services, and future demand for wireless equipment may depend on the availability and acceptance of such data services, as well as worldwide economic conditions. Demand for wireless equipment will continue to be affected by the financial constraints facing most telecommunications operators, especially in Europe, which limit their ability to invest in wireless infrastructure. Demand for our mobile and cordless phone products also typically fluctuates by season, with most of the sales to the end-consumer historically occurring around the Christmas holidays. Due to generally short product life cycles in our mobile handset business, to remain competitive we must be able to design and successfully bring new products to market quickly and in sufficient amounts to meet customer demand.

We compete with both large, established mobile handset and network telecommunications manufacturers with a broad focus as well as smaller start-up companies concentrating on particular market niches. In addition, we experience new competitors with strong regional focus, for example China, who build on their low cost structures and ability to integrate third-party modules and components to produce their own mobile phones. Although competition differs by type of product, consolidation in this industry is likely to occur as companies adjust to address the increasing convergence of voice, data and multimedia communications. Some of our most significant competitors include Nokia, Motorola, Nortel, Ericsson, Sony-Ericsson and Samsung in mobile phones and mobile networks and Matsushita, Atlinks, Panasonic and VTech in other digital communications products. Additional competitive pressure in mobile phones is coming from network operators who are beginning to sell phones under their own brand (white label phones). Forward integrating chip or EMS manufacturers could also enter our markets, as they are able to build more and more of the phone functions directly into their chips or possess the necessary manufacturing know-how. Additionally, Nokia and Microsoft are licensing their open standard operating systems to other handset manufacturers that compete with us. In Mobile Networks, we are facing both low-cost competitors as Huawei and traditional IT firms such as Cisco, who are strengthening their market positions. In Wireless Modules, we are facing competition mainly from Wavecom and semiconductor companies such as Intel, Infineon and Texas Instruments. Solutions is confronted with intensifying competition from telecommunications suppliers such as Ericsson and IT integrators such as Cap Gemini. As a general matter, the most important competitive factors in our business include speed in technological innovation and product design, the ability to design products compatible with the existing dominant standards, the ability to manufacture products in sufficient quantities to meet demand and the ability to attract and retain engineering talent necessary to develop products for emerging standards. However, as consumer choices in the handset market are increasingly driven by lifestyle considerations, product design and marketing are gaining in importance.

The large size of some of our projects occasionally exposes us to risks associated with technical performance, a customer, or a country. See Long-Term Contracts and Contract Losses.

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Several recent or proposed governmental actions may have an impact on our sales and costs. These include the European Union (EU) directives concerning the disposal of used electronic equipment and the reduction of hazardous waste, and the possible establishment in the EU and other major markets of limits on the Specific Absorption Rate (SAR, a measure of the rate at which radio frequency energy is absorbed by the body) for hand-held phones and other devices. See Environmental Matters. We are already running pilot projects intended to assure our compliance by the applicable dates. The impact which these environmental regulations might have on our sales or profitability would depend in part on how they are implemented through national legislation and enforced.

Siemens Business Services (SBS)

	Year ended September 30, 2003
Total sales	5.205 billion
External sales as percentage of Siemens net sales	5.34%
Group profit	13 million
Net capital employed	294 million
Employees	35 thousand

Siemens Business Services provides information and communications services to customers in industry, the public sector, financial services, telecommunications, transport, and utilities. SBS designs, builds and operates both discrete and large scale information and communications systems, and provides related maintenance and support services.

Since its establishment in 1995, SBS has expanded its activities to encompass the design and building of information technology systems, initially for Siemens and increasingly for external customers, who now account for approximately 76% of total sales. SBS has also expanded into the operation of communications systems to provide comprehensive information technology and communications solutions from a single source. SBS creates these solutions for customers by drawing on our management consulting resources to redesign customer processes, on our professional services to integrate, upgrade, build and install information technology systems, and on our operational capabilities to run these systems on an ongoing basis. In fiscal 2003, we generated approximately 28% of our total sales from our solutions business, 47% from operations-related services and 25% from product-related services.

SBS has three divisions which reflect the types of services we offer. The *Solution Business* division offers project-oriented consulting, design and implementation services. These include selecting, adapting and introducing new solutions to support business processes as well as integration of systems and enterprise applications. Many of our solutions are based on software platforms from our partners, such as SAP. The *Operation-Related Services* division provides outsourcing services (operation of an entire business process) and outtasking services (performing one or more discrete tasks that are part of such business process), with a focus on full-scale IT operations spanning hosting, call center, network and desktop services. The *Product-Related Services* division offers infrastructure maintenance, including hardware and software maintenance and infrastructure service solutions, including security services and concepts designed to minimize business process interruption caused by failures in the IT infrastructure.

This divisional structure is supported by a regional organization according to geographic area.

SBS provides information technology solutions and services designed to support and optimize the following core processes of its customers:

customer relationship management, to assist businesses in aligning their organizations to better serve the needs and requirements of their customers; in this area, SBS offers solutions for integrated management of all sales, marketing and customer care activities, including operation of call centers and the supply of sales control systems that allow businesses to follow and maintain their customer relationships by gathering and analyzing sales information;

business information management to improve our customers business processes, by electronically structuring, processing, analyzing and evaluating data and information, and making it available around the clock; our portfolio in this area includes services and solutions for business information, document and product data management;

supply chain management to facilitate the efficient interplay of all of a business operational processes with those of its suppliers, from receipt of orders through production and shipment, enabling optimization of delivery times, capacities, inventories and production processes and cost reductions; SBS offers a complete portfolio of offerings in this area from planning, design and implementation of a customer s production and logistics information technology systems to the operation of production and logistics systems as an outsource services provider;

enterprise resource management to optimize a customer s internal management and production processes through the supply and support of configurable software packages for integrated management of a wide variety of the customer s business processes, from procurement to manufacturing and distribution to treasury management and accounting functions in different industries; SBS tailors standard software packages to a customer s requirements to create a solution, optimizes it, makes it available throughout the enterprise and offers global, around-the-clock support for it; and

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

Most of our consulting and design services relate to information technology and communications systems that we also build or operate. SBS can design and build systems and provide services using the software of many companies with which it has established relationships, such as SAP, Microsoft, Siebel, i2 Technologies, Oracle and Computer Associates. We also provide technical support and maintenance of existing information and communication systems. As part of our outsourcing services, we provide the operation of an entire information technology system or only one or more discrete services, from data storage and processing to billing. Going forward, SBS will continue to focus such outsourcing activities on its IT core competencies. In a continuation of this strategy, we acquired in fiscal 2003 a majority stake in Sinius, which specializes in outsourcing IT services for financial service providers in Germany.

Currently, the Group is in particular focusing its efforts on the manufacturing industry, the public sector and financial services. Among our larger customers are Wincor-Nixdorf, Fujitsu Siemens Computers, Deutsche Bank and National Savings & Investment. Siemens businesses collectively continue to be our largest customer. Nevertheless, the percentage of our revenue derived from Siemens has declined, due in part to market conditions, which have led to a general decline in IT budgets across the majority of the Siemens business Groups. Although we compete with external service providers for all Siemens contracts and each Siemens business Group determines on an arm s length basis whether to do business with SBS, we remain the largest supplier of information technology and communications services to Siemens.

SBS is active worldwide in more than 40 countries. We have traditionally generated most of our sales in Germany, followed by a significant percentage of sales to European countries outside Germany. SBS has its own sales and delivery force, as well as relationships with local companies that act as dedicated delivery partners in certain smaller markets, such as Asia Pacific and South America.

Continuing weakness in the IT services market, and in the e-business sector in particular, has reduced demand across our market segments. In response, we continue to concentrate on improving our profitability through cost-cutting measures, including adaptation of capacity, primarily through work-hour reductions and limitations on third-party contractors, personnel outsourcing, as well as several programs intended to enhance our operational efficiency.

Our most significant competitors vary by region and type of service. A few are global, full-service IT providers such as IBM s Global Services division and EDS. Our competitors that focus more narrowly on specific regions or customers include T-Systems, a unit of Deutsche Telekom, in Germany and Capita in the United Kingdom. Those focusing on a particular service include Accenture in consulting, Cap Gemini/ E&Y in systems

integration and Affiliated Computer Services in outsourcing. As a service business, SBS needs 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.

Difficult market conditions have led to a consolidation among our larger competitors, as reflected by the following developments: the acquisition of PwC Consulting by IBM s Global Services division, the acquisition of KPMG Consulting s United Kingdom and Netherlands businesses by Atos/ Origin, and the merger of Hewlett-Packard with Compaq. In addition, many recently founded companies have either become marginal competitors or gone out of business. Nevertheless, the markets in which we operate remain fragmented.

The large size of some of our projects as well as the long-term frame contracts with our largest customers occasionally expose us to technical performance, customer or country-related risks. In the past, we have suffered significant losses in connection with such risks. Risks associated with long-term outsourcing contracts also remain a management focus at SBS. See Long-Term Contracts and Contract Losses.

AUTOMATION AND CONTROL

Automation and Drives (A&D)

	Year ended September 30, 2003
Total sales	8.375 billion
External sales as percentage of Siemens net sales	9.64%
Group profit	806 million
Net capital employed	1.925 billion
Employees	50 thousand

Our Automation and Drives Group is a market leader for factory automation, offering standard and customized electronic and electro-mechanical products and systems for industrial and electrical installation applications, as well as comprehensive automation solutions for durable goods manufacturing and certain raw materials and materials processing industries.

We offer products, solutions and services in four main areas, which combine various internal organizational units: low voltage control and installation technology; manufacturing automation; motion control and drive systems; and process automation.

Low voltage control and installation technology products include low voltage switchboards, circuit protection and distribution products and command and signaling devices. These products are used in the control cabinets of switchgear and control gear manufacturers and automation providers, who in turn serve producers of mechanical and electrical machinery and companies in the construction industry. We also offer electrical installation products such as circuit protection systems, small distribution board systems, wiring devices, switches and sockets for the distribution of electricity in residential and industrial buildings. Our modern bus systems for communication and monitoring links products and systems together and further links these to building automation systems. The bus systems are used principally in residential buildings and large commercial facilities such as plants and office buildings. In this area, we increasingly combine systems designed to optimize power distribution and management, which we market under the name totally integrated power, with factory automation systems, which we market under the name totally integrated automation.

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

Motion control and drive systems products include motors, drives and computerized numerical controls (CNCs) for machine tools, as well as automation and drive equipment for all types of production machines and material handling equipment. We also sell motors and drives from low to high voltage for various applications in different industries and in infrastructure facilities. Applications include rolling mills and ships, engines for all kinds of rail vehicles and ventilation and water and waste water transportation systems. We have recently developed and introduced a common drive platform, SINAMICS , which we expect to utilize in drive systems across product areas.

Process automation engineers and sells process instrumentation and analytics to companies in the raw materials and other materials processing and capital equipment industries. We plan, engineer and sell complete solutions that integrate these products for specific applications in the chemical, pharmaceutical, food and beverage, and non-metallic minerals industries. We use our computerized process control system, which we continually develop, as the basis for our batch and process solutions.

In all of our business Units, we supply consulting, design and support services to our customers, both independently of and as a part of our sales contract work.

To offer our customers a broad portfolio of products and systems as a one stop shop supplier, we are strengthening our market position through acquisitions and joint ventures in the field of process instruments and drive systems. In September 2003, we enhanced the product and technology portfolio of our process automation business by acquiring the Flow Division of Danfoss, a leading manufacturer of electronic devices for the flow measurement of liquids and gases. The business employed about 450 people at two production sites and achieved annual sales of approximately 60 million in 2002. The acquisition complements our existing product offering and gives us access to important customers in Europe and Asia.

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

For many years, we have also cooperated closely with customers in the automotive and chemical industries and we are working to expand both our business and our cooperation in this area. To meet the distinctive needs of our customers in these industries, we have developed a broad range of standardized products tailored to specific industry segments, thus increasing efficiency in the planning, construction and commissioning of plants. A&D serves a wide group of customers, but other Siemens business Groups, such as Transportation Systems (TS), Industrial Solutions and Services (I&S) and Power Generation (PG), considered together, traditionally comprise our largest single customer, accounting for approximately 14.5% of our total sales in fiscal 2003. Since a portion of our business involves contracts for large scale automation solutions, our list of significant customers may vary significantly from year to year.

We derive nearly three quarters of our sales from Europe, with 42% from Germany, and a smaller but significant amount from the Americas, mainly the U.S.

We have 53 significant manufacturing and assembly locations around the world, including 22 in the Americas, nine in Asia, and 22 in Europe, of which eleven are located in Germany.

In fiscal 2003, we spent 515 million, or 6.2% of A&D s total sales, on research and development, compared to 511 million, or 5.9% of total sales, in fiscal 2002. Our research and development efforts are currently focused on implementing technological progress in micro-electronics, software technology and industrial communication into our products, systems and solutions; improving the usability of our products; and enlarging the field of our activities.

Weak capital spending in machinery and equipment caused by difficult worldwide economic conditions characterized the market for all our products throughout fiscal 2003. This development continued to negatively

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affect our sales and orders across all our geographic markets, with the exception of China. Our business activities in the United States continued to be impacted by the weakness in the North American automotive and machinery sectors where a large number of our customers is concentrated, but was partly offset by improvements in the residential construction market.

An important goal in light of current economic conditions is sales growth in our traditional markets in Germany and Western Europe and continued expansion in the Americas and the Asia-Pacific region, in particular China. In addition, we intend to increase our profitability through productivity improvements and continuous cost management. In this regard, we have reduced headcount at our U.S. operations, consolidated production facilities and shifted production to lower cost locations. In fiscal 2003, we have undertaken a re-allocation of business activities among our various divisions with the aim to increase internal efficiencies. We have continued to improve our portfolio through disposal of several small non-core operations during fiscal 2003. For example, we sold our stake in Siemens Telecom Power Supply Ltd., Shanghai, a joint venture for the supply of telecom power supply products and services to the Chinese market because the telecom industry no longer fits our industry focus.

Over the last several years, consolidation in our industry has occurred on multiple levels. Suppliers of automation solutions to manufacturing companies have supplemented their activities with drives technology. Suppliers of manufacturing and process control systems are cooperating or combining through acquisitions or cooperative ventures with suppliers of field technology and outsource facility operation and monitoring activities to form comprehensive automation suppliers. The rate of consolidation has slowed due to the economic downturn, which has compelled some competitors to divest parts of their businesses. Most recently, for example, ABB and Invensys sold or announced plans to sell significant parts of their operations.

Intense competition and rapid technical progress within this industry place significant pressure on prices. Average product lifetimes in our businesses tend to be short, typically from one to five years after introduction, and are even shorter where software and electronics play an important role. Product lifetimes tend to be longer in motors and in circuitry. We estimate that approximately 75% of our total sales in fiscal 2003 was generated by products that were introduced within the last five years.

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

Industrial Solutions and Services (I&S)

	Year ended September 30, 2003
Total sales	4.012 billion
External sales as percentage of Siemens net sales	3.92%
Group profit	(41) million
Net capital employed	167 million
Employees	26 thousand

Industrial Solutions and Services provides innovative solutions and services designed to enable our customers to improve their competitiveness. Our offerings cover the entire life cycle of industrial and infrastructure facilities, from consulting and planning through installation, operation, integration of IT-solutions, maintenance and modernization.

Our four core competencies are:

industry sector solutions for customers in materials processing industries and infrastructure-related industries including automation, instrumentation, drives, power distribution and control systems;

information technology solutions that enhance productivity in facilities for manufacturing and materials processing by linking different levels of automation, process control and management information systems;

technical services, including plant construction and modernization, on-call and logistics services and integral plant maintenance, as well as auxiliary process management services provided to customers in a broad range of industries; and

traffic control, including traffic guidance systems and transport telematics, enables us to integrate different technologies and services into solutions for modern traffic management, resulting in improved traffic mobility.

In fiscal 2003, we realigned the solutions and services we provide into the following four divisions:

Industrial Plants uses industry-specific expertise to design, engineer and deliver solutions tailored to the needs of customers in various industry sectors. Increasingly, we focus on offering complete solutions rather than solutions that only serve a specific function. For metal and paper-processing industries we provide automation and process control systems, drive systems and electrical equipment used in plants that make, roll and process steel and in mills producing pulp and paper. For the open-pit mining industry we offer solutions including electrical power, drive and automation systems for bulk material handling and processing. We also provide solutions for off- and onshore operations of the oil and gas industry, including power and integrated drive systems, automation and process control. Our solutions and services in the oil and gas segment address both upstream exploration as well as midstream transportation and pipeline activities. In the water/ wastewater sectors, our offerings range from industry-specific solution packages (such as process simulation) to supplying the entire spectrum of automation, process control, drive systems and electrical equipment for plants. We also deliver propulsion drives and integrated electrical systems for ships as well as drive systems, fuel cells and automation systems for submarines.

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

Industrial Services is our largest division, typically accounting for approximately half of I&S total sales. It is responsible for our industrial technical services activities, providing a wide range of technical services covering each stage of the life cycle of industrial plants, infrastructure facilities and utilities. We serve customers in a variety of industries. Under the trade name Siemens Industrial Services we provide engineering and general contracting services for plant construction and modernization and deliver on-call and logistics services, maintenance services, including predictive maintenance, as well as auxiliary process management services. We are active globally on a local basis through a network of about 200 service locations in more than 50 countries with nearly 14,000 employees. Our strong local presence allows us to be close to our customers, increasing speed and efficiency in delivering our services.

IT Plant Solutions is our division responsible for information technology plant solutions. It provides high value-added solutions for the growing market in advanced industrial information technology and industry-specific manufacturing execution solutions. This division provides consulting services, software applications and system integration to deliver solutions tailored to specific industries, such as oil and gas, petrochemicals, food and beverage, metals and mining and pulp and paper. By integrating the shop floor with production operations and business management, our information technology solutions manage the intricate flow of information among these levels and optimize production processes, thereby creating an intelligent plant.

Together with the reorganization of our divisions in fiscal 2003, we continued efforts to rationalize our organization in order to improve profitability and competitiveness. Our goal is to focus I&S on its core competencies and higher margin businesses. We are in the process of adjusting our business portfolio by discontinuing low-end activities, primarily within our Industrial Services division, which are considered to lack

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the size and potential to be restored to target profitability in the near term, such as conventional installation services and basic engineering. These activities and other non-core businesses have been transferred into a temporary division. In addition, we have transferred some of our non-core businesses to other Siemens Groups where we believe they will present a better fit with the Groups existing business portfolios. We have also proceeded with the implementation of productivity improvement and cost-reduction programs, including a decrease in headcount in fiscal 2003. Our rationalization program will continue in fiscal 2004. For additional information with respect to severance charges see Item 5: Operating and Financial Review and Prospects Segment Information Analysis Operations Automation and Control Industrial Solutions and Services.

We are a multiple source vendor and selectively purchase products and systems regardless of their manufacturer. We cooperate extensively with Siemens A&D and Power Transmission & Distribution (PTD) Groups, integrating their products and systems into the solutions we design and deliver.

Our Industrial Plants division derives its sales revenues primarily from projects awarded on the basis of internationally solicited tenders. These projects tend to be performed under long-term, high-value contracts with a relatively limited number of customers. Intelligent Traffic Systems works predominantly with state and municipal customers under long-term fixed-price contracts. Our Industrial Services and IT Plant Solutions divisions provide services to numerous customers across a variety of industries, as well as to our Industrial Plants division and other Siemens Groups, principally A&D, Power Generation, PTD and Transportation Systems. While transactions with Siemens traditionally comprise the most significant portion of these divisions total sales, accounting for approximately 34% for the Industrial Services division and 54% for the IT Plant Solutions division of their sales in fiscal 2003, our goal is to expand the portion of business we conduct with outside customers.

We market our services to our customers primarily through our own dedicated sales force, supplemented by Siemens worldwide network of regional sales units. We derive most of our total sales revenue from Europe and a smaller, but significant, amount from the Americas. In fiscal 2003, we generated almost three quarters of total sales from projects and services performed in Europe, with 47% in Germany. In Europe, our primary goal is to increase our business outside of Germany. We are also seeking to continue our growth in selected markets in the Americas and Asia.

Most of our research and development is undertaken in connection with specific projects for our customers, and our reported research and development expenses do not reflect those activities. Therefore, I&S does not traditionally incur high expenses relative to sales for research and development. In fiscal 2003, we spent 35 million, or 0.87% of I&S total sales, on research and development, compared to 44 million, or 0.98% of total sales, in fiscal 2002. Our principal ongoing research efforts relate to industrial information technology, innovative automation, drive systems and power supply as well as e-solutions. These include, for example, Internet-based technologies, such as remote commissioning, diagnosis, monitoring and control of industrial systems and facilities. We are also developing self-training expert systems for improved plant diagnosis and troubleshooting as well as tools for plant simulation in order to optimize plant efficiency in areas such as production output and energy consumption.

Our competitors vary by business area and region. They range from large diversified multinationals to small, highly specialized local companies. I&S main competitors internationally include ABB, General Electric, Honeywell, Invensys and Alstom. Our Industrial Services division also competes with a large variety of small locally based suppliers of contracting, maintenance and support services. Unlike our principal competitors, we have not limited our Industrial Services business to particular industries, allowing us to take advantage of the growing demand for outsourced maintenance and support services in a variety of industries, including those for which Siemens does not provide products or systems and irrespective of the manufacturer of the original system or facility. We believe that our competitive advantage is our unique combination of competence in the industry sector, information technology and technical services fields.

The large size of the projects performed by our Industrial Plants division occasionally exposes us to risks related to our technical performance, to a customer or to a country. For further information on such risks, see Long-Term Contracts and Contract Losses. We have not experienced material losses in the past in connection with these risks.

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Siemens Dematic (SD)

	Year ended September 30, 2003
Total sales	2.600 billion
External sales as percentage of Siemens net sales	3.29%
Group profit	(218) million
Net capital employed	877 million
Employees	10 thousand

Siemens Dematic designs, engineers, manufactures and sells factory automation and logistics automation equipment, systems and solutions, postal automation, electronics assembly systems and internal transport systems for on-site use. SD was formed by the merger in April 2001 of the former Siemens Production and Logistics Systems with Atecs Mannesmann Dematic Systems group. As a result, we became the largest participant in the material handling automation market overall. Our business consists of three divisions: Material Handling Automation, Postal Automation and Electronics Assembly Systems.

Our *Material Handling Automation* division designs, manufactures and assembles integrated distribution and factory logistic systems. We are organized into three regional business groups covering Europe, the Americas and Asia-Pacific. Each group consists of local market oriented units serving different customer segments. We automate materials flow, handling and logistics processes for major retail and wholesale operations and durable and non-durable goods manufacturers, principally in the chemical, pharmaceutical, food and beverage, and automotive sectors, through our Distribution, Industrial and Automotive units. Our Warehousing, Government, Postal & Parcel Operations (for government contracts) and Airport-Baggage/ Cargo units automate parcel, freight, baggage and cargo handling for third-party warehousing and forwarding agents and airports. In this division, we focus on globally standardized product and systems development, planning, information technology, material handling automation architecture and consulting in support of our systems sales. This division represents more than half of SD s total annual sales.

Postal Automation provides equipment for sorting of both standard and large letters (so-called flats); reading and coding systems; postal information technology; mail security solutions; and postal services such as product-related after-sales services and general contracting. Key customers for this business are the traditional post and parcel services, including the German and U.S. postal services. The U.S. Postal Service is our largest customer in this division, accounting for more than 5% of Siemens Dematic s sales in fiscal 2003. Our potential customers include private parcel and package carriers, of whom FedEx, UPS and DHL are current customers, and are served jointly with the Material Handling Automation division.

In both our Material Handling Automation and Postal Automation divisions, we deliver value to our customers through the intelligent combination of electronics, software and mechanical elements in our integrated systems, solutions and services. Our products feature a wide range of transport systems and sorters. They are designed, using our industry specific knowledge, for precise control of materials flow and utilize optical character recognition systems in conjunction with complex computer software. Both businesses are involved in the design, manufacture, integration, installation and service of systems and solutions. Other Siemens businesses and outside sources typically supply us with various components. For example, we purchase our electro and electronic equipment, including drives and programmable logic controllers, and some software from A&D. Our Material Handling Automation and Postal Automation divisions have been negatively affected by declining capital spending by the manufacturing industry and logistics and postal service providers. The effect has been exacerbated by excess capacity resulting in part from the cessation of operations by many Internet retail businesses, whose relatively new product-handling and logistics systems are offered for sale in secondary markets. Despite this adverse environment, the Material Handling Automation division was able to secure important orders in fiscal 2003, such as the installation of baggage handling systems at Denver Airport, automated tray handling systems for the U.S. Postal Service and a parcel sorting system for the UPS distribution center at the Cologne/Bonn airport. Additionally, in conjunction with Boeing, the division completed the initial phase of a project for the U.S. Transportation Security Administration for the implementation of baggage screening and explosive detection systems at several hundred U.S. airports.

We expect, that going forward, our Material Handling Automation division will benefit from an increase in demand from traditional customers investing in integrated solutions. We believe that these integrated solutions including information technology systems and our industry knowledge create opportunities to increase our customer base. In addition, as formerly government-owned postal and airport authorities are deregulated and privatized, we believe that competition in the markets in which they operate will continue to increase. We expect that companies attempting to compete effectively will increase their investment in integrated, automated systems and technologies in order to improve their productivity and speed, creating an opportunity for us. Furthermore, due to our large installed base of postal, logistics and production automation systems, we aim to generate sales over the coming years through value-added upgrading and servicing of this equipment base.

Our *Electronics Assembly Systems* division s principal products are surface mount technology (SMT) placement systems that automate the mounting of components onto printed circuit boards. These systems are capable of processing numerous component types and can be tailored to the requirements of individual line configurations by a complete modular platform concept. Our principal customers are manufacturers in the electronics field that use SMT, including manufacturers of mobile phones, handheld computers and automotive, industrial and consumer electronics, and, increasingly, electronic manufacturing service providers whose emergence reflects a growing industry trend towards outsourcing. Until recently, our focus has been on the technical qualities, speed and precision of our placement systems. Increasingly, we are designing, manufacturing and selling entire standardized SMT production line configurations, which integrate our SMT placement systems with the products of our strategic partners. With increased pressure on our customers to reduce assembly costs, we can now bring our total process knowledge to benefit the customer through these standard line configurations.

Throughout most of fiscal 2003, this business has continued to experience an on-going weakness in the electronics industry market caused primarily by the decline in technology investment in the U.S. and the downturn in the global telecommunications industry, which had a negative impact on the level of sales and new orders and profitability in this division. We are shifting business focus to the Asia-Pacific region, where many of our customers have moved their manufacturing locations. We are also penetrating new market segments for our placement systems through the introduction of products designed for mid-range companies with low to medium volume production requirements, variable batch sizes and frequent product changes.

In fiscal 2003, we sold our Assembly and Plastics Technology business to Rohwedder AG because the nature of this business, engineering and building unique equipment for customers, does not fit our overall strategy of offering standardized solutions. As part of a goal to focus on our core placement systems business, we also transferred the rights to our wafer identification technology, which allows semiconductor manufacturers to identify and trace wafers and therefore quickly recognize and correct problems, to Cognex Corporation.

We distribute our products primarily through our own sales force in Germany and our own local SD distribution companies throughout the world.

We derive the majority of our sales from Europe and the U.S.

We have four significant manufacturing and assembly facilities in Germany and two in the United States.

In fiscal 2003, we spent 134 million or 5.2% of SD s total sales on research and development, compared to 153 million, or 5.1% of total sales, in fiscal 2002. Main areas of focus in the Electronics Assembly business, include a new high performance SMT placement product as well as the development of standardized modules which can be used across our various placement machine platforms. In the Material Handling Automation business, a main area of focus is so-called mechatronics. The objective of this initiative is the development of a globally applicable standard product family for conveyors. The aim is to reduce product and project costs (through increased economies of scale in manufacturing and project engineering, and reduction of project technical risks) and to increase the efficiency of our system development by improving repeatability, through increased modularity of our products and solutions.

To address the challenging market environment, we continued to focus in fiscal 2003 on improving profitability, including decreasing costs by reducing headcount and consolidating our production facilities. In fiscal 2004, we will further enhance our productivity improvement program. These efforts also include a shift of resources and attention to what we view as the most promising markets, for example, in the case of Electronics

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Assembly Systems, from Europe and the Americas to the Asia-Pacific region. We have recently expanded our presence in China and are exploring the possibility of establishing manufacturing locations in the Asia-Pacific region. We have also focused on improving revenue generation from our service business. Furthermore, we have placed special emphasis on project management initiatives, in particular leadership development, additional training of project managers, performance controlling and benchmarking. Other measures designed to enhance profitability included increasing our efficiency in purchasing and reviewing our portfolio with a view toward divesting non-core activities.

Our main competitors in our Material Handling Automation and Postal Automation businesses are FKI Logistex (including the former Crisplant), Daifuku, Swisslog, Northrop Grumman (including Solystic), Lockheed Martin, Elsag, NEC, Toshiba, Pitney-Bowes and Bell & Howell. Other competitors operate within niche markets or market specialized technologies to their customers; these include Vanderlande, Schaeffer-Noell and Duerr. Competition in this area is strong due to weakened demand and excess capacity. Several of our competitors in the Material Handling Automation business are strengthening their presence in the U.S. market, a region from which we derive a substantial portion of our revenues. Major competitors of our Electronics Assembly Systems division include Panasonic Factory Solutions, Fuji Machine, Universal Instruments, a subsidiary of the Dover Group, and Assembleon. Panasonic Factory Solutions has recently introduced a product which directly competes with our key high speed electronic assembly system HS-50. In our recently entered market segment for mid-range placement machines we compete with Yamaha and Juki.

The large size and complexity of some projects performed by our Postal Automation and Material Handling Automation divisions exposes us to risks related to technical performance. For further information on such risks, see Long-term Contracts and Contract Losses and Item 5: Operating and Financial Review and Prospects Segment Information Analysis Operations Automation and Control Siemens Dematic.

Siemens Building Technologies (SBT)

	Year ended September 30, 2003
Total sales	4.990 billion
External sales as percentage of Siemens net sales	6.34%
Group profit	101 million
Net capital employed	1.447 billion
Employees	33 thousand

Siemens Building Technologies provides products, systems, solutions and services for monitoring and regulating the temperature, safety, ventilation, electricity, lighting and security of commercial and industrial property, tunnels, ships and aircraft. In addition, we also provide planning, management and technology related electrical contracting services in connection with building projects. Finally, we also operate and maintain entire building sites as an outside technical facility management service provider.

SBT consists of the following six divisions:

Security Systems offers solutions and services for electronic building security, including intruder detection and alarm systems, closed circuit television video surveillance, personal identification and building access control systems, as well as centralized monitoring and control of each of these individual systems.

Fire Safety offers solutions and services to the non-residential markets for fire detection and protection, including computerized gas leakage and fire alarms and non-water based fire extinguishing systems, as well as comprehensive computer-based danger management systems that centrally monitor and control each of these individual systems.

Fire & Security Products manufactures and sells electronic security and hazard protection products and systems, including complete computerized fire, gas leakage and intruder detection and alarm systems. It sells these components to our solutions providers, the Security Systems and Fire Safety divisions, and also sells its

products and systems to small electrical installers, value-added partners who implement such products and systems in their own solutions and to original equipment manufacturers (OEMs).

Building Automation offers solutions to the non-residential markets for automating and regulating heating, ventilation and air conditioning (HVAC), electricity and lighting including computerized building automation systems that integrate and manage all of these functions for an entire building. In addition, the division offers maintenance and training services for its systems. Building Automation also provides energy performance contracting solutions, refurbishing buildings to improve their energy efficiency and provide the customer with a guaranteed level of energy cost savings. We also arrange for financing of the refurbishment.

HVAC Products manufactures and sells controls, sensors, detectors, valves and actuators used in systems that regulate heating, ventilation and air conditioning, electricity and lighting in buildings and factories. This division sells to the Building Automation division and to OEMs, value-added partners and installers.

Facility Management Services has two businesses. The Project Business unit of this division provides services relating to the planning and management of electrical contracting projects. The Facility Management unit operates and maintains entire building sites for tenants and owners as an outsource provider and also offers facility management consulting services to building operators. We provide these technical facility management and consulting services both for buildings that use SBT products and systems as well as for buildings using the products and systems of our competitors.

Our customers consist of a large, widely dispersed group of locally-based building owners, operators and tenants, building construction general contractors, mechanical and electrical contractors, OEM of HVAC systems and wholesalers, specialized system builders and installers. Most of our sales are attributable to a large number of relatively small orders and we generate a significant portion of our sales from orders of 25,000 or less. Siemens is traditionally the only customer responsible for more than five percent of SBT s total sales, accounting for 5.7% of SBT s total sales in fiscal 2003. Ensuring that our products and systems operate reliably is important to our business since the failure of building maintenance, safety and security systems can have serious consequences.

SBT has a decentralized business organization that combines a small central headquarters, design and manufacturing at sites in seven countries in Europe, North America and Asia and our own distribution network, consisting of approximately 500 local sales, project execution and services branch offices in more than 40 countries. In order to improve cost synergies with Siemens regional companies, we are integrating SBT s local organizations with the Siemens regional companies. For some markets, we also distribute our products and systems through a network of independent field offices and distributors. Our services businesses and sales network have a significant local presence arising from the need to be close to the customers and buildings that use our products, systems and services. Our manufacturing and design sites and our regional sales units with their branch offices are connected to each other and to our central management by a central communications network.

The geographic focus of our business differs significantly by division. Security Systems, Fire Safety, Fire & Security Products, Building Automation and HVAC Products sell their products and systems throughout the world, with the majority of sales in Europe and the United States. These divisions currently aim to expand in selected Asian and South American markets. In contrast, our Facility Management Services division offers services primarily in Germany and Switzerland.

We derive approximately two thirds of our sales from Europe, with 32% from Germany, and nearly one third from the U.S.

We have 14 manufacturing and assembly facilities worldwide, including ten in Europe, of which three are located in Germany. In fiscal 2003, we took measures to scale back our production capacity and initiated the closure of two production plants in Staefa (Switzerland) and Redditch (United Kingdom). We plan to relocate most operations at those locations to our existing sites in Switzerland and Germany by the end of 2004.

In fiscal 2003, we spent 163 million, or 3.3% of SBT s total sales, on research and development, compared to 171 million, or 3% of total sales, in fiscal 2002. We are working to develop open system platforms and systems with backward and forward compatibility that will enhance product flexibility and protect a customer s investment by allowing our customers to create linked systems with products from different suppliers. In fiscal

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2003, we introduced a new open platform, which is compatible with all current standards used in the building management systems market and allows us to incorporate the latest technology into our present building automation systems. We are also working to develop remote control building automation systems that will allow the user to control a building s maintenance, safety and security systems from a distance via the Internet. In 2003, we launched in the United States a new fire detection and building communications system, which features a user interface with graphic maps and symbols to assist firefighters in quickly locating fires and obtaining information about affected properties. In addition, we introduced a new intrusion detection system with wireless detectors.

Traditionally, the HVAC, electricity, security and safety systems used in buildings have been designed and sold as separate, stand alone systems that could not be integrated to combine functions or allow for centralized control. During the past several years, the increased use of computers in building systems has allowed manufacturers to link these individual systems and to offer multifunction building automation systems. We continue our efforts in developing and offering building management solutions, which use a common technological platform and can therefore integrate various building management features. Sales of such integrated building automation systems have until recently occurred primarily in the United States, and it remains difficult to determine at what pace a significant market for them will develop in other regions.

Our near-term strategy is to grow profitable business fields at rates that at least keep pace with the market overall. We expect our Security Systems division to grow in part through cross-selling to existing customers of the Building Automation and Fire Safety divisions. The Fire & Security Products and HVAC Products divisions are making a wider range of their products available to third parties and are refocusing their sales and marketing functions to achieve stronger growth in third-party customer channels. In addition, both divisions are expanding their offering of products and components for original equipment manufacturers, making more of our existing products available for offering on an OEM basis. Our Systems and Services divisions (Security Systems, Fire Safety and Building Automation) are using their current large installed base of building technology products and systems as a means of generating service and maintenance contracts. Going forward, we intend to increase the portion of sales generated from services.

Our focus is on improved profitability. To enhance profitability, we will continue to dispose of non-core activities, such as our non-core facility management business when market opportunities arise. We have strengthened our productivity improvement initiatives, which include process improvements, enhanced purchasing coordination, reduction of our product portfolio, reducing sales of low-margin segments and headcount reductions. For additional information with respect to severance charges see Item 5: Operating and Financial Review and Prospects Segment Information Analysis Operations Automation and Control Siemens Building Technologies. We also consolidated our manufacturing capacity in order to improve productivity. As described above, we have initiated closures of plants in Staefa (Switzerland), where SBT had a research and development facility and HVAC Products maintained a production facility, and Redditch (United Kingdom), where HVAC Products manufactured control for boilers.

SBT has a leading position in the worldwide markets for Fire Safety and Building Automation. Three of our divisions, Fire Safety, Building Automation and HVAC Products, which account for nearly 75% of SBT s sales, each operate in very concentrated markets in which the top three or four providers control more than half of the market. The main global competitors for Fire Safety are Tyco and Honeywell, for HVAC Products they are Honeywell, Invensys and Danfoss, while for Building Automation Johnson Controls and Honeywell are the largest competitors. In the building automation field, we face additional competition from niche competitors who offer web-based solutions and from new entrants, such as utility companies and consulting firms, who exploit an increased demand for energy cost management.

The security solutions and products markets are highly fragmented, with many locally based companies and, in certain instances, a few large globally based competitors holding relatively small market shares. In the electronic security solutions and products market, Tyco is a market leader. Despite the traditional fragmentation, consolidation is beginning to occur in certain areas. For example, General Electric, through a number of acquisitions, has also become an active competitor in the security products market. Recently, United Technologies has entered the security solutions business through its acquisition of Chubb, a U.K.-based provider

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of security and fire protection products and systems. The markets are still very fragmented, however, with the top five companies comprising only about 15% of the solutions market and 25% of the products market. Many of our competitors focus on a particular product, system or service, or have a regional orientation. We plan to continue to expand our customized solutions business, where we can build close relationships with our end-user customers by providing high value-added services. We will further focus on providing security solutions integrated with Fire Safety and/or Building Automation systems.

POWER

Power Generation (PG)

	Year ended September 30, 2003
Total sales	6.967 billion
External sales as percentage of Siemens net sales	9.36%
Group profit	1.171 billion
Net capital employed	1.712 billion
Employees	30 thousand

Siemens Power Generation Group provides customers worldwide with a full range of equipment necessary for the efficient conversion of energy into electricity and heat. We also customize gas and steam turbines in the smaller output range, which can be used as drives for compressors or large pumps, to meet specific project needs. We offer a broad range of power plant technology, with activities that include: development and manufacture of key components, equipment, and systems; planning, engineering and construction of new power plants; and comprehensive servicing, retrofitting and modernizing of existing facilities.

Power Generation consists of three businesses, each with a clear market focus on specific customer groups and technologies: Fossil Power Generation; Industrial Applications; and Instrumentation and Control. Fossil Power Generation is by far the largest of our businesses, accounting for approximately 77% of total sales in fiscal 2003.

Power plants, together with transmission and distribution grids, are the fundamental parts of a system that meets the requirements of individual households and business and industrial customers for a reliable supply of power delivered to a high quality standard.

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

Fossil Power Generation includes power plants and systems engineering as well as components and equipment engineering and manufacturing, such as fossil fuel-fired power plants, co-generation heat and power plants. Our fossil fuel power generation business concentrates on turbo generators, gas and steam turbines in the larger power range, with an emphasis on combined-cycle gas and steam power plants. We also perform power plant service, such as maintenance, rehabilitation and operations. Our installed base of thermal power plant capacity of more than 500 gigawatts provides us with a good opportunity to grow our service business.

Industrial Applications includes steam and gas turbines in the small and medium power ranges, as well as turbo generators, turbo compressors, compressor solutions for the oil and gas industry, and offers complete engineering services for power plants. Our activities encompass design, engineering, supply and service. We develop and manufacture steam turbines for application in industrial, municipal and independent heat and power generation and for mechanical drives as well as turbo compressors. In addition, we offer our customers combined cycle power plants. In the renewable energy sector, we also offer biomass power plants.

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Our product line in this area has expanded in fiscal 2003 through the acquisition of the small gas turbine (3-15 megawatts) business of Alstom S.A., Paris (Alstom), which was completed in April 2003, and Alstom s medium gas turbine (15-50 megawatts) and industrial steam turbine businesses, which was completed in July 2003. We see the products and services of Alstom as complementing the existing portfolio of our Industrial Applications division, in which the purchased activities are being integrated. The acquisition furthers our efforts to provide a complete range of products and services from one source to our customers and gives PG a leading position worldwide in the marketplace for industrial power and compressor solutions. With an installed base of approximately 3,500 gas turbines and 4,100 steam turbines, the acquisition also creates new opportunities to grow our service business.

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

Additional areas of PG s activity include the development and production of systems based on emerging technologies such as fuel cells.

We also have minority stakes in joint ventures in the areas of nuclear and hydropower generation. We account for these investments under the equity method.

Although we aim to expand primarily through internal growth, we will continue to make acquisitions and form alliances where appropriate to increase market penetration, share costs or technologies and adapt to market changes. We have formed several initiatives, such as our joint venture with Chromalloy, to enhance our service activities. As described above, in August 2003, we completed the acquisition of the industrial turbine business of Alstom.

Power Generation s principal customers are large power utilities and independent power producers as well as construction engineering firms and developers. Because certain areas of our business, such as power plant construction, involve working on medium- or longer-term projects for customers who may not require our services again in the short term, our most significant customers may vary significantly from year to year. Shuweihat CMS International in the United Arab Emirates and Calpine Corporation and Tractebel in the United States are among our largest customers. We also generate an increasing portion of sales from industrial customers, who represent an important market for smaller power plants, turbines and compressor solutions.

Our business activities vary widely in size from component delivery and comparatively small projects to turnkey contracts for new power plant construction with contract values of over half a billion euro each. The large size of some of our projects occasionally exposes us to risks related to technical performance, a customer or a country. In the past, we have experienced significant losses in connection with such risks. See Long-Term Contracts and Contract Losses.

Our sales efforts are conducted by our own dedicated sales organizations in Germany, the United States and Asia, supported by Siemens worldwide network of regional sales units.

We derive approximately one third of our sales from Europe and approximately one third from the U.S.

We have approximately 14 significant manufacturing and assembly facilities worldwide, including three in the Americas and eleven in Europe. Of these, six are located in Germany. We manufacture steam turbines principally at the Mülheim (Germany) plant, turbo generators in Charlotte (United States), 60 Hertz gas turbines in Hamilton (Canada), 50/60 Hertz gas turbines in Berlin (Germany) and turbo compressors in Duisburg (Germany). Through our acquisition of Alstom s industrial turbine businesses, we have added manufacturing sites in Brno (Czech Republic), Finspong (Sweden), Lincoln (United Kingdom), and Nuremberg (Germany).

PG s research and development efforts are currently focused on advancing products and concepts that combine gas and steam technologies, particularly for use in new power plant designs combining high efficiency and lower emissions. Our research and development is also targeted at improving a plant s capability to meet short-term variations in power demand and the reduction of life-cycle costs for new power plants, particularly by enhancing the durability of parts and components. We are also working to further boost operating efficiency and performance of new and existing power plants while reducing the emissions of such plants. In fiscal 2003, PG

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spent 257 million, or 3.7% of its total sales, on research and development, compared to 309 million, or 3.3% of total sales, in fiscal 2002.

We operate in a difficult environment. Demand for gas turbines in the United States has continued to suffer in fiscal 2003 due to excess capacity built up during the recent gas turbine power plant boom as well as due to our customers difficulties in securing financing for power plant projects, and general economic conditions. Project cancellations have created mainly in the U.S., a market for turbines which have been already manufactured but are not in operation. This trend has had a further negative effect on overall demand, although it has not significantly affected demand for our product line thus far. As a consequence of these developments, the worldwide aggregate sales in the power plant markets declined in fiscal 2003 with a resulting decrease in sales and orders of our products.

In the medium term, we anticipate a moderate growth in demand for new power plants, especially for combined-cycle plants. We believe that fossil fuel-fired power plants will likely continue to dominate the power market, accounting for the majority of total new units sold. Although the power generation industry is a long-cycle business, it is affected by trends in cyclical industries and fluctuations in fuel prices, that can have implications for demand for certain product types. Factors contributing to worldwide demand for new plants and retrofitting services include deregulation and the need for reduced emissions and higher fuel efficiency. Furthermore, we expect that power plant retirement in industrialized countries will create an additional market in which we plan to participate. We believe that competition in deregulated power supply markets will give our customers an incentive to replace existing units which have ceased to be competitive.

To address the challenging conditions, we have made adjustments to our worldwide manufacturing, engineering, project execution and sales and marketing capacities. For example, in fiscal 2003, we closed down a manufacturing plant in Wesel (Germany). At our North American operations, we reduced our workforce by approximately 1,200 employees. We have implemented a cost containment program by further headcount reductions, process improvement efforts and optimization of our manufacturing network. We also intend to increase our share of sales coming from higher-margin businesses and are working to further boost operating efficiency and performance of our service activities.

Our industry is one in which a relatively small number of companies, some with very strong positions in their domestic markets, play a key role. Our principal competitors vary by business, but primarily include General Electric, Alstom Power, and Mitsubishi Heavy Industries in fossil power generation. Within industrial applications, we face competition from General Electric, Solar, MAN Turbo and Dresser Rand. In instrumentation and controls, where the market is more fragmented, ABB is our main competitor. The decreased demand in our markets has intensified competition. Potential new competitors face significant barriers, including high capital investments in engineering and production capacity, the high cost of research and development and of developing a customer base, the need for broad systems know-how and global economies of scale.

Power Transmission and Distribution (PTD)

	Year ended September 30, 2003
Total sales	3.399 billion
External sales as percentage of Siemens net sales	4.29%
Group profit	207 million
Net capital employed	798 million
Employees	16 thousand

Our Power Transmission and Distribution Group supplies energy utilities and large industrial power users with equipment, systems and services used to process and transmit electrical power from the source, typically a power plant, to various points along the power transmission network and to distribute power via a distribution network to the end-user.

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

We provide our customers with turn-key transmission systems and distribution substations, discrete products and equipment for integration by our customers into larger systems; and information technology systems and consulting services relating to the design and construction of power transmission and distribution networks. We offer the following products and services, presented roughly in the order in which they are used in a power transmission and distribution network. Each group of products and services described corresponds to an internal division of the same name unless otherwise indicated:

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

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

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

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

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

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

For our large-scale projects we work together with Siemens Industrial Solutions and Services Group, which assists with facility construction, and with Siemens Financial Services, which provides financing for our customers.

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

We generate approximately one-third of our sales from projects and the remainder from sales of systems, components and services. A relatively small portion of our project business involves construction of large power networks and other projects with values of more than 10 million. Most of our business is generated from smaller projects and sales of systems and components to a variety of smaller customers. In fiscal 2003, State Power Corporation of China was our largest customer, contributing more than 5% of our total sales.

Demand for our products and services depends on several factors, including investment in building and upgrading of power transmission and distribution networks in developing countries, demand for new power generation primarily in industrializing countries and demand for new products, systems and services in connection with deregulation and liberalization in the power industry. In light of these factors, future demand is likely to come to a large extent from emerging industrialized countries and regions with growing energy requirements, including Asia, especially China and India, and the Americas.

Although the power transmission industry in industrial countries is a mature business, new demand for our products, systems and services has recently arisen in the industrial world as utilities and private power companies respond to deregulation by finding ways to improve efficiency and reduce costs. Deregulation has also increased demand for more sophisticated products, such as systems used in energy trading among suppliers, and for related services, such as metering. New orders to replace old equipment have also been driven by changing requirements due to environmental regulation. In addition to responding to these new sources of demand, we continue to seek new markets for expansion, in particular in the United States and Asia, and to develop innovative new products and systems to respond to ongoing pricing pressures in our markets.

We derive approximately forty percent of our sales from Europe. We generate a significant portion of our total sales in developing countries in South America and more than one quarter of total sales in fiscal 2003 in the Asia-Pacific region. While we believe these regions represent growth markets for power transmission and distribution products and systems, our activities there can also expose us to risks associated with economic, financial and political disruptions that could result in lower demand or affect our customers ability to pay. Our largest projects in the developing world currently include two developments in the People s Republic of China: the Three Gorges Dam project and the construction and equipping of converter stations for a new high-voltage direct-current transmission line for the transportation of 3,000 megawatts of electricity across 940 kilometers. In fiscal 2003, as part of a consortium with Pirelli, we were selected to supply two converter stations for the planned submarine cable link across the Bass Strait between Tasmania and the state of Victoria on the Australian mainland. As a consortium leader of the project, we will supply and install the high-voltage direct-current equipment which allows transmission of electrical power with low energy losses over long distances.

The large size of some of our projects occasionally exposes us to risks associate with technical performance, a customer or a country. See Long-Term Contracts and Contract Losses. In the recent past, we have not experienced material losses in connection with such risks.

We have approximately 33 significant manufacturing and assembly facilities worldwide, including 7 in the Americas, 9 in Asia, and 16 in Europe, of which seven are located in Germany.

In fiscal 2003, we spent 106 million, or 3.1% of PTD s total sales, on research and development, compared to 102 million, or 2.4% of total sales, in fiscal 2002. Our research efforts currently include information and communications applications to facilitate energy trading among companies in deregulated energy markets.

Competition in our markets comes primarily from a small group of large multinational companies offering a wide variety of products, systems and services, although a few notable specialists maintain strong positions in

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certain niches. Globally, our most significant competitors include ABB, Alstom, and VATech, as well as General Electric and Japanese competitors. There is also a trend toward increased cooperation among competitors through formation of joint ventures to focus on specific projects or market opportunities. After Toshiba and Mitsubishi combined their power transmission and distribution businesses, a new joint venture named Japan AE Power Systems was also formed by Hitachi, Fuji and Meidensha, mainly to strengthen their export business in the Near and Middle East and South America. To improve our competitive position, in recent years we have located new production facilities in the Asia-Pacific region and upgraded our production facilities in South America, allowing us to work more closely with our customers, reduce costs and meet local content requirements. We are party to several joint ventures in China, our second largest market. During fiscal 2003, we continued initiatives to improve productivity and contain costs.

TRANSPORTATION

Transportation Systems (TS)

	Year ended September 30, 2003
Total sales	4.697 billion
External sales as percentage of Siemens net sales	6.29%
Group profit	284 million
Net capital employed	(252) million
Employees	18 thousand

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

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

Heavy Rail Our products include subway and suburban rapid transit trains, subway cars, as well as their subsystems and components. As of October 1, 2003, the running gear business was transferred into an independent subdivision which will directly report to the Managing Board of TS.

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

Light Rail Our products include streetcars, light rail vehicles and their components.

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

Our Rolling Stock business was our largest in terms of sales in fiscal 2003. As part of a wider realignment of products in Rolling Stock to strengthen our market position, we merged Light Rail and Heavy Rail into a new division *Mass Transit* as of October 1, 2003.

In our Automation and Power business, we conduct our operations in two divisions:

Rail Automation For passenger and freight railway operations we develop, manufacture and sell central control systems, signaling systems and equipment, interlockings and automated train control systems that regulate a train s speed through automatic application of its brakes when it exceeds speed limits or

fails to respond to a signal. We sell entire systems and networks, as well as individual products for integration into existing signaling systems. For mass transit (including heavy and light rail), we develop, manufacture and sell operation control centers for the operation of signals and switches in rail yards and between destinations, and signaling and vehicle control systems (including automated, driverless systems).

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

Our Automation and Power business was our second largest in terms of sales in fiscal 2003.

In our *Turnkey Systems*, we cooperate closely with the other TS businesses, integrating their products and services to offer turnkey projects from a single source. We aim to optimize the design and construction of entire railway systems, ensuring high quality and reducing life-cycle costs. Among our projects during fiscal 2003 were the Transrapid project in China (an electromagnetically elevated and propelled high-speed train), the construction of the new Kaohshiung subway system in Taiwan, and a new light rail transit system in the Venezuelan city of Maracaibo. We also assist our customers with arranging financing in cooperation with Siemens Financial Services. Our Turnkey Systems business was our smallest in terms of sales in fiscal 2003.

With our *Integrated Services* unit we are placing an increasing emphasis on our service and maintenance activities. We provide corrective and preventive maintenance services, replacement and spare parts for our own products and for products manufactured by others. We also provide training, documentation and consulting services relating to a wide variety of customer needs, with a particular focus on extending the life-cycle of our customers investments in their rail products and systems.

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

Germany and other European countries have traditionally been our most important regional markets. We believe the most important regional growth markets are in the Americas and the Asia-Pacific region. Demand in the German market for railway transportation products has declined modestly in recent years and we expect that trend to continue for the foreseeable future. We derive approximately three quarters of our sales from Europe and a smaller but significant amount from the Asia Pacific region.

We have approximately fifteen significant manufacturing, assembly and testing locations worldwide, including ten in Europe, of which five are located in Germany.

In fiscal 2003, TS spent 149 million, or 3.2% of our total sales, on research and development, compared to 139 million, or 3.2% of total sales, in fiscal 2002.

The world markets for products and services in the railway transportation industry continue to be in flux. Despite the continuing trend toward privatizing state-owned railways and liberalization of the railways markets, national authorities continue to have influence in areas such as security and deregulation, or as general watchdog authorities over transport or railway facilities. In many countries, governments impose local content requirements, the fulfillment of which is often a basic precondition for market entry. The number of rail operators is increasing, and both new and traditional operators are focusing not only on quality but also on price and low life-cycle costs that drive their own profitability. Price pressure is further influenced by budget constraints faced by many state operators, requiring innovative financing solutions. In fiscal 2003, our industry also experienced an increasing price pressure for some key components since there are only a limited number of suppliers, partly as a result of consolidation in the industry. There is a growing trend towards the outsourcing of servicing and maintenance of systems and equipment.

To address these market trends, we continue to pursue the following strategic goals:

Rolling Stock Focus on innovation in design and engineering; and to enter new geographic markets, in part by expanding our partnerships worldwide and tailoring them case-by-case to meet both project needs and local content requirements.

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Automation and Power Capitalize on and expand our existing international presence, experience and technological leadership to become a global supplier of products and systems platforms, particularly in the area of traffic automation solutions.

Integrated Services Expand through strategic alliances in service enterprises; emphasize our System plus Service segment, which offers a complete package of new products plus service and maintenance; enter the market for third-party maintenance and improve our market penetration through e-business.

Our priority remains improving our profitability. In fiscal 2003, we launched our top+ program TS*wins* as the third step of the TS Initiative; the latter resulted in a significant increase in profitability for fiscal 2002. TS*wins* aims at sustainable and higher productivity through product standardization and modularization, higher quality and standardization of all TS processes (procurement, engineering, manufacturing, project management, and sales), and instilling leadership and higher skills in our employees.

The large size of the projects performed by our TS businesses occasionally exposes us to risks associated with technical performance, a customer or a country. In the recent past, we have experienced losses in connection with such risks. See Long-Term Contracts and Contract Losses. In this context, we have continued to improve our project controlling, risk management and claims management systems. We also continue to explore possibilities for cooperation with other companies in our industry as a means of reducing development costs, meeting local content requirements, improving market access, reduction of risks and meeting customer requests.

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

Siemens VDO Automotive (SV)

	Year ended September 30, 2003
Total sales	8.375 billion
External sales as percentage of Siemens net sales	11.27%
Group profit	418 million
Net capital employed	3.949 billion
Employees	44 thousand

Siemens VDO Automotive (SV) is the result of the merger in April 2001 of the former Siemens Automotive with Mannesmann VDO AG. The integration of Mannesmann VDO into our Group is now complete.

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

We offer our systems and products in the following four divisions:

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

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

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

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

Some of our recent product innovations and developments include:

common-rail injection systems with piezo-electronic actuators, resulting in quieter and lower emission diesel engines;

innovative gas sensors such as our NOx sensor and our Ozone sensor, which help car manufacturers comply with ever more stringent emission standards;

integrated powertrain management, allowing significant savings in fuel consumption;

a color heads-up display that projects information about driving conditions and navigation instructions onto the windshield;

a voice-controlled car communication computer for passenger cars, which includes a multimedia system as well as climate and speed control function;

a digital tachograph that collects important data concerning the operation of vehicles, allowing more sophisticated management of fleets;

contactless and modular fuel level sensors for long-life, high-performance fuel supply systems;

tire pressure monitoring system;

advanced weight sensing (AWS), which adjusts the safety settings on seat belts and airbags depending on the passenger s weight;

an advanced radar system for crash avoidance and adaptive cruise control; and

an optical passenger detection device that makes airbags more intelligent and offers greater protection to passengers.

In addition to researching and developing these and other innovations, we also design and manufacture systems and modules, which typically offer superior profit margins and better opportunities for maintaining customer relationships than selling individual components.

Most of our customers are large automobile manufacturers, including four of the world s five largest automobile manufacturers. We also sell components to suppliers of complete automotive systems and modules. Our car manufacturer customers frequently contract for a supplier to provide a system or set of components for the production run of a particular car model or engine line. In fiscal 2003, our ten largest customers together accounted for more than two-thirds of our total sales.

Base materials and components account for about half of the total cost of our products. We rely on a few suppliers to provide us with most of our semiconductors, other electronic components and some other base materials and components. These suppliers include Infineon, Motorola STM and Philips for semiconductors, Tyco for wire housings and connectors, and APM for drives.

We have our own independent sales force, which is active worldwide. We generate most of our sales in Europe, with 31% in Germany, and a smaller but significant amount from the Americas, mainly in the United States, with an increasing share in Asia-Pacific. In fiscal 2003, we launched a sales initiative aiming to more than double our sales in China, Japan, Korea and other Asian countries by fiscal 2007. The Japanese market is still served mostly by local and in-house suppliers.

We have approximately 46 manufacturing and assembly facilities, including 13 in the Americas and 23 in Europe. Of these, 10 are located in Germany.

In fiscal 2003, we spent 692 million, or 8.3% of SV s total sales, on research and development, compared to 778 million, or 9.1% of total sales, in fiscal 2002. To secure competitiveness in markets with ongoing price pressure, we must continue to make productivity gains and develop innovative products. Investment in new technologies has also grown in importance due to the increasing use of electronics and related software in automobiles, and as more manufacturers offer former options such as theft protection and safety devices as standard features in an effort to increase margins. Additionally, environmental concerns have increased demand for direct injection and other new engine technologies offering improved efficiency, as well as for fuel cells and other possible alternatives to the internal combustion engine. In addition to continuing to invest in research and development, we must also continue to attract and retain skilled engineers and other technically proficient employees to remain technologically competitive.

We disposed of several non-core businesses in fiscal 2003, including our business in assembling tank systems for fuel handling. We also contributed our assemblies for cockpit modules and systems to our existing joint venture with Faurecia.

Automobile manufacturers and their suppliers have been going through a period of significant change and consolidation, and we expect this trend to continue. In fiscal 2003, Hitachi acquired Unisia Jecs, Johnson Controls announced its acquisition of Borg and TI Automotive acquired Pierburg s fuel pump business. Opportunities and competition for independent suppliers have increased as car manufacturers have spun off or exposed their former in-house suppliers to increased competition. Two examples are General Motors spinning off its former in-house supplier, Delphi, and Ford doing the same with Visteon. On the other hand, manufacturers, in an effort to achieve cost efficiencies and ease of production, are using more pre-assembled systems and modules instead of individual components. Systems and modules integrate all of the components needed for major automotive subsystems, such as the cockpit or vehicle safety systems. These systems and modules are assembled near or at the customer s production site on a just-in-time, just-in-sequence delivery basis for assembly directly onto the chassis without significant further modification, occasionally using the customer s production machinery. The trend toward greater use of modules and systems has increased pressure on suppliers of individual components and smaller companies to combine or form alliances, resulting especially in growing convergence of electronics and mechanical component suppliers and making the industry more capital intensive. Recent examples of such combinations have been Becker s acquisition of Temic s voice-recognition business and TRW s acquisition of sensor manufacturer Autocruise. Other recent examples of joint ventures and partnerships include Bosch and Denso in navigation and multimedia components, Bosch and Weifu in diesel systems, Valeo and Raytheon in radar technology, and Kostal and Hella in advanced driver assistant systems (ADAS).

In fiscal 2003, demand in the automotive industry continued to weaken, particularly for mass market cars and for trucks. Automobile production levels declined in the Americas and Western Europe, especially Germany. The Asia-Pacific region, with a growing market in China, did not fully offset this worldwide trend. Globalization and the opening of markets to competition continue to put downward pressure on prices. Customers that incorporate our products into their own equipment make ever greater demands on both our performance and the quality of our products. In the current market environment, many automobile manufacturers extract price and other concessions from their suppliers, including SV, and some of our automobile manufacturer customers have cancelled or postponed new development projects with us. For SV, however, the impact of these developments is partly offset by our focus on automotive electronics, which constitutes an increasingly large percentage of the cost of each automobile produced. Increased demand for diesel engines also led to growth in sales of our common-rail injection systems with piezo-electronic actuators.

In response to these difficult market conditions, in fiscal 2001 we began implementing a program to cut costs, increase productivity, optimize our product and project portfolio, and reduce inventory, personnel and the production and assembly facilities. In fiscal 2003, we continued to shift production facilities to locations where we can reduce our manufacturing costs or be closer to our customers.

The VDO merger strengthened our market position as a first-tier supplier to automobile manufacturers in North America, South America and Asia. Our most significant competitors are generalists with a broad product

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range, systems integration capabilities and global presence. These include Toyota s Denso and the independent and former in-house suppliers Bosch, Visteon and Delphi, all of which are significantly larger than we are. However, additional competitive pressure could result from a vertical integration between semiconductor suppliers and traditional automotive suppliers, such as in the case of NEC and Nestec or Infineon and Sensonor. Competition from low-cost suppliers from Asia and Eastern Europe is increasing in commodity products, such as electrical motors.

MEDICAL

Medical Solutions (Med)

	Year ended September 30, 2003
Total sales	7.422 billion
External sales as percentage of Siemens net sales 9.89%	
Group profit	1.118 billion
Net capital employed	3.128 billion
Employees	31 thousand

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

Our offerings include:

Medical imaging systems, representing a full range of systems including x-ray, computed tomography, magnetic resonance, nuclear medicine and ultrasound, as well as related computer-based workstations where the health care professional can retrieve and process relevant information. Our imaging systems are used to generate, in various modalities and without surgery, morphological and functional images of, and related information on, the human body, such as internal organs. This information is used both for diagnostic purposes and in preparation for potential treatment, including interventional and minimally-invasive procedures. We focus on technically innovative products, examples of which are our computed tomography scanner Somatom Sensation 16 and or our angiography system Axiom Artis.

Information technology systems, including picture archiving and communications systems (PACS) and systems for clinical and administrative purposes. Our information technology systems are used to facilitate digital storage, retrieval and transmission of medical images and other clinical and administrative information, enabling an efficient workflow in healthcare environments. Our offerings include web-based products using the Internet as the communication medium.

Electromedical systems, including patient monitoring systems, life support systems and electrophysiological measuring systems. These systems are primarily used in critical care situations and during surgery for the purpose of monitoring vital functions via body sensors, supporting breathing and administering anesthetic agents. As discussed below, in fiscal 2003 we combined the patient monitoring systems segment of our electromedical systems business with the activities of Dräger Medical in a new joint venture and divested our Life Support Systems business to Getinge AB in October 2003.

Oncology care systems, including linear accelerators, which are used for cancer treatment.

Hearing aids and related products and supplies.

Our medical imaging operations are the largest part of our business, representing about 66% of total sales in fiscal 2003. These businesses are organized into divisions according to the type of medical imaging product offered, including Magnetic Resonance, Computed Tomography, Ultrasound, Angiography, Fluoroscopic and Radiographic Systems, Nuclear Medicine and Special Systems. Our Health Services division, which focuses on

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information technology systems, represents the second largest part of our business. This business grew out of our acquisition of Shared Medical Systems in 2000, a company headquartered in the United States.

In June 2003, we contributed our Patient Care System and Electro Cardiography System businesses to form a joint venture with Dräger Medical of Lübeck, Germany, a leading manufacturer of medical equipment for critical care. The joint venture, in which we hold a 35% stake, will provide electromedical systems and services for the entire patient care process. These systems are used primarily in critical care situations and surgery for the purpose of patient transport, monitoring vital functions via body sensors, supporting breathing and administering anesthetic agents. The offering further includes respiratory machines designed for home care and systems for intensive neonatal care. We agreed to sell our Life Support Systems division, which provided anesthesiology and ventilation equipment, in order to obtain approval of European antitrust authorities for the joint venture. The contribution agreement obligates us to contribute to Dräger Medical the net proceeds from the sale of this division. The disposition was effected in October 2003 to Getinge AB, a Swedish medical technology group. The division generated approximately 200 million in annual sales and employed about 720 people in fiscal 2003.

We expect worldwide demand for our products and services to continue to grow due to a variety of factors, including the growing population of older people, the trend toward early diagnosis and the improvement of healthcare delivery in developing countries.

In addition, efforts in many industrialized countries to contain healthcare costs are driving a need for improved efficiency in diagnostic and therapeutic processes. For example, healthcare providers must be able to deliver patient information to every other caregiver who needs it. This need continues to fuel demand for integrated information technology systems, including electronic patient records, as well as related professional consulting and implementation services.

Our customers are healthcare providers such as hospital groups and individual hospitals, group and individual medical practices and outpatient clinics. Our products are sold and serviced primarily through our own dedicated personnel. A small portion of our sales involve delivery of certain of our products and components to competitors on an original equipment manufacturing (OEM) basis.

We have a strong worldwide presence. The United States is our largest single geographic market, representing 47% of our total sales in fiscal 2003. In addition, we derive approximately one third of our sales from Europe.

Our worldwide business is reflected in our regional organization. The headquarters for our oncology care systems business and, in the medical imaging field, our Ultrasound and Nuclear Medicine divisions, as well as our Health Services division, are located in the United States. The other divisions are headquartered in Germany. Following the establishment of the joint venture with Dräger, we have transferred most of the remaining Swedish activities to our existing locations in Germany and Spain. Not including the joint venture with Dräger, we have approximately 18 significant manufacturing and assembly facilities worldwide, including six in North America and five in Europe. Of these, three are located in Germany.

We have research and development and OEM cooperation agreements with various companies, including with Bruker in the field of magnetic resonance imaging, Toshiba in the field of ultrasound and magnetic resonance imaging, Philips in computed tomography systems and Matsushita for low- and mid-range ultrasound systems. We also have joint ventures with Oxford Instruments to develop and manufacture magnets for magnetic resonance imaging, with CTI Molecular Imaging, Inc. to develop and manufacture Positron Emission Tomography systems which are new scanning systems able to show the chemical functioning of an organ or tissue, and with Philips and Thales to manufacture flat panel detectors for medical imaging.

Research and development plays an important role in our business. We maintain research and development centers at production sites in Germany and the United States. In fiscal 2003, we spent 674 million, or 9.1 % of Med s total sales on research and development, compared to 615 million, or 8.1% of total sales, in fiscal 2002. Approximately two-thirds of our research and development expenditure is typically spent on medical imaging systems. Over the last five years, we have consistently spent between 8 and 9% of total sales on the development of new products and services and the improvement of our existing offerings. An important project within our information technology systems business is the development of a new workflow management system, Soarian,

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designed to optimize information-based processes throughout the entire cycle of a patient s hospitalization, including administration, diagnosis, clinic, care, therapy and dismissal. The first applications of this new workflow management system have been introduced during fiscal 2003.

Our goal is to become the preferred partner for healthcare providers around the world by supporting their efforts in optimizing diagnostic and therapeutic processes. Our strategy is to combine our knowledge and innovative products in medical engineering and information technology with our experience in process improvement and consulting to provide comprehensive customer solutions. In addition, we are intensifying our activities in molecular medicine. We seek to make selective investments in innovative businesses to strengthen our product portfolio. In 2003, we purchased minority interests in a several companies. These include a company which invented the first interventional robotic guidance system for navigation of medical devices, such as catheters, to designated targets in the heart, and a company which is developing novel molecular probes for optical imaging. Further, we acquired the radiation therapy business of MRC Systems GmbH, of Heidelberg, Germany, with reported 2003 sales of about 4 million.

Our principal competitors in medical imaging are General Electric, which recently acquired Instrumentarium, a leading supplier of critical care and patient monitoring systems and solutions, and in October 2003 announced its intent to acquire Amersham, a leading provider of imaging enhancing agents and systems for disease research and drug developments; Hitachi; Philips, which took over Marconi in 2001, and Toshiba. Other competitors include McKesson HBOC, Resound, Starkey, Tyco, Hologic, Elekta, Cerner, IDX, Widex, William Demant/ Oticon and Varian Medical Systems. We expect further consolidation in the medical equipment industry to be driven by combinations of medical technology companies with life science companies, reflecting the growing importance of molecular medicine for diagnosis and therapy.

LIGHTING

Osram

	Year ended September 30, 2003
Total sales	4.172 billion
External sales as percentage of Siemens net sales	5.54%
Group profit	410 million
Net capital employed	2.074 billion
Employees	36 thousand

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

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

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

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

Opto-semiconductors: light emitting diodes, or LEDs, organic light emitting diodes, or OLEDs, and other semiconductor devices that generate visible light and ultraviolet and infrared radiation for use in interior and exterior automotive lighting and other applications, electronic equipment displays, traffic and signal lighting, signs and decorative lighting and infrared transmitters and sensors for industrial and consumer electronics;

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

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

General lighting typically accounts for approximately half of Osram s total sales. The market for general lighting products is typically stable because of the large investments consumers, businesses and municipalities have in lighting fixtures. We market our products worldwide and have manufacturing locations throughout North and South America, Western and Eastern Europe and Asia, allowing us to stay close to our major customer regions and keep shipping charges low to maximize the profitability of our lower margin products. We produce most of our own key precision materials and components to ensure that we have access to raw materials in the necessary amounts, prices and levels of quality. We also sell precision materials and components we manufacture to third parties. We have 54 significant manufacturing and assembly facilities worldwide, including 26 in the Americas, 8 in Asia and 20 in Europe. Of these, 13 are located in Germany.

In all our divisions, we focus on innovative products to sustain and improve our level of profitability. Although incandescent lighting continues to be widely used in general lighting, compact fluorescent, high intensity discharge and other newer technologies have been growing more rapidly because they save energy and are longer-lasting. Newer technologies also offer additional features and smaller lamp sizes. In our consumer luminaires business in selected markets we offer models that demonstrate applications of some of these newer technologies. Opto-semiconductors is introducing new applications for LED products as it becomes possible to achieve greater brightness and more colors. We continue to increase the brightness of light emitting diodes through the use of an advanced thin-film technology, thus opening up a wide variety of new applications, for example in automotive exterior lighting. Recently, we have made progress in solving the physical problems of implementing thin-film technology for red, green and blue LEDs. In the coming years, we expect electronics to become increasingly important across all areas of the lighting industry and that electronic ballasts, electronically-driven lighting systems and opto-semiconductors will account for an increasing portion of Osram s sales. By increasing opto-semiconductor production capacity through the recent opening of a modern opto-chip factory in Regensburg (Germany), we have positioned ourselves to take advantage of this trend.

In fiscal 2003, we spent 206 million, or 4.9% of Osram s total sales, on research and development, compared to 224 million, or 5.1% of total sales, in fiscal 2002. We devote a significant portion of our research and development efforts to enhancing the performance and reducing the environmental impact of our products and processes. In the area of opto-semiconductors, we are focusing on organic light emitting diodes, which are able to display a broad range of colors. OLEDs are self-luminous plastic films which allow the design of clearly legible, extremely flat and bright displays with a wide viewing angle, low power consumption and minimum weight. OLEDs are typically used in products such as mobile phones, digital video cameras as well as various medical equipment. In fiscal 2003, we began production of OLEDs at our facility in Malaysia. We are party to several patent license agreements in the opto-semiconductors field.

Our customers include wholesalers, retailers and manufacturers of lighting fixtures, lamp components and automotive systems. We distribute our products through Osram s own network of subsidiaries, sales offices and local independent agents in approximately 140 countries. The importance of the Internet as a sales channel is also increasing. Osram has successfully implemented business-to-business extranet services in several countries and presently processes over one-third of sales electronically.

In recent years, the world market for lighting products has grown at moderate rates, with relatively higher growth in Asia-Pacific and Eastern Europe. In fiscal 2003, Osram generated approximately 88% of its total sales outside of Germany, with most of its sales in Europe, North America and Asia-Pacific. Sales in the Americas, primarily relating to the U.S., accounted for approximately 45% of the total sales in fiscal 2003. In North America we market most of our lighting products under the brand name Sylvania. We currently intend to expand our sales in Eastern Europe, United States and Asia.

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As a result of acquisitions and consolidations over the last decade, General Electric, Philips and Osram together represent almost two-thirds of the world lighting market. Osram holds a number one or number two position worldwide in most of its product markets, such as lamps, electronic ballasts, automotive lamps and opto-semiconductors, competing principally with Philips and General Electric. We are the largest lighting manufacturer in Germany and have the second-largest market share in North America after General Electric. General Electric is the leading incandescent lighting manufacturer worldwide. Through joint ventures with Mitsubishi and Toshiba, we are the largest foreign manufacturer of lighting products in Japan, where Matsushita and Toshiba also hold strong market positions.

Price competition is intense in some areas of both the traditional and innovative lighting product markets, due to competition among Philips, Osram and General Electric as well as rising competition from new entrants, including a growing number of Chinese manufacturers. Price competition is also intensifying in the more advanced halogen and compact fluorescent lamp types due to an increasing presence of Chinese manufacturers in these areas. To counteract price pressure and to improve our competitiveness for mass market lighting products, we manufacture some of our lower-priced product lines in countries with low labor costs. For example, we assemble our LED products in Malaysia. As part of our ongoing efforts to reduce labor costs, over the last several years we have established or expanded manufacturing operations in China, India, Indonesia, Mexico and Eastern Europe and continue to shift production to these markets. Our recently announced measures to increase profitability include the consolidation of our U.S. glass manufacturing operations and the transfer of part of our coil production from the United States and Germany to the Czech Republic, both of which we plan to finalize during fiscal year 2004. In September 2003, we signed an agreement to acquire a 90% stake in SVET, a Russian manufacturer of fluorescent tubes located in Smolensk. We have also initiated numerous projects aimed at reducing manufacturing and distribution costs and are implementing a global purchasing model with focus on increasing the portion of supplies we obtain from low cost countries. Quality, efficiency and innovation are very important factors in the newer and more specialized product areas, and we are actively promoting more advanced lamp types as alternatives to traditional products for general use.

The manufacture of many lighting products requires mercury, lead and other hazardous materials, as well as thorium and other radioactive materials. We have not experienced any significant liability in the past as a result of our use of these materials and we are continuing to work to reduce their use in our products.

FINANCING AND REAL ESTATE

Siemens Financial Services (SFS)

	Year ended September 30, 2003
Total sales	532 million
External sales as percentage of Siemens net sales	0.58%
Income before income-taxes	269 million
Total assets	8.445 billion
Employees	1 thousand

Siemens Financial Services provides a variety of financial services and products both to third parties and, on arm s-length terms, to other Siemens business Groups and their customers. SFS is organized in six business divisions. Two of these divisions *Equipment and Sales Financing* and *Equity* have significant dealings with third parties including customers of other Siemens Groups. The four other divisions *Structured Finance*, *Treasury and Financing Services*, *Investment Management, and Insurance* currently support and advise Siemens and our other business Groups and have little external business. SFS makes an important contribution to Siemens other businesses through the financing of goods and services sold by Siemens. More than 50% of our assets are derived from other Siemens business Groups through the customer financing and equipment leasing services provided by our Equipment and Sales Financing division.

In fiscal 2003, our total assets declined, from 8.681 billion at September 30, 2002 to 8.445 billion at September 30, 2003. Our principal assets are lease receivables and equipment leased under operating leases

(together accounting for 58% of our assets) and purchased trade receivables (accounting for 35% of our assets) attributable to our Equipment and Sales Financing division. Interest and fee income are the main sources of our earnings, with fee income stemming primarily from our internal advisory businesses. SFS deals according to banking industry standards in the international financial markets with Siemens as well as with third parties.

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

Midmarket Finance our principal product is equipment lease financing, where we typically purchase equipment supplied by various Siemens Groups or third-party manufacturers and lease it to the customer for a specified term, generally with an option for the customer to purchase the equipment or renew the lease at the end of the term. Capital leases account for the largest portion of our leasing business (more than 80% of the book value of the leased assets). We also offer our clients services complementary to our leasing business, including services relating to the management of their leased equipment base and product upgrade services. In fiscal 2003, we further developed our vendor financing program, in which third-party manufacturers offer us the opportunity to provide financing to their customers.

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

The Equipment and Sales Financing division finances both Siemens and third-party equipment. Siemens products come primarily from Information and Communication Networks (ICN), Medical Solutions (Med) and Siemens VDO Automotive (SV). Customers that are familiar with our services from past dealings are increasingly seeking financing for transactions with manufacturers unrelated to Siemens. Third-party products are primarily computers and other IT equipment.

Equity. This division participates in infrastructure projects as a project developer and equity investor, predominantly in projects for which Siemens provides capital goods. At September 30, 2003, the equity investment in these projects amounted to approximately 4% of the total assets of SFS and 0.4% of the total assets of Siemens worldwide. In recent years, we have shifted our focus from larger projects to diversifying our portfolio with smaller investments.

Structured Finance. This division advises other Siemens Groups on project and sales financing transactions. We have a global network of established contacts with international project and export finance lenders, such as the World Bank or the Asian Development Bank, as well as with national development and export banks and export credit insurance agencies, such as Kreditanstalt für Wiederaufbau and Hermes in Germany. By offering our services to other Siemens Groups, we ensure that they benefit from our in-house know-how and market presence. We also provide advice, management and documentation services in connection with guarantees issued by Siemens, related principally to long-term contracts of the Operations Groups.

In fiscal 2003, SFS discontinued for the time being the use of the Asset Securitization and Placement program through SieFunds, a non-consolidated asset-securitization vehicle.

Treasury and Financing Services. This division provides the following services to Siemens Corporate Treasury: cash management and payment, including intercompany payments and capital-market financing. In addition, we pool and analyze interest rate and currency risk exposure of the business Groups and, in the name and for the account of Siemens Corporate Treasury, enter into derivative financial instruments with third-party financial institutions to offset pooled exposures using a value-at-risk model. Siemens believes that, from a practical standpoint, it is not cost efficient to avoid having any open positions due to timing differences, and we closely monitor these positions within pre-determined limits. Our derivative activities are described under Item 11: Quantitative and Qualitative Disclosure About Market Risk. We also offer consulting services with respect to treasury activities to third-party customers.

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

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

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

Our competition includes captive leasing and finance companies from both inside and outside the electronics industry, including those of General Electric, Hewlett Packard, IBM, Philips and ATT, as well as pure leasing companies and leasing and finance operations related to banks or investment banks and investment management companies.

Siemens Real Estate (SRE)

	Year ended September 30, 2003
Total sales	1.592 billion
External sales as percentage of Siemens net sales	0.36%
Income before income taxes	206 million
Total assets	3.607 billion
Employees	2 thousand

SRE offers the operating units of Siemens a range of services encompassing real estate development, real estate disposal and asset management as well as lease and services management. SRE also rents, in certain limited circumstances, available space to third parties. The overall goal of our activities is to manage Siemens real estate needs in a professional and cost effective way.

Our three divisions are *Portfolio Management*, *Development & Sales*, and *Property Management & Services (Germany/ International).*

Portfolio Management is responsible for the active management of Siemens real estate portfolio. It formulates the general strategy for our real estate business and gives support for real estate related decision making by providing portfolio analysis, economic analysis, development of financing alternatives, market research, risk analysis and valuation and similar services, including recommendations for divestiture as well as regarding rental rates.

Development & Sales is responsible for the sale of land, office and commercial real estate that is surplus to the operational needs of the Siemens group. It also acts as a developer of Siemens owned properties. In this context, it is currently developing and seeking building permits for several existing Siemens sites in German cities prior to their disposal.

Property Management & Services has two principal activities. First, it provides pure property management and leasing services to Siemens units and to a limited extent to third-party lessees. These services include billing and collecting lease payments and related charges such as utilities and providing other general services of a landlord. Second, it arranges facilities services to our business units and external tenants on an arm s length contract basis. The services we arrange include cleaning, maintenance, security, catering and a variety of other services. We generally subcontract these services with third-party suppliers, thereby leveraging the purchasing power of the entire Siemens group.

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The book value of Siemens worldwide real estate assets at September 30, 2003 amounted to approximately 4.830 billion, of which approximately 3.075 billion in book value was managed by SRE. The following table sets forth the key balance sheet and statistical data for SRE:

SRE Balance Sheet and Statistical Data

	At September 30,	
	2003	2002
	(and square meters in millions)	
Total assets (in euros)	3,607	4,090
Real estate assets under management (in euros)	3,075	3,419
Total site area (in square meters)	21.4	23.5
Total building area (in square meters)	11.4	11.7

Total sales of the International segment of Property Management & Services division were slightly down in fiscal 2003. SRE s international operations now encompass more than twenty-five companies and management units in leading real estate markets around the world. In fiscal 2003, we established a number of new management units, including in Hungary.

Our internal and external revenues are derived primarily from our lease administration and services operations, since gains on dispositions are not recorded as sales but as other income. Approximately half of our overall earnings reflect gains from the development and sale of real estate assets.

The real estate markets in which we operate have become more difficult as rental rates are falling, vacancy rates are rising, and construction activity is declining. At the same time, operational adjustments by some Siemens units resulted in additional challenges for SRE. In response to these developments, SRE is actively consolidating Siemens locations, optimizing the use of space owned by SRE by internal and external tenants, continuing the divestment of surplus property and pursuing all avenues to lower the operating cost of buildings and thereby the rental cost for its tenants. In fiscal year 2003, we also initiated a profitability program to improve SRE s own cost structure.

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EMPLOYEES AND LABOR RELATIONS

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

EMPLOYEES BY BUSINESS GROUP

	At September 30,		
	2003	2002	2001
	(in thousands)		
Information and Communication Networks	33	39	51
Information and Communication Mobile	27	29	30
Siemens Business Services	35	34	36
Automation and Drives	50	51	54
Industrial Solutions and Services	26	29	30
Siemens Dematic	10	12	12
Siemens Building Technologies	33	36	37
Power Generation	30	26	26
Power Transmission and Distribution	16	17	21
Transportation Systems	18	17	14
Siemens VDO Automotive	44	43	44
Medical Solutions	31	31	30
Lighting/Osram	36	35	35
Siemens Financial Services	1	1	1
Siemens Real Estate	2	2	2
Other[1]	25	24	27
Total	417	426	450
Infineon Technologies[2]			34

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

(2) As of December 5, 2001, Siemens deconsolidated Infineon.

EMPLOYEES BY GEOGRAPHIC REGION

	At September 30,		
	2003	2002	2001
	(in thousands)		
Germany	170	175	199
Europe (other than Germany)	108	106	118
The Americas	87	93	107
Asia-Pacific	44	45	53
Africa, Middle East, CIS	8	7	7
Total	417	426	484

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

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ENVIRONMENTAL MATTERS

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

In 1994, we closed a site in Hanau, Germany, that we had used for the production of uranium and mixed-oxide fuel elements. We are in the process of cleaning up the facility in accordance with the German Atomic Energy Act. We have developed a plan to decommission the Hanau 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 continuing engineering studies and radioactive sampling under the supervision of German federal and state authorities. The German Atomic Energy Act requires that radioactive waste be transported to a government-developed storage facility, which, in our case, we do not expect to be available until 2030. We expect that the process of decontamination, disassembly and sorting of radioactive waste will continue until 2009, and we will be responsible for storing the material until the government-developed storage facility is available. The ultimate costs of this project will depend on where the government-developed storage facility is located and when it becomes available. We have an accrual of 543 million at September 30, 2003 in our financial statements in respect of this matter. This accrual is based on a number of significant estimates and assumptions as to the ultimate costs of this project. We believe this amount to be adequate to cover the present value of the costs associated with this project based on current estimates.

In February 2003, two new European Commission directives entered into effect. The Waste Electrical and Electronic Equipment directive, or WEEE, regulates the collection, reuse and recycling of waste from many electrical and electronic products, and the Restrictions of Hazardous Substances directive, or RoHS, bans the use of certain hazardous materials, such as lead, cadmium, mercury, chromium, brominated biphenyls and diphenylethers, in electric and electrical equipment. Member states must implement these directives into their national laws by August 13, 2004. The collection of electrical and electronic waste from end users under the WEEE directive is expected to begin in August, 2005. Siemens has been working together with national trade and environmental associations to establish collection systems for electronic scrap in time. Starting August 13, 2004, producers will be obliged to finance the collection systems for electronic scrap. Because the specific legal requirements have not been finalized, we are at present unable to determine the amount of any accruals which may be necessary in order to comply with the directive. With respect to the RoHS directive, a transition period until July 1, 2006 has been established to allow manufacturers to make necessary production adjustments. Siemens has identified its products which will be affected by the new law and formulated strategies to help ensure a timely transition from lead to lead-free soldering technology. The first lead-free products have already been developed.

It is our policy to comply with environmental requirements and to provide workplaces for employees that are safe, environmentally sound, and that will not adversely affect the health or environment of communities in which Siemens operates. We have obtained all material environmental permits required for our operations and all material environmental authorizations required for our products. Although we believe that we are in substantial compliance with all environmental and health and safety laws and regulations, there is a risk that we may have to 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 or to undertake any necessary remediation.

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LONG-TERM CONTRACTS AND CONTRACT LOSSES

A significant portion of the business of certain of our operations Groups, including the Information and Communications Groups, I&S, SD, the Power Groups and TS, is performed pursuant to long-term, fixed-price contracts, often for large projects, in Germany and abroad, awarded on a competitive bidding basis.

These projects subject us to a variety of risks. The profit margins realized on such fixed-price contracts may vary from original estimates as a result of changes in costs and productivity over their term. Cost overruns may also result from unexpected quality issues, technological problems, unforeseen developments at the project sites, problems with our subcontractors or other logistical difficulties. Certain of our multi-year contracts also contain demanding installation and maintenance requirements, in addition to other performance criteria relating to timing, unit cost requirements and compliance with government regulations, which if not satisfied, may subject us to substantial contractual penalties, damages or non-payment, or could result in contract termination.

Siemens records an accrual for contract losses when the current estimate of total contract costs exceeds contract revenue. Such estimates are subject to change based on new information as projects progress toward completion. Loss contracts are identified by monitoring the progress of a project and updating the estimates of total contract costs. As a matter of policy, all significant contracts are monitored and reviewed at least monthly. In addition to provisions for losses, losses on contracts can include write-offs of inventories and other charges.

As of September 30, 2003, provisions for contract losses totaled approximately 1.2 billion. Accrued contract losses relate primarily to the groups PG (276 million), ICM (179 million), TS (171 million), ICN (143 million), SD (129 million) and SBS (106 million). For all accrued contract losses, we anticipate that the cash outflows for labor, materials, contract penalties and related costs on such contract losses will occur predominately over the next two fiscal years.

Losses on contracts are recorded at the segment to which the contract relates except in case of those contracts the Managing Board decides to manage centrally. This occurs in the rare situations where the Managing Board as chief operating decision maker for the Company directly oversees and makes key strategic operational decisions regarding significant contracts independent of segment management.

The ICM, TS and ICN losses related to numerous contracts, none of which was individually significant. Examples of significant contracts that have given rise to losses include:

In our PG business, it is common in the industry to guarantee customers certain delivery dates and that a turbine will achieve certain performance standards. If such delivery dates or performance standards are not met, the supplier is subject to substantial contractual penalties or must take measures to ensure that those standards are achieved. Accordingly, PG has contract losses relating to performance, warranty and other issues in the ordinary course of its business, for which accruals are made as appropriate. In particular, PG has experienced significant contract losses as a result of performance issues affecting a new generation of gas turbine introduced in the late 1990s. Numerous contracts were affected by these performance problems, notably in the following areas: delivery dates could not be met due to frequent repairs of the turbines during the construction period; committed performance levels were not achieved; and emissions levels were higher than contractually warranted. These performance issues have been resolved. The largest remaining loss contract at PG had an accrual of approximately 46 million at September 30, 2003.

In fiscal 2001, SBS established contract loss provisions of 192 million related to two long-term outsourcing contracts in the United Kingdom. In January 1999, SBS entered into a ten-year agreement to insource the back-office functions of National Savings & Investments (NS&I), a government agency in the U.K. The contract comprised the design and implementation of a significant new IT system, the re-engineering of business processes for increased efficiency and a reduction in the number of staff employed. As the project progressed in fiscal 2001, it became apparent that, due to the complexity of the IT system, additional investment will be required before completion. In parallel, the intended re-engineering and reduction in staff numbers has not been achieved due to delays in the system rollout as well as greater difficulties than had originally been anticipated in effecting process improvements. As a

result, both systems and staff costs on the project will significantly exceed original estimates. In fiscal 2003, SBS recorded 77 million in charges associated with this contract.

SBS management continues to focus on risks associated with long-term business process outsourcing contracts. However, there can be no assurance that additional losses will not be incurred in connection with these contracts.

In fiscal 2003, SD recorded contract loss provisions and charges totalling 149 million related to a contract for the design and implementation of a complete logistical infrastructure for a postal sorting center in the U.K. The contract awarded by Royal Mail involved a comprehensive postal automation and software solution, the first of its kind, which is intended to combine eight existing postal sorting centers into one for all in- and outgoing international mail traffic. The project involves the automatic sorting of letters and parcels, including hand-written addresses. As the project progressed, it became evident, that additional costs for software development and project-specific implementation were necessary. This also resulted in unforeseen project delays. SD is working closely with the customer on a revised project specification, a new completion date and redesigned software and automation solutions. Management of SD continues to focus on project risk mitigation, however, there can be no assurance that additional losses will not be incurred in connection with such contracts.

PROPERTY

Siemens and its consolidated subsidiaries have, as of September 30, 2003, approximately 215 production and manufacturing facilities of over 15,000 square meters floor space each throughout the world. Approximately 130 of these are located in Europe, with approximately 65 in Germany, and approximately 65 are located in the Americas, with approximately 45 in the United States. We also have 20 facilities in Asia. Siemens also owns or leases other properties including office buildings, warehouses, research and development facilities and sales offices in approximately 190 countries.

Siemens principal executive offices are located in Munich, Germany.

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

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

INTELLECTUAL PROPERTY

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

LEGAL PROCEEDINGS

In 1994, a Siemens subsidiary was sued in the United States District Court for the Northern District of Georgia by five independent service organizations and two customer end users for alleged monopoly pricing of parts and maintenance services. The case was originally filed as a class action but class certification was denied by the court. After discovery, the plaintiffs claimed treble damages of approximately $156.36 million. Siemens counterclaimed for misappropriation of trade secrets, interference with contractual relationships and patent and copyright infringement. In 1999, a jury rendered a verdict in favor of Siemens on these claims and awarded Siemens $7 million in damages, which the court reduced to just under $2 million. In 2000, the court dismissed the plaintiffs case in its entirety, with prejudice, holding that the lawful exercise of Siemens intellectual property

rights insulated it from antitrust liability. The jury s verdict and the dismissal of the antitrust claims are currently on appeal before the United States Circuit Court of Appeals for the 11th Circuit.

In 1992, shareholders of Siemens Nixdorf Informationssysteme AG, Paderborn, brought a valuation proceeding (*Spruchstellenverfahren*) against us in connection with the integration of the company into Siemens AG. The petitioners alleged that our mandatory offer to exchange their shares into Siemens shares at a ratio of six Siemens Nixdorf shares for one Siemens common share (or fifteen Siemens common shares when adjusted for share splits that have occurred since 1992) and to buy any number of Siemens Nixdorf shares that cannot be divided by six for DM156.50 (80.02) per share was insufficient. In January 2003 the Oberlandesgericht Düsseldorf as the court of second instance rendered a decision setting the exchange rate at three (or forty-five after adjustment for share splits that have occurred since 1992) Siemens common shares plus dividends since 1992 per thirteen Siemens Nixdorf shares, and the cash settlement at DM150.41 (76.90), plus interest since 1992, per Siemens Nixdorf share. This decision is final. The decision will not have a material effect on our consolidated financial position.

The Atomic Energy Organization of Iran, in a dispute involving the construction of two nuclear power plants in Bushehr, claimed unspecified damages alleging breach of a 1976 contract by Siemens. In July 2003, an arbitral decision awarded Siemens approximately 13.3 million plus interest and awarded the Atomic Energy Organization of Iran a claim against Siemens of approximately 16.6 million, plus interest. This award is final.

We have requested arbitration against the Republic of Argentina before the International Center for Settlement of Investment Disputes (ICSID) of the World Bank. We claim that Argentina unlawfully terminated our contract for the development and operation of a system for the production of identity cards, boarder control, collection of data and voters registers and thereby violated the Bilateral Investment Protection Treaty between Argentina and Germany (BIT). We are demanding damages for breach of contract of approximately $500 million. Argentina disputes jurisdiction of the ICSID arbitration tribunal and argues in favor of jurisdiction of the Argentine administrative courts. A hearing on the issue will be held in January 2004.

A prosecutor in Milan, Italy, is conducting an investigation against former employees of the Enel group. The prosecutor alleges that these employees may have requested and received improper benefits in connection with the awarding of Enel contracts. We have learned that Siemens is one of several companies that prosecutors believe may have provided such benefits. Siemens has independently initiated an internal investigation by outside counsel with respect to certain contracts with Enel; this investigation is ongoing. We are taking, together with Enel, appropriate measures, consistent with Italian law, to mitigate potential adverse consequences on our long-standing business relationship with Enel that might result from the investigation. We have remedied, without acknowledging any wrongdoing, provisions of our existing agreements with Enel and its affiliates that were under dispute. Such remedies have been presented to an Italian court as a basis for rendering sanctions unnecessary. The remedies consist of a range of elements, running over a certain period of time. On December 3, 2003, an administrative hearing on this matter was held in Milan. A decision is awaited, however, a firm date has not been set.

Siemens AG and its subsidiaries have been named as defendants in various other legal actions and proceedings arising in connection with their activities as a global diversified group. Some of these pending proceedings have been previously disclosed. Some of the legal actions include claims for substantial compensatory or punitive damages or claims for indeterminate amounts of damages. In the ordinary course of business, Siemens may also be involved in investigations and administrative and governmental proceedings. Given the number of legal actions and other proceedings to which Siemens is subject, some may result in adverse decisions. Siemens believes it has defenses to the actions and contests them when appropriate. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, Siemens often cannot predict what the eventual loss or range of loss related to such matters will be. Although the final resolution of such matters could have a material effect on Siemens consolidated operating results for any reporting period in which an adverse decision is rendered, Siemens believes that its consolidated financial position should not be materially affected.

ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS

INTRODUCTION

This Annual Report contains forward-looking statements based on beliefs of Siemens management. We use words such as anticipate, believe, estimate, expect, intend, should, plan and project to identify forward-looking statements. Such statements reflect our current v respect to future events and are subject to risks and uncertainties. Many factors could cause the actual results to be materially different, including, among others, changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products, lack of acceptance of new products or services and changes in business strategy.

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The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related Notes prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) as of, and for the years ended, September 30, 2003, 2002 and 2001.

Beginning October 1, 2001, Siemens adopted the provisions of Statement of Financial Accounting Standards (SFAS) 142, *Goodwill and Other Intangible Assets*, and no longer amortizes goodwill but instead tests it for impairment. Consistent with this change, EBITA was referred to as EBIT in fiscal 2002. After March 28, 2003, as a result of the implementation of the new rule Conditions for Use of Non-GAAP Financial Measures of the U.S. Securities and Exchange Commission (SEC), Siemens renamed the performance measure for its Operations Groups from EBIT to Group profit. Group profit measures operating profit before certain centrally managed items, such as tax, financing and certain pension costs. Beginning in fiscal 2002, EBITA assets, our asset measure for our Operations Groups, were reported as Net capital employed. Net capital employed is defined as total asset, less tax related assets, less accruals and less non-interest bearing liabilities, other than tax-related liabilities. Net capital employed equals EBITA assets less accumulated amortization of goodwill and purchased in-process R&D expenses. The earnings and asset measures for our reported segments (Groups) are more fully described below.

The comparability of our consolidated financial statements for different periods is affected by currency translation effects resulting from our international operations. In fiscal 2003, 2002 and 2001, foreign currency translation effects had significant effects on our results arising from the comparison of the euro, in which our

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consolidated financial statements are denominated, to other currencies, most notably the U.S. dollar and to a lesser extent the Swiss franc, the British pound and the Japanese yen. All of our business Groups are subject to foreign currency translation effects; however, the business Groups PG, Med and Osram are particularly affected since they generate a significant portion of their operations through subsidiaries whose results are subject to foreign currency translation effects particularly in the U.S. For significant quantitative effects of currency translation on sales of our business Groups, see Segment Information Analysis Operations, as applicable. For additional information on foreign currency translation see Item 11: Quantitative and Qualitative Disclosure About Market Risk Foreign Currency Exposure and Notes to the Consolidated Financial Statements.

In addition, the effect of divestments and acquisitions on our consolidated revenues and expenses also affects the comparability of our consolidated financial statements for different periods. The divestments and acquisitions that were most significant to us are described under Acquisitions and Dispositions. See also Note 3 to the Consolidated Financial Statements.

Our results of operations have been affected by losses that result from cost overruns on significant multi-year fixed-price contracts. For a discussion of the losses from such contracts that were significant to us in fiscal 2003, 2002 and 2001, see Item 4: Information on the Company Long-Term Contracts and Contract Losses. A discussion of this and other risk factors that could adversely affect our financial condition and results of operations is contained in Item 3: Key Information Risk Factors.

BASIS OF PRESENTATION

To help shareholders understand and follow our progress, we present our results both in aggregate and in three separate components that match the structure of our business. The sum of results for the three components equals the result for Siemens worldwide.

Operations: The majority of our business is devoted to providing products and services to customers based on Siemens historical expertise in innovative electrical engineering and electronics. We call this component of our business **Operations**, which is divided into the 13 operating Groups. These Groups typically design, manufacture, market, sell, and service products and systems, or help customers use and manage those products and systems. A Group is equivalent to a reportable segment as defined by U.S. GAAP.

Financing and Real Estate: Another component of our Company is made up of two Groups, involved in non-manufacturing activities such as financing, leasing, and real estate.

Eliminations, reclassifications and Corporate Treasury: Our Corporate Treasury department provides various financial services to the **Operations** and **Financing and Real Estate** components of our business, and businesses in those two components also conduct business with each other. To give shareholders a clear view of our external performance as a company, we separate out these internal transactions when presenting our results for Siemens as a whole. These eliminations, reclassifications, and treasury activities comprise a third component called **Eliminations, reclassifications and Corporate Treasury**. This third component is designed primarily to ensure that results for the Company as a whole and for its two main components are both transparent and meaningful for investors.

In our consolidated statements of income and cash flows, and on our consolidated balance sheets, we show aggregate results for the whole Company, reported as Siemens worldwide. Then, we break out the results for each of the three components described above. We follow a similar approach in our narrative analysis of the year s results.

The Operating and Financial Review and Prospects that follows begins with the results of Siemens worldwide for the year, including acquisitions and dispositions. We then discuss results for the Groups comprising the **Operations** and **Financing and Real Estate** components for fiscal 2003, 2002 and 2001. Thereafter we address economic value added (EVA), and discuss topics including liquidity and capital resources, critical accounting estimates and risk management. The discussion concludes with our outlook for the fiscal year ahead and a summary of material events that occurred subsequent to the close of the fiscal year.

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Effective December 2001, we no longer consolidate Infineon in our financial results. Instead we account for Infineon as an investment using the equity method. Accordingly, our net investment in Infineon is included in our consolidated balance sheet under *Long-term investments*, and we report our share of Infineon s net income or loss in our consolidated income statement as part of investment income (for further information, see Notes to the Consolidated Financial Statements). The consolidated statements of income and cash flows of Infineon for the first two months of fiscal 2002, (before this change occurred) are included in **Eliminations, reclassifications and Corporate Treasury**.

We measure the profitability of our **Operations** Groups by Group profit. Group profit is the measure used by our Managing Board as the chief operating decision maker for the Company in assessing performance. Group profit is also the basis for calculating EVA for **Operations** which, in turn, is part of the determination of the amount of executive incentive compensation in accordance with our Company-wide bonus program.

Our Managing Board uses Group profit because it measures operating profit before certain centrally managed items, such as tax, financing and certain pension costs. Financing interest is any interest income other than interest income related to receivables from customers, from cash allocated to the Groups and interest expense on payables. We believe the exclusion of tax and financing expense from Group profit is particularly appropriate for two reasons. First, because the majority of our Groups are not organized as single legal units but rather are made up of local operations in numerous countries whose taxation is dependent on that of Siemens operations in those countries as a whole, the Company s tax expense is not directly attributable to particular Groups. Likewise, the financing income or expenses of the Company depend on its overall credit rating and cost of capital and not on that of its individual Groups or components. Second, tax planning and financing management are performed centrally and regionally for the entire Company rather than by Group management. We further believe that the exclusion of certain pension costs is appropriate for Group profit to the extent Group management is not involved in the funding or allocation of pension plan assets.

We therefore believe that by excluding the effect of the items mentioned above, Group profit allows investors to compare operating profitability among our Groups which operate across jurisdictions with varying levels of taxation and in businesses with different capital investment needs. We also believe that Group profit further enhances investors understanding of our Group performance because it allows them to see our results through the eyes of our management. Other companies that use Group profit may calculate it differently, and their figures may not be comparable to ours.

In contrast, we assess the profitability of our **Financing and Real Estate** Groups by income before income taxes since interest income and expense is an important source of revenue and expense for these Groups.

Our Managing Board also determined Net capital employed as the asset measure used to assess the capital intensity of the **Operations** Groups. Its definition corresponds with the Group profit measure. Net capital employed is based on total assets excluding intracompany financing receivables and intracompany investments as well as tax-related assets. The remaining assets are reduced by non-interest bearing liabilities other than tax-related liabilities (e.g. accounts payable) and certain accruals to derive Net capital employed. Our Managing Board also determined total assets as the asset measure used to assess the capital intensity of the **Financing and Real Estate** Groups. For further information regarding Net capital employed, see the Notes to the Consolidated Financial Statements.

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FISCAL 2003 COMPARED TO FISCAL 2002

CONSOLIDATED OPERATIONS OF SIEMENS WORLDWIDE

Results of Siemens Worldwide

Below is a discussion of selected information for Siemens worldwide. Additional details relating to the Consolidated Statements of Income for the three components of Siemens worldwide: Operations, Financing and Real Estate and Eliminations, reclassifications and Corporate Treasury are discussed under Component Information Statements of Income.

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The following table presents selected information for Siemens worldwide:

	Year ended September 30,	
	2003	2002
	(in millions)	
New orders	75,056	86,214
New orders in Germany	16,796	17,812
International orders	58,260	68,402
Sales	74,233	84,016
Sales in Germany	17,100	18,102
International sales	57,133	65,914
Gross profit on sales	20,883	23,206
as percentage of sales	*28.1%*	*27.6%*
Research and development expenses	(5,067)	(5,819)
as percentage of sales	*(6.8)%*	*(6.9)%*
Marketing, selling and general administrative expenses	(13,534)	(15,455)
as percentage of sales	*(18.2)%*	*(18.4)%*
Other operating income, net	642	1,321
Income (loss) from investments in other companies, net	142	(114)
Income from financial assets and marketable securities, net	61	18
Interest income (expense) of Operations, net	31	94
Other interest income, net	214	224
Income before income taxes	3,372	3,475
Income taxes	(867)	(849)
as percentage of income before income taxes	*26%*	*24%*
Minority interest	(96)	(29)
Income before cumulative effect of change in accounting principle	2,409	2,597
Cumulative effect of change in accounting principle, net of income taxes	36	
Net income	2,445	2,597
Net cash provided from operating activities	5,712	5,564
Net cash used in investing activities	(3,939)	(810)
Net cash from operating and investing activities	1,773	4,754

Orders in fiscal 2003 were 75.056 billion compared to 86.214 billion a year earlier, and sales in fiscal 2003 were 74.233 billion compared to 84.016 billion. Excluding currency translation effects and the net effect of acquisitions and dispositions, orders and sales were 5% and 4% lower, respectively, than a year earlier. Orders in Germany in fiscal 2003 were 16.796 billion compared to 17.812 billion the same period a year earlier. Sales in Germany were 17.100 billion compared to 18.102 billion a year earlier. International orders were 58.260 billion compared to 68.402 billion a year earlier. Excluding currency translation and the net effects of acquisitions and dispositions, the decline in international orders was 6%. International sales were 57.133 billion compared to 65.914 billion a year earlier. Excluding currency translation and the net effects of acquisitions and dispositions, the decline in international sales was 4%.

Orders in the U.S. in fiscal 2003 were 14.702 billion compared to 21.205 billion a year earlier. Sales in the U.S. were 15.357 billion compared to 20.288 billion in the prior year. The change in sales was driven by expected volume declines at PG following the end of the gas turbine energy boom and by a negative 14% currency translation effect. Orders in Asia-Pacific in fiscal 2003 were 9.152 billion compared to 10.092 billion and sales were 8.728 billion compared to 9.668 billion a year earlier, in part due to currency translation and the net effect of acquisitions and dispositions. Sales in China in fiscal 2003 were 2.838 billion compared to 3.223 billion a year earlier, due in large part to the effect of currency translation and dispositions.

Gross profit as a percentage of sales in fiscal 2003 increased to 28.1% from 27.6% in the prior year. Most of the Groups increased their gross margins, particularly SV, ICN, PTD, and Med. ICN s improvement reflects the results of its PACT cost-cutting program, and PTD and SV made significant improvements in reducing materials costs and other productivity measures. Osram, A&D and TS maintained their gross margins levels. Partly offsetting these results were gross margin declines at SD and SBS, as these Groups took charges relating to long-term contracts during fiscal 2003. ICM s gross margin decreased less sharply, in part due to lower average earnings per mobile phone sold.

Research and development (R&D) expenses were 5.067 billion compared to 5.819 billion in the prior year. R&D spending represented 6.8% of sales, compared to 6.9% in fiscal year 2002. For additional information with respect to R&D at our Groups, see Item 4: Information on the Company Description of Business.

Marketing, selling and general administrative expenses were 13.534 billion in fiscal 2003 compared to 15.455 billion in fiscal 2002 and declined as a percentage of sales from 18.4% to 18.2%. Cost cutting and productivity programs at ICN, ICM, I&S, SV and Osram contributed to this result, as did lower provisions for accounts and loans receivable, partially resulting from revised estimates, in particular at ICM.

Other operating income (expense), net was 642 million compared to 1.321 billion in fiscal 2002. The current year includes 359 million of net gains related to cancellation of orders at PG, which are partly offset by inventory allowances recorded in cost of sales. Also included in fiscal 2003 was a 63 million gain from Med s contribution of assets to a joint venture with Dräger. The prior year included a 936 million tax-free gain resulting from Infineon share sales, a 421 million gain on the sale of Unisphere Networks by ICN, a 60 million gain at ICN, a 56 million gain on the sale of Hydraulik-Ring by SV, a 21 million gain from the KKR transaction, and significantly lower contract customer cancellation gains at PG. Partially offsetting these gains in fiscal 2002 was a 378 million impairment at ICN.

The effective tax rate on income for the fiscal year 2003 was approximately 26% and was positively impacted by tax benefits resulting from the dispositions of business interests. The effective tax rate on income for the fiscal year 2002 was approximately 24%, which was positively impacted by the tax-free sales of Infineon shares and negatively affected by non-deductible goodwill impairment.

In fiscal 2003 net income was 2.445 billion and earnings per share were 2.75. Fiscal 2002 included a tax-free gain of 936 million on sales of shares in Infineon Technologies AG, which boosted net income in that period to 2.597 billion and earnings per share to 2.92. Excluding the Infineon gain, net income rose 47% year-over-year from 1.661 billion.

Group profit from Operations increased to 4.295 billion in fiscal 2003 from 3.756 billion in fiscal 2002. The majority of Siemens Groups reported higher earnings and margins year-over-year.

Net cash from operating and investing activities was 1.773 billion, including 5.712 billion in net cash from operating activities. Net cash provided by operating activities included cash outflows of 1.192 billion in supplemental cash contributions to Siemens pension trusts. Net cash used in investing activities of 3.939 billion included increases in investments and marketable securities of 957 million, and 929 million for a strategic acquisition at Power Generation.

Siemens Managing and Supervisory Boards propose a dividend of 1.10 per share. The prior year dividend per share was 1.00.

On October 1, 2002, Siemens adopted Statement of Accounting Financial Standards (SFAS) 143, *Accounting for Asset Retirement Obligations*, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. As a result of the adoption of SFAS 143, income of 59 million (36 million net of income taxes, or 0.04 per share) was recorded as a cumulative effect of a change in accounting principle.

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ACQUISITIONS AND DISPOSITIONS

Alstom

In July 2003, Siemens completed the acquisition of the industrial turbine business of Alstom, which was structured in two transactions. In the first transaction in April 2003, effective April 30, PG acquired the small gas turbine business of Alstom. In the second transaction in July 2003, PG acquired Alstom s medium-sized gas and steam turbine businesses. The two transactions resulted in an aggregate net purchase price of 929 million, net of cash acquired. The Company has not finalized the purchase price allocation for these acquisitions. Based on the preliminary purchase price allocation, approximately 195 million was allocated to intellectual property rights, 129 million to customer relationships, and 393 million to goodwill.

Dräger Medical

In June 2003, Med contributed its Patient Care System and Electro Cardiography System businesses into a joint venture with Drägerwerk AG in exchange for a 35 percent interest in a joint venture Dräger Medical AG & Co. KGaA (Dräger Medical). In connection with the contribution, Siemens realized a pretax gain of 63 million. The contribution agreement also obligates Siemens to contribute to Dräger Medical the net proceeds from the sale of its Life Support Systems business. By consenting to this sale, Siemens and Drägerwerk AG received approval for the joint venture by antitrust authorities. In August 2003, Siemens signed a contract toward the sale of its Life Support Systems business to Getinge AB, Sweden. This sale closed in October 2003. Med s interest in Dräger Medical is accounted for using the equity method.

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SEGMENT INFORMATION ANALYSIS

Key Performance Data by Business Group

	New orders[1] (Unaudited)		Total sales[2]		Group profit[3]		Net capital employed	
	2003	2002	2003	2002	2003	2002	2003	2002
	(in millions)							
Operations Groups								
Information and Communication Networks (ICN)	7,070	8,697	7,122	9,647	(366)	(691)	722	1,100
Information and Communication Mobile (ICM)	9,960	11,538	9,964	11,045	180	96	1,367	1,973
Siemens Business Services (SBS)	5,226	6,256	5,205	5,773	13	101	294	264
Automation and Drives (A&D)	8,476	8,728	8,375	8,635	806	723	1,925	2,197
Industrial Solutions and Services (I&S)	3,955	4,120	4,012	4,480	(41)	(198)	167	315
Siemens Dematic (SD)	2,599	2,810	2,600	2,995	(218)	45	877	975
Siemens Building Technologies (SBT)	4,775	5,601	4,990	5,619	101	195	1,447	1,778
Power Generation (PG)	7,302	10,586	6,967	9,446	1,171	1,582	1,712	(144)
Power Transmission and Distribution (PTD)	3,586	4,429	3,399	4,199	207	109	798	928
Transportation Systems (TS)	4,674	5,247	4,697	4,367	284	247	(252)	(741)
Siemens VDO Automotive (SV)	8,375	8,515	8,375	8,515	418	65	3,949	3,746
Medical Solutions (Med)	7,835	8,425	7,422	7,623	1,118	1,018	3,128	3,414
Osram	4,172	4,363	4,172	4,363	410	365	2,074	2,436
Other Operations	1,840	1,895	1,857	2,023	212	99	1,515	535
Total Operations Groups	79,845	91,210	79,157	88,730	4,295	3,756	19,723	18,776
Reconciliation to financial statements								
Corporate items, pensions and eliminations	(6,916)	(7,688)	(5,413)	(5,603)	(1,576)	(1,282)	(3,781)	(3,021)
Other interest expense					(88)	(96)		
Gains on sales and dispositions of significant business interests						936		
Other assets related reconciling items							48,533	51,944
Total Operations (for columns Group profit/Net capital employed, i.e. Income before income taxes/ Total assets)	72,929	83,522	73,744	83,127	2,631	3,314	64,475	67,699

	New orders[1] (Unaudited)		Total sales[2]		Income before Income taxes		Total assets	
	2003	2002	2003	2002	2003	2002	2003	2002
	(in millions)							
Financial and Real Estate Groups								
Siemens Financial Services (SFS)	532	582	532	582	269	216	8,445	8,681
Siemens Real Estate (SRE)	1,592	1,612	1,592	1,612	206	229	3,607	4,090
Eliminations			(12)	(8)			(465)	(561)
Total Financing and Real Estate	2,124	2,194	2,112	2,186	475	445	11,587	12,210

(1)

New orders are determined principally as the estimated sales value of accepted purchase orders and order value changes and adjustments, excluding letters of intent.

(2) Includes intersegment sales.

(3) Group profit is measured as earnings before financing interest, income taxes and certain pension costs. Group profit differs from our Income before income taxes and you should not consider it to be the same. Other companies that use Group profit may calculate it differently, and their figures may not be comparable to ours.

Operations

Information and Communications

Information and Communication Networks (ICN)

	Change	Year ended September 30, 2003	2002
		(in millions)	
Group profit	47%	(366)	(691)
Group profit margin		(5.1)%	(7.2)%
Total sales	(26)%	7,122	9,647
New orders	(19)%	7,070	8,697
Net cash from operating and investing activities		106	711

	September 30, 2003	2002
Net capital employed	722	1,100
Employees (in thousands)	33	39

ICN improved its Group profit despite ongoing market challenges, narrowing its loss quarter-by-quarter throughout the year and posting a profit in the fourth quarter. The market for telecommunications and networking equipment remains challenging, as customers held capital expenditures down while absorbing and integrating past investments. However, for the year as a whole, ICN cut its loss to 366 million from 691 million a year earlier, a period which benefited from 634 million in gains primarily related to the sale of businesses, including Unisphere Networks, partially offset by an asset impairment of 378 million at Efficient Networks and charges for asset write-downs of 225 million. As ICN made significant progress in its Profitability and Cash Turnaround (PACT) program, severance charges in fiscal 2003 were 119 million compared to 352 million in the prior fiscal year. Fiscal 2003 sales of 7.122 billion were 26% lower than in fiscal 2002, and orders of 7.070 billion were 19% lower than a year earlier. While market forces accounted for much of these decreases, five percentage points of the declines in sales and orders were due to effects from currency translation.

At the division level, the Carrier Networks and Services business recorded a loss of 439 million in fiscal 2003, substantially lower than in the prior year. Sales were lower at 3.455 billion in fiscal 2003, substantially lower than in the prior year. Enterprise Networks reported progressively higher profits in all four quarters, and more than doubled its profit year-over-year, with earnings totaling 220 million on sales of 3.684 billion. The division benefited primarily from a streamlined cost structure, and also from higher market demand for lease sales.

Net capital employed as of September 30, 2003 decreased to 722 million from 1.100 billion at the end of the prior fiscal year, due to lower expenditures for property, plant and equipment and improved asset management. Cash flow from operating and investing activities in fiscal 2003 was again positive, totaling 106 million. Net cash in fiscal 2002 benefited from proceeds from the sales of businesses. Payments for severance and capacity adjustments of 218 million in fiscal 2003 were significantly lower than in the prior year. Lower Net capital employed, combined with a substantially better Group profit performance compared to fiscal 2002, significantly improved ICN s negative EVA.

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Information and Communication Mobile (ICM)

	Change	Year ended September 30, 2003	2002
		(in millions)	
Group profit	88%	180	96
Group profit margin		1.8%	0.9%
Total sales	(10)%	9,964	11,045
New orders	(14)%	9,960	11,538
Net cash from operating and investing activities		692	594

	September 30, 2003	2002
Net capital employed	1,367	1,973
Employees (in thousands)	27	29

Group profit at ICM rose to 180 million from 96 million in fiscal 2002. Sales of 9.964 billion for fiscal 2003 compared to 11.045 billion in fiscal 2002, and orders were 9.960 billion compared to 11.538 billion a year earlier, reflecting particularly the continuing decline in the wireless infrastructure market. Both years included charges for severance, totaling 86 million in fiscal 2003 and 105 million in fiscal 2002, primarily related to Mobile Networks. Continuing its Group wide productivity programs, which were initiated in fiscal 2001, ICM announced in July plans for further cost reductions, including an additional targeted headcount reduction of 2,300 positions through fiscal 2004. The Group began implementing the new reductions and taking associated charges in the fourth quarter, which will continue into fiscal 2004.

Handset sales at ICM s Mobile Phones Division surged to 39.1 million units from 33.3 million units a year earlier, on strong demand for new products, and sales rose 5% to 4.474 billion for the year. Increased competition continued to drive down average selling price per unit. In addition, a separately branded mobile handset line introduced in fiscal 2003 incurred operating losses and charges to inventory. As a result, Mobile Phones contributed 27 million to Group profit for the year, down from 82 million a year earlier. The Cordless Products business again made a significant contribution to ICM s Group profit for the year. Mobile Networks continued to streamline operations in line with market conditions, which were reflected in the division s sales of 4.311 billion, 20% lower than a year earlier. Charges for severance of 72 million were more than offset by positive resolutions of customer financing risks, and the division contributed 116 million to Group profit compared to 5 million a year earlier.

Net capital employed at September 30, 2003 was 1.367 billion, compared to 1.973 billion at the end of the prior fiscal year. Continuing asset management improvements resulted in net cash from operating and investing activities of 692 million, and included payments for severance of 58 million in fiscal 2003. Cash flow will be impacted in future periods due to payments related to anticipated headcount reduction activities. EVA improved substantially year-over-year, but remained negative.

Siemens Business Services (SBS)

	Change	Year ended September 30, 2003	2002
		(in millions)	
Group profit	(87)%	13	101
Group profit margin		0.2%	1.7%
Total sales	(10)%	5,205	5,773
New orders	(16)%	5,226	6,256

Net cash from operating and investing activities	(62)	173

	September 30,	
	2003	2002
Net capital employed	294	264
Employees (in thousands)	35	34

SBS posted a Group profit of 13 million for the fiscal year compared to 101 million in fiscal 2002. The decline predominately reflects 77 million in charges for risks associated with a long-term business process outsourcing contract in the U.K. Sales of 5.205 billion and orders of 5.226 billion were lower than in the previous year, driven in part by weakness in the IT consulting market and intense pricing pressure in the IT maintenance and outsourcing markets.

Net capital employed at September 30, 2003 was 294 million compared to 264 million at the end of the prior fiscal year. Net cash from operating and investing activities was a negative 62 million compared to a positive 173 million a year earlier, due largely to a decrease in accounts payable. This development, combined with lower Group profit, turned EVA negative for SBS.

Automation and Control

Automation and Drives (A&D)

		Year ended September 30,	
	Change	2003	2002
		(in millions)	
Group profit	11%	806	723
Group profit margin		9.6%	8.4%
Total sales	(3)%	8,375	8,635
New orders	(3)%	8,476	8,728
Net cash from operating and investing activities		1,060	1,019

	September 30,	
	2003	2002
Net capital employed	1,925	2,197
Employees (in thousands)	50	51

A&D was again a standout among Siemens Groups, increasing Group profit 11% year-over-year to 806 million, further improving its Group profit margin to 9.6%, and strengthening its market position. Both periods included charges for severance programs, particularly in the U.S., totaling 50 million in fiscal 2003 and 26 million in fiscal 2002. Sales of 8.375 billion and orders of 8.476 billion for the year were both 3% lower than A&D reported in fiscal 2002. Excluding currency exchange effects, sales and orders both rose 2% year-over-year, as A&D continued to balance its business base with growth in the Asia-Pacific region while gaining market share in Europe.

Net capital employed at September 30, 2003 decreased to 1.925 billion, down from 2.197 billion at the end of the prior fiscal year. Net cash from operating and investing activities increased to 1.060 billion. Together with increased Group profit, these developments combined to produce a substantial increase in EVA.

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Industrial Solutions and Services (I&S)

	Change	Year ended September 30, 2003	2002
		(in millions)	
Group profit	79%	(41)	(198)
Group profit margin		(1.0)%	(4.4)%
Total sales	(10)%	4,012	4,480
New orders	(4)%	3,955	4,120
Net cash from operating and investing activities		54	(107)

	September 30, 2003	2002
Net capital employed	167	315
Employees (in thousands)	26	29

I&S significantly improved its bottom line, posting a Group profit of negative 41 million compared to a negative 198 million a year earlier, in part due to lower charges for severance of 24 million in fiscal 2003 compared to 118 million in fiscal 2002. A continuing contraction in the market for industrial solutions led to orders of 3.955 billion compared to 4.120 billion a year earlier, and sales of 4.012 billion compared to 4.480 billion in the prior year. Five percentage points of the decrease in orders resulted from the effects of currency translation and acquisitions and dispositions.

Net capital employed at September 30, 2003 decreased to 167 million from 315 million at the end of the prior fiscal year, due to reductions in accounts receivable and inventories. Net cash from operating and investing activities improved significantly, turning positive at 54 million compared to a negative 107 million a year earlier, despite cash outlays of 77 million for severance, up from 35 million a year earlier. While EVA at I&S remained negative, these developments combined with better earnings performance improved EVA significantly year-over-year.

Siemens Dematic (SD)

	Change	Year ended September 30, 2003	2002
		(in millions)	
Group profit		(218)	45
Group profit margin		(8.4)%	1.5%
Total sales	(13)%	2,600	2,995
New orders	(8)%	2,599	2,810
Net cash from operating and investing activities		(170)	(70)

	September 30, 2003	2002
Net capital employed	877	975
Employees (in thousands)	10	12

SD posted a Group loss of 218 million for the year, compared to Group profit of 45 million in fiscal 2002. A substantial increase in loss provisions and charges, in an aggregate of 209 million related to two large contracts in Europe was the key factor in this result, together with other charges. The majority of the loss provisions occurred at the Material Handling Automation division. The charges are related primarily to a contract for the design and installation of a complete logistical infrastructure for a postal sorting center in the U.K. The Postal Automation Division increased its profit and earnings margin and won large orders from the U.S. Postal

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Service, while the Electronics Assembly Systems Division narrowed its loss year-over-year and restored sales growth in its large pick-and-place equipment business on a breakeven basis.

For SD as a whole, sales were 2.600 billion compared to 2.995 billion in fiscal 2002, and orders were 2.599 billion compared to 2.810 billion a year earlier. Excluding the effects of currency translation and portfolio activities, sales were down 4% and orders rose 2% for the year.

Net capital employed at September 30, 2003 was 877 million, down from 975 million at the end of the prior fiscal year. Net cash from operating and investing activities was a negative 170 million compared to a negative 70 million a year earlier, reflecting in part reduced earnings. Cash flow will be negatively affected in future periods due to the contract losses noted above. The Group s EVA decreased and remained negative.

Siemens Building Technologies (SBT)

		Year ended September 30,	
	Change	**2003**	**2002**
		(in millions)	
Group profit	(48)%	101	195
Group profit margin		2.0%	3.5%
Total sales	(11)%	4,990	5,619
New orders	(15)%	4,775	5,601
Net cash from operating and investing activities		375	295

	September 30,	
	2003	**2002**
Net capital employed	1,447	1,778
Employees (in thousands)	33	36

Group profit at SBT was 101 million for the fiscal year, which included 80 million in severance charges taken to realign the Group s workforce with market conditions. Group profit a year earlier was 195 million. Sales were 4.990 billion compared to 5.619 billion in fiscal 2002, and orders were 4.775 billion compared to 5.601 billion a year earlier. Excluding the effects of currency translation, sales were down 5% and orders were down 9% year-over-year.

Net capital employed at September 30, 2003 was 1.447 billion, down from 1.778 billion at the end of the prior fiscal year, as lower inventories and accounts receivable improved Net working capital. Net cash from operating and investing activities improved year-over-year to 375 million from 295 million a year earlier, primarily due to lower investments in property, plant and equipment and the working capital improvements noted above. Payments for severance in fiscal 2003 were 72 million. Due to lower earnings for the year, the Group s EVA decreased and remained negative.

Power

Power Generation (PG)

		Year ended September 30,	
	Change	**2003**	**2002**

		(in millions)	
Group profit	(26)%	1,171	1,582
Group profit margin		16.8%	16.7%
Total sales	(26)%	6,967	9,446
New orders	(31)%	7,302	10,586
Net cash from operating and investing activities		(448)	662

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	September 30,	
	2003	2002
Net capital employed	1,712	(144)
Employees (in thousands)	30	26

PG led all Siemens Groups with 1.171 billion in Group profit and a Group profit margin of 16.8%. In fiscal 2003, PG increased the percentage of its revenues and profits coming from services, acquired the industrial turbine businesses of Alstom to complement its existing large turbine business, and further diversified its business base with significant orders in Asia, Europe and the Middle East. The negative demand trend in the U.S. market continues to affect comparison of PG s sales and orders with prior periods, resulting in 26% lower sales for PG overall, or 6.967 billion in fiscal 2003 compared to 9.446 billion in fiscal 2002, and orders of 7.302 billion, down from 10.586 billion. Currency translation effects accounted for seven and four percentage points of the decline in sales and orders, respectively.

The reduction in sales was the primary reason for PG s lower Group profit year-over-year. However, PG maintained its Group profit margin at the same level as a year earlier, including net gains of 359 million related to cancellation of orders, partly offset by 92 million in allowances on inventories associated with the cancellations. Charges for severance were lower compared to the prior year.

The acquisition of Alstom s industrial turbine business added 1.2 billion to the Group s order backlog, which totaled 14.3 billion at the end of fiscal 2003. These additions were offset in large part due to the negative currency effects during the year. For comparison, PG s backlog at the end of the prior year was 14.7 billion. Both totals exclude reservations.

Net capital employed at September 30, 2003 increased to 1.712 billion, compared to a negative 144 million at the end of the prior fiscal year, as PG acquired the industrial turbine business of Alstom and used advance payments for project inventories. This is also reflected in net cash from operating and investing activities, which was a negative 448 million compared to a positive 662 million a year earlier. These developments and lower Group profit resulted in a decrease in PG s EVA, which nevertheless remained strong and led all Groups.

Power Transmission and Distribution (PTD)

		Year ended September 30,	
	Change	2003	2002
		(in millions)	
Group profit	90%	207	109
Group profit margin		6.1%	2.6%
Total sales	(19)%	3,399	4,199
New orders	(19)%	3,586	4,429
Net cash from operating and investing activities		387	149

	September 30,	
	2003	2002
Net capital employed	798	928
Employees (in thousands)	16	17

PTD delivered 207 million in Group profit generated particularly at its High Voltage and Medium Voltage divisions. Group profit of 109 million in the prior year included a 54 million loss on the sale of PTD s Metering division. Fiscal 2002 also included charges of 34 million primarily for a severance program. Sales of 3.399 billion and orders of 3.586 billion both decreased 19%, impacted by the divestment of Metering and currency translation effects. Excluding the effects of currency translation and portfolio activities, both sales and orders were 2% and 3% lower, respectively, compared to the prior fiscal year.

Net capital employed decreased to 798 million from 928 million due to improvements in Net working capital driven by higher customer prepayments. Net working capital improvements also positively impacted net

cash from operating and investing activities, which increased by 238 million to 387 million. These factors contributed to PTD s EVA turning positive in fiscal 2003.

Transportation

Transportation Systems (TS)

		Year ended September 30,	
	Change	**2003**	**2002**
		(in millions)	
Group profit	15%	284	247
Group profit margin		6.0%	5.7%
Total sales	8%	4,697	4,367
New orders	(11)%	4,674	5,247
Net cash from operating and investing activities		(217)	95

	September 30,	
	2003	**2002**
Net capital employed	(252)	(741)
Employees (in thousands)	18	17

TS increased its Group profit 15%, to 284 million, despite having to take higher warranty provisions, particularly in the fourth quarter. The Group-wide productivity program also continued to yield results. Sales for the year rose to 4.697 billion, as TS converted large orders from prior years into current business. Orders for the year of 4.674 billion included large new rolling stock contracts in China, England, Norway, and Switzerland as well as major new maintenance contracts in the U.K. The Group s order backlog remained at 11.2 billion, the same level as at the end of fiscal 2002.

Net capital employed increased from a negative 741 million to a negative 252 million as TS used advance payments for project inventories. Higher inventories were also reflected in net cash from operating and investing activities, which decreased from 95 million a year ago to negative 217 million in fiscal 2003. The rate at which TS receives advance payments for customer projects will have an impact on its cash flow in the future. Despite higher earnings, the effects of increased Net capital employed led to a decrease in EVA.

Siemens VDO Automotive (SV)

		Year ended September 30,	
	Change	**2003**	**2002**
		(in millions)	
Group profit		418	65
Group profit margin		5.0%	0.8%
Total sales	(2)%	8,375	8,515
New orders	(2)%	8,375	8,515
Net cash from operating and investing activities		184	224

	September 30,	

	2003	2002
Net capital employed	3,949	3,746
Employees (in thousands)	44	43

SV increased Group profit to 418 million for the year compared to 65 million a year earlier, which included a 56 million gain from the sale of the Hydraulik-Ring business, partly offset by write-downs of certain intangible assets. The Group s innovative diesel injection and onboard infotainment systems were major factors in the earnings improvement. SV s profitability improvement program also contributed to earnings growth, as the

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Group cut material costs, streamlined its R&D and production processes, and tightened administrative and IT spending. As a result, SV increased its Group profit margin from 0.8% in fiscal 2002 to 5.0% in fiscal 2003, though it still fell short of earning its cost of capital. Earnings improved primarily at the Group s Powertrain, Chassis & Carbody, and Interior & Infotainment divisions after multi-year investments in innovative technologies.

Sales and orders of 8.375 billion were down 2% year-over-year, partly due to SV s third-quarter transfer of its automotive cockpit module business, with annual revenues of approximately 800 million, to an existing joint venture with Faurecia S.A. Excluding this transaction and currency translation effects, both sales and orders at SV rose 8% for the year.

Net capital employed in fiscal 2003 increased from 3.746 billion to 3.949 billion. Net cash from operating and investing activities was lower than in fiscal 2002, which included proceeds from the sale of Hydraulik-Ring. EVA improved significantly on higher Group profit, but remained negative.

Medical

Medical Solutions (Med)

		Year ended September 30,	
	Change	**2003**	**2002**
		(in millions)	
Group profit	10%	1,118	1,018
Group profit margin		15.1%	13.4%
Total sales	(3)%	7,422	7,623
New orders	(7)%	7,835	8,425
Net cash from operating and investing activities		845	1,124

	September 30,	
	2003	**2002**
Net capital employed	3,128	3,414
Employees (in thousands)	31	31

Med increased its Group profit 10%, to 1.118 billion, and its Group profit margin climbed above 15% for the fiscal year. Innovative new products, particularly for diagnostic imaging applications, again led the way. Group profit benefited also from a 63 million gain related to the contribution of a portion of Med s electromedical systems business to a new joint venture, Dräger Medical, in return for a 35% equity stake. The divestment of the remaining portion of the electromedical systems business, announced in the fourth quarter, did not close until after the close of the fiscal year. Med s sales for the year were 7.422 billion compared to 7.623 billion in fiscal 2002, and orders were 7.835 billion compared to 8.425 billion a year earlier. Excluding currency translation effects, sales rose 7% and orders increased 3% year-over-year, in part due to continued growth in the highly competitive U.S. market.

Net capital employed decreased to 3.128 billion from 3.414 billion primarily due to currency translation effects relating to Med s large U.S. business. Net cash from operating and investing activities was 845 million in fiscal 2003 compared to 1.124 billion a year earlier, in part due to higher accounts receivable in the current year. The combination of higher Group profit and lower Net capital employed increased Med s positive EVA.

Lighting

Osram

		Year ended September 30,	
	Change	**2003**	**2002**
		(in millions)	
Group profit	12%	410	365
Group profit margin		9.8%	8.4%
Total sales	(4)%	4,172	4,363
New orders	(4)%	4,172	4,363
Net cash from operating and investing activities		528	284

	September 30,	
	2003	**2002**
Net capital employed	2,074	2,436
Employees (in thousands)	36	35

Osram generated 410 million in Group profit, a 12% increase over 365 million in the prior year, and improved its Group profit margin still further, to 9.8%. The Opto Semiconductors Division improved sales and earnings year over year and stringent cost containment Group-wide helped offset intense pricing pressure. Sales and orders for the year were 4.172 billion compared to 4.363 billion a year earlier, as the General Lighting Division strengthened its market position in the U.S. and the Group expanded its business in the Asia-Pacific region and eastern Europe. Excluding strong currency translation effects, sales and orders increased 6% year-over-year.

Net capital employed in fiscal 2003 decreased to 2.074 billion compared to 2.436 billion due to an improvement in Net working capital, particularly accounts receivable and due to negative currency translation effects. Net cash from operating and investing activities increased from 284 million to 528 million, primarily due to higher Group profit, reduced accounts receivable and lower capital spending. Higher Group profit on lower Net capital employed significantly improved Osram s positive EVA.

Other Operations and Reconciliation to Financial Statements

Other Operations and Reconciliation to financial statements include various categories of items which are not allocated to the Groups, because the Managing Board has determined that such items are not indicative of Group performance. These include results from centrally managed projects. Reconciliation to financial statements includes various items excluded by definition from Group profit.

Other Operations

Other Operations includes certain centrally held equity investments such as BSH Bosch und Siemens Hausgeräte GmbH (for household appliances) and Fujitsu Siemens Computers and other operating activities not associated with a Group. In fiscal 2003, higher contributions from joint ventures increased Group profit from Other Operations to 212 million from 99 million in the prior year.

Reconciliation to Financial Statements

Reconciliation to financial statements consists of *Corporate items, pensions and eliminations*, *Other interest expense*, as well as *Gains on sales and dispositions of significant business interests*.

Corporate items, pensions and eliminations: Corporate items includes corporate charges such as personnel costs for corporate headquarters, the results of corporate-related derivative activities as well as corporate projects and non-operating investments including the Company s share of

earnings (losses) from the equity investment in Infineon. *Pensions* include the Company s pension related income (expenses) not allocated to the Groups and consists of all pension related costs, other than amounts related to the service cost of foreign pension plans.

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Eliminations represent the consolidation of transactions within the *Operations* component. *Corporate items, pensions and eliminations* was a negative 1.576 billion in fiscal 2003, compared to a negative 1.282 billion in the same period a year earlier. *Corporate items* was a negative 747 million, down from a negative 947 million in the prior year, the difference due primarily to a lower loss in fiscal 2003 related to Siemens equity interest in Infineon and the positive resolution of an arbitration proceeding as well as reduced corporate costs in fiscal 2003. Siemens equity share of Infineon s loss was 170 million in fiscal 2003, compared to 338 million a year earlier. *Pensions* was 828 million in fiscal 2003 compared to 250 million a year earlier, with the change due to lower return assumptions on lower net asset values in our pension trusts, and increased amortization expense related to the underfunding of our pension trusts.

Other interest expense for fiscal 2003 was 88 million, compared to 96 million in fiscal 2002, reflecting lower interest rates in the current year.

Gains on sales and dispositions of significant business interests in fiscal 2002 include tax-free gains of 936 million resulting from the sale of 23.1 million Infineon shares during the first quarter and an additional 40 million shares in the second quarter. Both transactions took place on the open market.

Financing and Real Estate

Siemens Financial Services (SFS)

		Year ended September 30,	
	Change	**2003**	**2002**
		(in millions)	
Income before income taxes	25%	269	216
Total sales		532	582
Net cash from operating and investing activities		(312)	282

	September 30,	
	2003	**2002**
Total assets	8,445	8,681
Employees (in thousands)	1	1

Income before income taxes rose 25% at SFS, to 269 million compared to 216 million a year ago. The Equity division again contributed to higher earnings for the Group, in particular due to equity earnings from an investment in an Indonesian power station. Income before income taxes also benefited from lower provisions and write-offs at the Equipment and Sales Financing division.

Total assets decreased to 8.445 billion, compared to 8.681 billion, primarily due to negative currency translation effects. Net cash from operating and investing activities decreased significantly from a positive 282 million in fiscal 2002 to negative 312 million due to higher receivables. EVA improved due to the increase in earnings.

Siemens Real Estate (SRE)

		Year ended September 30,	
	Change	**2003**	**2002**
		(in millions)	
Income before income taxes	(10)%	206	229

Total sales	(1)%	1,592	1,612
Net cash from operating and investing activities		351	309

	September 30,	
	2003	2002
Total assets	3,607	4,090
Employees (in thousands)	2	2

SRE earned 206 million before income taxes compared to 229 million a year earlier, as lower interest costs were more than offset by the effects of lower occupancy rates. Sales edged down 1% to 1.592 billion compared to 1.612 billion in fiscal 2002. Total assets decreased to 3.607 billion in fiscal 2003 from 4.090 billion in fiscal 2002 due to sales of real estate holdings. Net cash from operating and investing activities increased from 309 million in fiscal 2002 to 351 million in fiscal 2003. EVA decreased, but remained positive.

Eliminations, reclassifications and Corporate Treasury

Income before income taxes from Eliminations, reclassifications and Corporate Treasury was 266 million, up from a loss of 284 million in the prior year, which included the significant negative results of Infineon until it was deconsolidated in December 2001. Furthermore, the improvement in the current year results include positive effects from Corporate Treasury, due primarily to lower short-term interest rates as well as positive effects relating to hedges, not qualifying for hedge accounting, against interest rate developments. Corporate Treasury earnings also included a gain on the buyback of a nominal 1.440 billion of a bond exchangeable into shares of Infineon. For further information, see Eliminations, reclassifications and Corporate Treasury.

COMPONENT INFORMATION STATEMENTS OF INCOME

The following discussion adheres to our component model of reporting. We first provide an analysis of the income statement for our Operations and Financing and Real Estate components, which together include the 15 Siemens Groups that comprise our reportable segments under U.S. GAAP. We then provide an income statement analysis for the Eliminations, reclassifications and Corporate Treasury component.

Operations

The following table presents selected income statement information for the Operations component:

	Year ended September 30,	
	2003	2002
	(in millions)	
Net sales from Operations	73,744	83,127
Gross profit on sales	20,446	22,805
as percentage of sales	*27.7%*	*27.4%*
Research and development expenses	(5,067)	(5,650)
as percentage of sales	*(6.9)%*	*(6.8)%*
Marketing, selling and general administrative expenses	(13,243)	(15,083)
as percentage of sales	*(18.0)%*	*(18.1)%*
Other operating income (expense), net	555	326
Income (loss) from investments in other companies, net	66	(142)
Income (expense) from financial assets and marketable securities, net	(69)	124
Interest income of Operations, net	31	94
Other interest income (expense), net	(88)	(96)
Gains on sales and dispositions of significant business interests		936
Income before income taxes	2,631	3,314

Net sales from Operations were 73.744 billion compared to 83.127 billion a year earlier. The majority of the difference resulted from currency translation effects, primarily reflecting the strength of the euro versus the

U.S. dollar. Together with the net effect of acquisitions and dispositions, these impacts reduced sales by 7%. Excluding these effects, sales rose year over year at A&D, Med, Osram, SV and TS.

Gross profit as a percentage of sales increased to 27.7% from 27.4% in the prior year. Most of the Groups increased their gross margins, led by SV, ICN, PTD, and Med. ICN s improvement reflects the results of its PACT cost-cutting program, and PTD and SV made significant improvements in reducing materials costs and other productivity measures. Osram, A&D and TS maintained their gross margins levels. Partly offsetting these results were gross margin declines at SD and SBS, as these Groups took charges relating to long-term contracts during fiscal 2003. ICM s gross margin decreased less sharply, in part due to lower average earnings per mobile phone sold. See Segment Information Analysis for further comments on the individual Groups.

Research and development expenses (R&D) were 5.067 billion in fiscal 2003, or 6.9% of sales, representing a slight increase compared to the prior fiscal year. Among the Groups, Med increased its R&D spending and ICN and ICM maintained stable R&D expenditures relative to declining sales.

Marketing, selling and general administrative expenses decreased 12% to 13.243 billion compared to the prior year, and declined as a percentage of sales from 18.1% to 18.0%. Cost cutting and productivity programs at ICN, ICM, I&S, SV and Osram contributed to this result, as did lower provisions for accounts and loans receivable, partially resulting from revised estimates, in particular at ICM.

Other operating income (expense), net was a positive 555 million compared to a positive 326 million last year. The current period includes 359 million of net gains related to cancellation of orders at PG, which are partly offset by inventory allowances recorded in cost of sales. Also included in fiscal 2003 was a 63 million gain from Med s contribution of assets to a joint venture with Dräger. The prior year included a 421 million gain on the sale of Unisphere Networks by ICN, a 60 million gain at ICN, a 56 million gain on the sale of Hydraulik-Ring by SV, a 21 million gain from the sale of a portfolio of business activities to KKR, and significantly lower contract cancellation gains at PG. Partly offsetting these gains in fiscal 2002 was a 378 million impairment at ICN.

Income (loss) from investments in other companies, net was a positive 66 million compared to a negative 142 million in the prior year. In fiscal 2003, there were higher contributions from joint ventures compared to fiscal 2002. The prior year included higher losses associated with Siemens equity share of Infineon partly offset by a 133 million gain on the sale of two investments.

Income (expense) from financial assets and marketable securities, net was a negative 69 million compared to a positive 124 million in fiscal 2002. The current year included losses related to financial instrument contracts not qualifying for hedge accounting, whereas the prior year included gains associated with such contracts.

Interest income (expense) of Operations, net was 31 million compared to 94 million a year earlier, primarily due to lower interest rates and lower income in fiscal 2003.

Other interest expense for fiscal 2003 was 88 million, compared to 96 million in fiscal 2002. Lower interest expense in the current period reflects lower interest rates.

There were no gains on sales and dispositions of significant business interests in fiscal 2003. The prior year included tax-free gains of 936 million resulting from the sale of 23.1 million Infineon shares in the first quarter and 40 million shares in the second quarter. Both transactions took place on the open market.

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Financing and Real Estate

The following table presents selected income statement information for the Financing and Real Estate component:

	Year ended September 30,	
	2003	2002
	(in millions)	
Sales	2,112	2,186
Gross profit on sales	435	476
Marketing, selling and general administrative expenses	(291)	(282)
Other operating income (expense), net	164	151
Income (loss) from investments in other companies, net	76	44
Income (expense) from financial assets and marketable securities, net	(5)	(25)
Other interest income (expense), net	96	81
Income before income taxes	475	445

Sales from Financing and Real Estate for the fiscal year 2003 were stable at 2.112 billion compared to 2.186 billion in the prior fiscal year. Marketing, selling and general administrative expenses increased 9 million to 291 million. Other operating income, net was 164 million compared to 151 million last year, primarily reflecting gains on sales of land and buildings. Income from investments in other companies, net increased from 44 million to 76 million in fiscal 2003, driven by strong investment earnings at SFS Equity division, in particular related to an investment in a power generation project in Indonesia. Income (expense) from financial assets and marketable securities, net was a negative 5 million compared to a negative 25 million in the prior year. For fiscal 2003, other interest income (expense), net was 96 million compared to 81 million in fiscal 2002. As a result, income before income taxes for fiscal year 2003 increased to 475 million compared to 445 million in fiscal 2002.

Eliminations, reclassifications and Corporate Treasury

This component of Siemens worldwide includes results of intra-Siemens activity by our Corporate Treasury, which provides corporate finance and treasury management services to our Operations component and to our Financing and Real Estate component. It also includes eliminations of activity conducted between those two components, and reclassification of financial items.

Corporate Treasury in fiscal 2003 includes net gains from financial instrument transactions not qualifying for hedge accounting and a 35 million gain from the buyback of a nominal 1.440 billion of a bond exchangeable into shares of Infineon. Reclassifications in fiscal 2002 include gains of 936 million resulting from the Infineon share sales mentioned above, reclassified from gains on sales and disposition of significant business interests to other operating income for Siemens worldwide.

Since December 2001, Infineon has been accounted for under the equity method. The results of Infineon for the first two months of fiscal 2002, a loss of 115 million, are included in Eliminations, reclassifications and Corporate Treasury.

Economic Value Added

Siemens ties a portion of its executive incentive compensation to achieving economic value added (EVA) targets. EVA measures the profitability of a business (using Group profit for the operations Groups and income before income taxes for the Financing and Real Estate businesses as a base) against the additional cost of capital used to run a business (using Net capital employed for the operations Groups and risk-adjusted equity for the Financing and Real Estate businesses as a base). A positive EVA means that a business has earned more than its cost of capital, and is therefore defined as value-creating. A negative EVA means that a business is earning less

than its cost of capital and is therefore defined as value-destroying. Other companies that use EVA may define and calculate EVA differently.

FISCAL 2002 COMPARED TO FISCAL 2001

CONSOLIDATED OPERATIONS OF SIEMENS WORLDWIDE

Economic Environment and Market Trends

Siemens has a balanced business portfolio with activities predominantly in the field of electronics and electrical engineering. These activities are influenced by a range of different regional and economic factors. 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 this area include power generation, power transmission and distribution, medical solutions and Transportation Systems. In fields with more industry-specific cycles, customers tend to have shorter horizons for their spending decisions and greater sensitivity to current economic conditions. Our activities in this area include information and communications, automation and drives and lighting. Some activities, especially information and communications and medical solutions, are also influenced by technological change and the rate of acceptance of new technologies by end users.

Economic conditions during fiscal 2002 were weak on a global basis, which limited revenue growth opportunities. Within this context, certain industries and regions experienced even greater difficulties. For example, telecommunications carriers are still burdened with substantial debt, resulting in sharp cutbacks in capital spending. Another example is the U.S. power generation market, where a boom in construction of gas turbine power plants came to a rapid end in fiscal 2002.

Despite these adverse trends, our net income for fiscal 2002 rose 24% to 2.597 billion. Earnings from Operations and net cash from operating and investing activities both increased strongly compared to the prior year. A number of businesses which initiated cost cutting measures in fiscal 2001 returned to profitability in fiscal 2002, most notably the ICM wireless communications Group. And at a time when many of our competitors were reporting sharply lower revenues, our sales for fiscal 2002 were nearly unchanged from the prior year on a comparable basis (excluding the effects of currency exchange, acquisitions and dispositions, which are discussed in detail below).

As a company domiciled in the European Union, Siemens uses the euro as its official currency. Because we conduct much of our business outside the EU, however, currency translation effects involving the euro and other currencies can have a noteworthy impact on our reported results. These effects reduced reported sales by 2% for Siemens as a whole in fiscal 2002, and reduced reported new orders also by 2%.

Results of Siemens Worldwide

Below is a discussion of the Consolidated Statements of Income for Siemens worldwide. Additional details relating to the other components of Siemens worldwide: Operations, Financing and Real Estate and Eliminations, reclassifications and Corporate Treasury are discussed under Component Information Statements of Income.

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The following table presents selected information for Siemens worldwide:

	Year ended September 30,	
	2002	2001
	(in millions)	
New orders	86,214	92,528
New orders in Germany	17,812	18,921
International orders	68,402	73,607
Sales	84,016	87,000
Sales in Germany	18,102	19,144
International sales	65,914	67,856
Gross profit on sales	23,206	23,105
as percentage of sales	*27.6%*	*26.6%*
Research and development expenses	(5,819)	(6,782)
as percentage of sales	*(6.9)%*	*(7.8)%*
Marketing, selling and general administrative expenses	(15,455)	(16,640)
as percentage of sales	*(18.4)%*	*(19.1)%*
Other operating income, net	1,321	2,762
Income (loss) from investments in other companies, net	(114)	49
Income (expense) from financial assets and marketable securities, net	18	173
Interest income (expense) of Operations, net	94	(32)
Other interest income, net	224	43
Income before income taxes	3,475	2,678
Income taxes	(849)	(781)
as percentage of income before income taxes	*24%*	*29%*
Minority interest	(29)	191
Net income	2,597	2,088
Net cash provided from operating activities	5,564	7,016
Net cash used in investing activities	(810)	(5,886)
Net cash from operating and investing activities	4,754	1,130

Sales for Siemens worldwide decreased 3% to 84.016 billion and orders decreased 7% to 86.214 billion. Excluding currency effects and the net effect of acquisitions and dispositions, sales remained level and orders decreased 5%. Sales in Germany decreased 5% to 18.102 billion, while international sales decreased 3% to 65.914 billion. Orders in Germany decreased 6% to 17.812 billion, while international orders decreased 7% to 68.402 billion in this year. International business account for approximately 80% of Siemens total volume. Orders in the U.S. for the fiscal year decreased 14% to 21.205 billion and sales decreased 4% to 20.288 billion. The difference between sales and order trends in the U.S. was driven primarily by the end of the gas turbine boom. In Asia-Pacific, orders decreased 8% to 10.092 billion and sales decreased 13% to 9.668 billion. China continued to account for the largest share of sales in the region, contributing 3.223 billion. In Europe outside Germany, orders decreased 5% and sales increased 2%.

Gross profit as a percentage of sales increased by one percentage point to 27.6% from 26.6% in the prior year, a period which included full-year consolidation of Infineon s relatively lower gross profit margin. Higher productivity led to significantly higher gross margins at PG and Med. SV s gross margin increased in part due to the full- year consolidation of the acquired Atecs businesses and an improved cost position. SBS increased its gross margin in comparison to fiscal 2001 which included severance charges and higher loss contract accruals. In contrast, A&D s gross profit margin declined in fiscal 2002 due in part to margin erosion and warranty charges. I&S recorded a lower gross margin in fiscal 2002 due primarily to severance charges. Gross profit in fiscal 2001 also included an effect of the 258 million write-down related to Argentina.

Research and development expense decreased from 6.782 billion to 5.819 billion compared to prior year. R&D spending represented 6.9% of sales, compared to 7.8% last year. Included in R&D expenses for the prior year are IPR&D charges of 126 million related to Operations, as well as R&D expenses of 1.189 billion relating to Infineon. In the Operating Groups, R&D spending increased at SV and Med, and remained stable relative to declining sales at ICN and ICM.

Marketing, selling and general administrative expenses were 15.455 billion in fiscal 2002 compared to 16.640 billion in fiscal 2001. This figure represents 18.4% of sales, compared to 19.1% last year. The majority of the decrease is attributable to the deconsolidation of Infineon, effective December 2001. In the prior year Infineon contributed 786 million to the total. Operations also contributed to the decrease of marketing, selling and general administrative expenses, primarily due to reduced outlays for marketing at ICN, ICM and A&D and lower provisions for accounts and loans receivable.

Other operating income (expense), net was 1.321 billion compared to 2.762 billion in fiscal 2001. The current period includes gains of 936 million resulting from Infineon share sales, a 421 million gain on the sale of Unisphere Networks by ICN, a 60 million one-time gain at ICN, a 56 million gain on the sale of Hydraulik-Ring by SV, a gain from the sale of a portfolio of assets to Kohlberg Kravis Roberts & Co. L.P. (KKR), and contract cancellation penalties received by PG. Offsetting these gains was a 378 million goodwill impairment at ICN s Access Solutions division related to Efficient Networks. The prior year included a 3.459 billion pre-tax gain from the transfer of Infineon shares to the Siemens German Pension Trust, the 606 million gain related to capital increases at Infineon, and 927 million in goodwill impairments related to the acquisitions of Efficient and Milltronics. Also included in other operating expense in fiscal 2001 is 562 million of goodwill amortization. Beginning October 1, 2001, Siemens adopted the provisions of SFAS 142, *Goodwill and Other Intangible Assets*, and no longer amortizes goodwill.

The effective tax rate on income for the fiscal year 2002 was approximately 24%, which was positively impacted by the tax-free sales of Infineon shares. The effective tax rate on income for fiscal 2001 was approximately 29%, which was also positively impacted by the tax-free sale of a part of our interest in Infineon as well as lower income tax rates mandated in fiscal 2001 by the tax reform passed in Germany in October 2000. This resulted in a one-time reduction of 222 million in income tax expense resulting from the adjustment of Siemens deferred tax balances at October 1, 2000. Both periods included negative tax impacts from non-deductible goodwill impairments.

Siemens earned net income for the fiscal year of 2.597 billion, up 24% from 2.088 billion in fiscal 2001. Net income in fiscal 2002 included our 453 million share of Infineon s net loss in fiscal 2002. Earnings per share for the fiscal year were 2.92, also up 24% compared to 2.36 a year earlier.

Net cash from operating and investing activities reached 4.754 billion, up sharply from 1.130 billion in the prior year. Net cash from operating activities totaled 5.564 billion, after a 1.782 billion cash contribution to Siemens pension trusts in Germany, the U.S. and the U.K. Investing activities, including approximately 2.8 billion of net proceeds from portfolio activities, used 810 million in fiscal 2002.

Siemens management proposed a dividend of 1.00 per share. The prior year dividend per share was 1.00.

Beginning October 1, 2001, Siemens adopted the provisions of SFAS 142, Goodwill and Other Intangible Assets. Accordingly, Siemens no longer amortizes goodwill. Net income in fiscal 2001 included goodwill amortization of 562 million, which reduced reported earnings per share by 0.63. For all periods presented, earnings per share reflect a stock split, at a ratio of one additional share for every two shares owned, which took effect on April 30, 2001.

ACQUISITIONS AND DISPOSITIONS

Atecs Mannesmann

During fiscal 2002, Siemens undertook several transactions related to the fiscal 2001 acquisition of Atecs Mannesmann AG (Atecs), a large German automotive and automation technology group.

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On November 20, 2001, the Company sold Mannesmann Sachs AG to ZF Friedrichshafen AG. The disposition resulted in net proceeds of 716 million. This business had been accounted for as an asset held for sale, and no gain or loss was recorded in connection with the disposition.

In January 2002, Siemens exercised its put option contract, in connection with the Atecs transaction, which gave Siemens the right to sell Rexroth AG (Rexroth), a wholly owned subsidiary of Atecs, to Robert Bosch GmbH (Bosch) for an adjusted equity value of 2.7 billion less proceeds from businesses already sold to Bosch. The put option was exercisable from January 2002 through December 31, 2002.

In the second quarter of fiscal 2002, Vodafone AG exercised its option to sell to Siemens its 50% minus two shares stake in Atecs. In connection with this exercise, Siemens made a cash payment of 3.7 billion to Vodafone AG.

Infineon Technologies AG

On December 5, 2001, we transferred 200 million Infineon shares or approximately 28.9% of Infineon s outstanding share capital to an irrevocable, non-voting trust under a trust agreement. Under the terms of the trust agreement, the shares transferred to the trust may not be voted, as we have irrevocably relinquished our voting rights in those shares and the trustee is not permitted to vote the shares it holds in trust. We continue to be entitled to all the benefits of economic ownership of the shares held by the trustee. The transfer on December 5, 2001 reduced our voting interest in Infineon by an amount corresponding to the number of shares transferred. For more information on the Infineon non-voting trust, see Item 10: Additional Information Material Contracts.

During the first quarter of fiscal 2002, the Company sold 23.1 million shares of Infineon for net proceeds of 556 million and a tax-free gain of 332 million. In January 2002, the Company sold 40 million shares of Infineon resulting in net proceeds of 966 million with a resulting tax-free gain of 604 million. At September 30, 2002 our ownership interest was 39.7% and our voting interest was 33.3%, which includes the voting interest of Infineon shares in the Siemens German Pension Trust (Siemens Pension Trust e.V.).

As we no longer have a majority voting interest in Infineon, we have from December 2001 no longer included the assets and liabilities and results of operations of Infineon in our consolidated financial statements and instead account for our ownership interest in Infineon using the equity method. See Notes to the consolidated financial statements.

Other Dispositions

On July 1, 2002, Siemens completed the sale of Unisphere Networks, Inc. to Juniper Networks, Inc. for a combined sales price of 376 million cash and 208 million in Juniper stock. The sale transaction resulted in a pre-tax gain of 421 million. As a result of the transaction, Siemens acquired 9.73% of Juniper Networks common shares. The Juniper shares held by Siemens are subject to certain disposal restrictions which limit the amount of shares which Siemens may sell.

In September 2002, Siemens completed the sale of several business activities to Kohlberg Kravis Roberts & Co. L.P. (KKR). KKR took over units that had belonged to the former Atecs Mannesmann Group: Mannesmann Plastics Machinery, the gas spring producer Stabilus, Demag Cranes & Components and the harbor crane unit Gottwald. As part of the transaction, Siemens also sold the Metering division of its Power Transmission and Distribution Group, the Ceramics division of its Power Generation Group, and Network Systems, a regional service business belonging to its Information and Communication Networks Group. The business activities were sold to a holding company, called Demag Holding s.a.r.l (Luxembourg). KKR holds an 81% and Siemens a 19% stake in the holding company. The gross sales price was 1.69 billion. Taking into account Siemens stake in the holding company as well as a shareholder note of 38 million, a vendor note of 215 million and the net debt of 372 million assumed by KKR, Siemens received net cash proceeds of about 1.0 billion. The transaction resulted in a pre-tax gain of 21 million and was treated as a sale of a portfolio of businesses. However, separate results were allocated to the Operating Groups where the sold businesses had previously resided. As a result, Information and Communication Networks (ICN), and Power Generation (PG) were allocated gains of

153 million and 68 million respectively, while Power Transmission and Distribution (PTD) was allocated a loss of 54 million.

Siemens will account for its 19% interest in Demag Holding at cost. The governing structure of Demag Holding provides for KKR to have absolute control over virtually all operating, financial, and other management decisions, while Siemens participation is only passive in nature.

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SEGMENT INFORMATION ANALYSIS

Key Performance Data by Groups

	New orders[1] (Unaudited)		Total sales[2]		Group profit[3][4]		Net capital employed	
	2002	2001	2002	2001	2002	2001	2002	2001
				(in millions)				
Operations								
Information and Communication Networks (ICN)	8,697	12,639	9,647	12,882	(691)	(861)	1,100	3,039
Information and Communication Mobile (ICM)	11,538	11,866	11,045	11,299	96	(307)	1,973	2,607
Siemens Business Services (SBS)	6,256	6,303	5,773	6,034	101	(259)	264	492
Automation and Drives (A&D)	8,728	9,065	8,635	8,947	723	981	2,197	2,619
Industrial Solutions and Services (I&S)	4,120	4,881	4,480	4,563	(198)	97	315	487
Siemens Dematic (SD)	2,810	2,281	2,995	2,520	45	(59)	975	957
Siemens Building Technologies (SBT)	5,601	5,549	5,619	5,518	195	132	1,778	2,241
Power Generation (PG)	10,586	12,219	9,446	8,563	1,582	634	(144)	(1,020)
Power Transmission and Distribution (PTD)	4,429	3,887	4,199	4,053	109	96	928	994
Transportation Systems (TS)	5,247	5,647	4,367	4,021	247	186	(741)	(932)
Siemens VDO Automotive (SV)	8,515	5,702	8,515	5,702	65	(261)	3,746	3,605
Medical Solutions (Med)	8,425	8,444	7,623	7,219	1,018	808	3,414	3,844
Osram	4,363	4,522	4,363	4,522	365	462	2,436	2,485
Corporate, eliminations	(5,793)	(6,890)	(3,580)	(3,416)	(1,183)	(320)	(2,486)	(2,805)
Total Operations	83,522	86,115	83,127	82,427	2,474	1,329	15,755	18,613
Reconciliation to financial statements							51,944	50,587
Other interest expense					(96)	(304)		
Goodwill amortization and purchased in-process R&D expenses						(665)		
Gains on sales and dispositions of significant business interests					936	4,065		
Other special items						(1,185)		
Operations income before income taxes/ total assets					3,314	3,240	67,699	69,200

					EBIT[3][4]		Net capital employed	
					2002	2001	2002	2001
						(in millions)		
Infineon Technologies (Infineon)		4,390		5,671		(1,024)		6,471
Reconciliation to financial statements						(1)		3,272
Infineon income (loss) before income taxes/ total assets						(1,025)		9,743

	New orders[1] (Unaudited)		Total sales[2]		Income before Income taxes		Total assets	
	2002	2001	2002	2001	2002	2001	2002	2001
							(in millions)	
Financing and Real Estate								
Siemens Financial Services (SFS)	582	481	582	481	216	158	8,681	9,501
Siemens Real Estate Management (SRE)	1,612	1,542	1,612	1,542	229	213	4,090	3,791
Eliminations			(8)	(7)			(561)	(525)
Total Financing and Real Estate	2,194	2,023	2,186	2,016	445	371	12,210	12,767

(1) New orders are determined principally as the estimated sales value of accepted purchase orders and order value changes and adjustments, excluding letters of intent.

(2) Includes intersegment sales.

(3) Group profit is measured as earnings before financing interest, income taxes and certain pension costs. Infineon EBIT is measured as earnings before interest, taxes and minority interest. Group profit and Infineon EBIT differs from our Income before income taxes and you should not consider it to be the same. Other companies that use Group profit or EBIT may calculate it differently, and their figures may not be comparable to ours.

(4) Group profit or EBIT for Infineon should not be considered by investors as an alternative to operating income or other measures of operating performance, or as an alternative to cash flow from operating activities, each as determined in accordance with GAAP.

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Operations

Information and Communications

Information and Communication Networks (ICN)

	Change	Year ended September 30, 2002	2001
		(in millions)	
Group profit	20%	(691)	(861)
Group profit margin		(7.2)%	(6.7)%
Total sales	(25)%	9,647	12,882
New orders	(31)%	8,697	12,639
Net cash from operating and investing activities		711	(2,350)

	September 30, 2002	2001
Net capital employed	1,100	3,039
Employees (in thousands)	39	51

Continuing difficult conditions in the telecommunications equipment market had the harshest effect on ICN, which had Group profit of negative 691 million, compared to a negative 861 million in the prior year. The current year included 577 million in severance charges and asset write-downs. Asset write-downs included write-offs of inventory, receivables and venture capital investments. In addition, the Group recorded a goodwill impairment of 378 million at the Access Solutions division related to Efficient Networks, as the market for Efficient s DSL equipment significantly weakened compared to expectations at the time ICN acquired the business in fiscal 2001. Partially offsetting these charges were 634 million in gains primarily related to the sale of businesses, including Unisphere Networks. This figure includes a gain of 153 million for the sale of ICN s network systems businesses in the United Kingdom, France and Italy, which were part of the portfolio of business activities sold to KKR. The prior year included severance charges of 387 million and write-downs of assets totaling 672 million, partially offset by 120 million in gains on the sale of investments in start-up companies. ICN s Group profit in fiscal 2001 does not include the impairment of goodwill associated with the Efficient acquisition, as described below in Corporate, Eliminations (Operations) and Reconciliation to Financial Statements Reconciliation to Financial Statements.

The steep plunge in capital expenditures by telecommunication network operators, particularly in the U.S. and Germany, had a direct effect on the Carrier Switching Business (consisting of the Wireline Networks, Optical Networks and Access Solutions divisions), which suffered a sharp decline in sales and orders and a corresponding impact on its profitability. The Enterprise Networks division reversed its loss in the prior year to stabilize its business and post a solid profit in fiscal 2002. For ICN as a whole, sales in fiscal 2002 fell 25% compared to the prior year, to 9.647 billion, while orders dropped 31%, to 8.697 billion.

Net capital employed decreased from 3.039 billion to 1.100 billion as a result of ICN s aggressive working capital management initiatives, divestments, asset write-downs and the goodwill impairment at the Access Solutions division related to Efficient. Net cash from operating activities and investing activities increased significantly from negative 2.350 billion in fiscal 2001, which included the acquisition of Efficient Networks, to a positive 711 million, as the efforts just noted more than offset ICN s negative Group profit for the year. Cash flow will be negatively affected in future periods due to payments related to the planned headcount reduction activities described below. EVA in fiscal 2002 was negative, but improved compared to the prior year due to ICN s reduction in Net capital employed.

In fiscal 2001, ICN implemented its Profitability and Cash Turnaround (PACT) program, which is aimed at cutting costs, consolidating the Group s worldwide manufacturing infrastructure and optimizing its business portfolio. In fiscal 2002, the PACT program was expanded to include a total headcount reduction of approximately 20,500 positions, up from a planned 10,000 positions announced in fiscal 2001. The reduction in

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personnel is expected to be achieved through attrition, early retirement, and voluntary and involuntary terminations. Fiscal 2001 severance charges totaling 387 million were incurred related to the termination of employees in locations worldwide, employed in various functions including manufacturing and administration. The payout on this plan was substantially completed in fiscal 2002. In fiscal 2002, additional severance charges of 352 million were incurred worldwide in connection with the PACT program for employees in various functions. The majority of this is expected to be paid out in fiscal 2003. ICN expects additional expenses in fiscal 2003 to complete the headcount reduction program.

Information and Communication Mobile (ICM)

	Change	Year ended September 30, 2002	Year ended September 30, 2001
		(in millions)	
Group profit		96	(307)
Group profit margin		0.9%	(2.7)%
Total sales	(2)%	11,045	11,299
New orders	(3)%	11,538	11,866
Net cash from operating and investing activities		594	14

	September 30, 2002	September 30, 2001
Net capital employed	1,973	2,607
Employees (in thousands)	29	30

ICM was back in the black in fiscal 2002, posting Group profit of 96 million compared to a 307 million loss in the prior year, which included asset write-downs of 441 million. The Mobile Phones division was primarily responsible for this turnaround, contributed 82 million to Group profit compared to a negative 540 million a year earlier, a period which included significant charges for asset write-downs, particularly for excess handset inventories. In fiscal 2002, the division was especially successful in the mid-and low-end segment where it introduced a number of new products. This resulted in an increase in unit sales to 33.3 million compared to 28.7 million handsets a year earlier. The division leveraged this increase in unit volume by significantly improving its cost structure within a cost-cutting program initiated in fiscal 2001. In addition to streamlining marketing and selling activities and improving its purchasing, the division successfully implemented design-to-cost strategies, including increased sharing of a common technology platform across multiple product lines.

The Networks division contributed 5 million to Group profit compared to 435 million in fiscal 2001. During fiscal 2002 the division faced ongoing price erosion and declining demand for wireless infrastructure products and services. In response to these prevailing market conditions, the division is expanding its Top on Air productivity program into fiscal 2003, in order to further reduce its costs. A headcount reduction plan initiated in fiscal 2001 was expanded during the year to a total targeted reduction of approximately 4,000 positions worldwide. The reduction in personnel is expected to be achieved through attrition, early retirement, and voluntary and involuntary terminations across various functions. Group profit in fiscal 2002 included 105 million for severance charges of which nearly half was paid to employees during the year. The remainder is expected to be paid out in fiscal 2003. In fiscal 2002, the division recorded higher provisions on customer financing receivables, including a 51 million write-off in the second half of the year associated with a customer serving Africa and the Middle East. The Cordless Products division made a significant contribution to ICM s earnings for the year. The Group s results for the year also include ICM s share, amounting to 17 million, of the loss at the Fujitsu Siemens Computers joint venture.

For ICM as a whole, sales edged down 2%, to 11.045 billion, and orders declined 3%, to 11.538 billion compared to fiscal 2001. The decline in volume was evident at the Networks division, as a drop in sales of GSM infrastructure equipment was not compensated by an increase in sales of next-generation UMTS equipment.

Net capital employed decreased from 2.607 billion in fiscal 2001 to 1.973 billion mainly due to aggressive working capital management, primarily accounts receivable and inventories. Net cash from operating and investing activities increased significantly to 594 million in fiscal 2002 compared to 14 million last year, due to increased profitability and improved asset management. Cash flow will be negatively affected in future periods due to payments related to the planned headcount reduction activities noted above and due to commitments to extend customer financing in the Networks division. For additional information see Liquidity and Capital Resources Capital Resources and Capital Requirements Off-balance sheet arrangements Customer financing. EVA remained negative, but improved in fiscal 2002 due to positive earnings and lower Net capital employed.

Siemens Business Services (SBS)

		Year ended September 30,	
	Change	**2002**	**2001**
		(in millions)	
Group profit		101	(259)
Group profit margin		1.7%	(4.3)%
Total sales	(4)%	5,773	6,034
New orders	(1)%	6,256	6,303
Net cash from operating and investing activities		173	339

	September 30,	
	2002	**2001**
Net capital employed	264	492
Employees (in thousands)	34	36

Group profit at SBS was 101 million in fiscal 2002 compared to a negative 259 million a year ago. The prior year included 242 million charges for severance and asset write-downs and a 44 million gain on a sale of an investment. The severance charges in fiscal 2001 totaled 196 million as part of a plan to eliminate 2,200 positions. During fiscal 2002, 140 million of this amount was paid to employees and the remainder is expected to be paid out in fiscal 2003. The prior year was also affected by loss provisions relating to two significant business process outsourcing contracts totaling 192 million. Management at SBS continues to focus on risks associated with long-term business process outsourcing contracts, particularly regarding our long-term contract with National Savings & Investments in the U.K. Group profit margin at SBS increased to 1.7% in fiscal 2002 compared to negative 4.3% a year ago. Sales slid 4% below the prior-year level, to 5.773 billion, and orders held steady at 6.256 billion, despite a difficult market for IT services. Net capital employed decreased from 492 million a year ago to 264 million in fiscal 2002 due to working capital management and lower capital expenditures. Net cash from operating and investing activities was 173 million in fiscal 2002, a period which included the severance payments noted above. Net cash from operating and investing activities of 339 million in fiscal 2001 benefited from higher sales of receivables to Siemens Financial Services (SFS). EVA turned positive in fiscal 2002 due to higher earnings and lower Net capital employed.

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Automation and Control

Automation and Drives (A&D)

	Change	Year ended September 30, 2002	2001
		(in millions)	
Group profit	(26)%	723	981
Group profit margin		8.4%	11.0%
Total sales	(3)%	8,635	8,947
New orders	(4)%	8,728	9,065
Net cash from operating and investing activities		1,019	533

	September 30, 2002	2001
Net capital employed	2,197	2,619
Employees (in thousands)	51	54

A&D was one of Siemens top earnings performers for the year, delivering 723 million in Group profit and an 8.4% Group profit margin. Despite declining sales, A&D s largest division, Industrial Automation Systems, was able to maintain a strong Group profit margin. The Large Drives division achieved higher volume and Group profit as it translated large orders into sales and benefited from productivity measures initiated in fiscal 2001. Group profit also included charges of 26 million, including headcount reduction in the U.S. and a 10 million loss on the sale of an investment. In comparison, Group profit a year earlier was 981 million. Group profit in the prior year did not include an impairment of goodwill associated with the acquisition of Milltronics, which is discussed in Corporate, Eliminations (Operations) and Reconciliation to Financial Statements Reconciliation to Financial Statements. Sales for A&D overall slid 3% to 8.635 billion and orders declined 4% to 8.728 billion, due in part to negative currency effects and weak demand in the Americas, particularly in the U.S. Net capital employed decreased from 2.619 billion to 2.197 billion due to improvements in working capital management, particularly regarding inventories and accounts receivable. This development also drove the improvement in net cash from operating and investing activities, which almost doubled from 533 million to 1.019 billion. EVA was positive, but lower than in the prior year.

Industrial Solutions & Services (I&S)

	Change	Year ended September 30, 2002	2001
		(in millions)	
Group profit		(198)	97
Group profit margin		(4.4)%	2.1%
Total sales	(2)%	4,480	4,563
New orders	(16)%	4,120	4,881
Net cash from operating and investing activities		(107)	(39)

	September 30, 2002	2001

Net capital employed	315	487
Employees (in thousands)	29	30

I&S battled weakness in the market for industrial solutions, posting Group profit of negative 198 million for the year compared to a positive 97 million in fiscal 2001. I&S took 152 million in charges for severance programs and capacity adjustments in fiscal 2002 primarily at the Industrial Services division, which turned negative after solid earnings in fiscal 2001. Reduced investments by major customers in the industrial sector

resulted in a sharp decline in volume at the Metals, Mining and Paper Technologies division as well as at the Infrastructure and Marine Solutions division. These declines resulted in negative Group profit, including severance charges for both businesses after positive earnings a year ago. The severance charges in fiscal 2002 totaled 118 million for a plan to eliminate approximately 1,600 positions. During fiscal 2002, 35 million of this amount was paid to employees, with the remainder scheduled for payment in fiscal 2003.

Sales fell 2%, to 4.480 billion, while orders declined 16%, to 4.120 billion in part due to greater selectivity regarding new business. Net capital employed decreased to 315 million due in part to higher liabilities and lower inventories, compared to 487 million in the prior year. Net cash from operating and investing activities decreased from a negative 39 million to a negative 107 million, due to decreased profitability and lower sales of receivables to SFS. I&S cash flow will be negatively affected in future periods due to payments related to the planned headcount reduction activities noted above. EVA turned negative primarily due to lower profitability.

Siemens Dematic (SD)

		Year ended September 30,	
	Change	**2002**	**2001**
		(in millions)	
Group profit		45	(59)
Group profit margin		1.5%	(2.3)%
Total sales	19%	2,995	2,520
New orders	23%	2,810	2,281
Net cash from operating and investing activities		(70)	261

	September 30,	
	2002	**2001**
Net capital employed	975	957
Employees (in thousands)	12	12

SD posted Group profit of 45 million compared to a negative 59 million a year earlier, when the Group recorded significantly higher contract loss provisions and other charges totaling 95 million. In contrast, SD was profitable in all four quarters of fiscal 2002, as the Group successfully integrated the Dematics businesses acquired from Atecs. The Material Handling division increased profitability at its U.S. operations through improved project management. The division also lowered contract loss provisions particularly in Europe as it increased overall productivity. The Postal Automation division returned to profitability. In contrast, Group profit of the Electronics Assembly Systems division turned negative compared to positive earnings a year ago, primarily due to a prolonged and deepening slump in the market for telecommunications equipment, affecting demand for its pick and place equipment. Group profit margin for the Group improved to a positive 1.5%, compared to the negative level in the prior year.

Sales of 2.995 billion and orders of 2.810 billion were 19% and 23% higher than in fiscal 2001, respectively, primarily because the prior period included only five months consolidation of the Dematic businesses. On a comparable basis, sales and orders declined year-over-year, reflecting the slowdown at the Electronics Assembly Systems division. Net capital employed was nearly unchanged at 975 million. Cash from operating and investing activities was a negative 70 million compared to a positive 261 million in the prior year, as customer prepayments decreased significantly and the group made payments for previously accrued contract loss provisions. Higher earnings helped improve SD s EVA, which is still negative.

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Siemens Building Technologies (SBT)

	Change	Year ended September 30, 2002	2001
		(in millions)	
Group profit	48%	195	132
Group profit margin		3.5%	2.4%
Total sales	2%	5,619	5,518
New orders	1%	5,601	5,549
Net cash from operating and investing activities		295	49

	September 30, 2002	2001
Net capital employed	1,778	2,241
Employees (in thousands)	36	37

SBT increased its Group profit in fiscal 2002 to 195 million from 132 million a year earlier. Prior-year results included charges primarily at the Fire and Safety division in the U.S., together with costs associated with the closure of certain facilities and related headcount reduction at the Building Automation and Fire and Safety divisions. Group profit margins improved as the Group focused on higher-margin projects and reorganized the Fire & Security Products division.

Orders and sales for SBT overall were up 1% and 2%, respectively, to 5.601 billion and 5.619 billion, as increases at Building Automation and acquisition- related increases at Security Systems were offset by decreases at Facility Management. The decrease in Net capital employed from 2.241 billion to 1.778 billion was due to improvements in working capital and reductions in property, plant and equipment. The improvement in net cash from operating and investing activities, from 49 million to 295 million, was a result of lower capital expenditures as well as decreases in inventories, increases in accounts payable and improvements in accounts receivable management. EVA increased but remains negative.

Power

Power Generation (PG)

	Change	Year ended September 30, 2002	2001
		(in millions)	
Group profit	150%	1,582	634
Group profit margin		16.7%	7.4%
Total sales	10%	9,446	8,563
New orders	(13)%	10,586	12,219
Net cash from operating and investing activities		662	2,045

	September 30, 2002	2001

Net capital employed	(144)	(1,020)
Employees (in thousands)	26	26

PG led all Siemens Groups with 1.582 billion in Group profit and Group profit margin of 16.7%, compared to 634 million in Group profit and a 7.4% margin a year earlier. Group profit for fiscal 2002 included income of approximately 100 million from the net effect of updated estimates of project completion performance, a gain from the sale of a business included in the portfolio of business activities which Siemens sold to KKR, fees derived from customer cancellations of orders, which were partially offset by charges related to planned

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consolidation of manufacturing capacity. Further consolidation-related charges may be incurred in fiscal 2003 depending on market developments.

Sales increased 10% year-over-year, to 9.446 billion. Much of the increase reflected the conversion of past orders to current revenues. The sales trend slowed significantly over the course of the year, especially in the fourth quarter. Orders decreased 13% to 10.586 billion, as U.S. demand for gas turbines, which began slowing in the second quarter, came to a virtual halt by the fiscal year s end. PG s backlog dropped from 26 billion, including approximately 11 billion of reservations, at the end of the prior year to 20 billion at September 30, 2002, including approximately 5 billion in reservations. During the year, PG converted 4.1 billion of reservations to confirmed orders.

Net capital employed rose from negative 1.020 billion to negative 144 million, as prior customer prepayments were translated into project inventories and not replaced with new prepayments. This same trend also affected net cash from operating and investing activities, which decreased from 2.045 billion a year ago to 662 million in fiscal 2002. Cash flow will be impacted in future periods due to expected lower customer prepayments. Excellent profitability more than offset negative trends in lower customer prepayments and contributed to PG s improved EVA.

Power Transmission and Distribution (PTD)

		Year ended September 30,	
	Change	2002	2001
		(in millions)	
Group profit	14%	109	96
Group profit margin		2.6%	2.4%
Total sales	4%	4,199	4,053
New orders	14%	4,429	3,887
Net cash from operating and investing activities		149	(331)

	September 30,	
	2002	2001
Net capital employed	928	994
Employees (in thousands)	17	21

PTD reported 109 million in Group profit despite a loss of 54 million on the sale of its Metering division, which was included in the portfolio of business activities sold by Siemens to KKR. Group profit in the prior year was 96 million. Fiscal 2002 earnings were driven primarily by strong performance at the High Voltage, Medium Voltage and Power Automation divisions. Group profit for the current fiscal year included charges of 34 million primarily for a severance program. Sales rose 4%, to 4.199 billion, and orders climbed 14%, to 4.429 billion, benefiting from a large order booked early in the year. Sales growth slowed at the end of the year due to slowing activity in the U.S. power market. Net capital employed decreased slightly to 928 million due to improvements in working capital and the sale of the Metering division. Working capital improvements also had a positive effect on net cash from operating and investing activities, which increased by 480 million to 149 million. The prior year s cash flow was impacted by acquisitions. EVA was negative, due primarily to the loss on the sale of the Metering division.

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Transportation

Transportation Systems (TS)

	Change	Year ended September 30, 2002	2001
		(in millions)	
Group profit	33%	247	186
Group profit margin		5.7%	4.6%
Total sales	9%	4,367	4,021
New orders	(7)%	5,247	5,647
Net cash from operating and investing activities		95	752

	September 30, 2002	2001
Net capital employed	(741)	(932)
Employees (in thousands)	17	14

TS increased its Group profit 33% to 247 million compared to 186 million a year earlier. Group profit margin rose to 5.7% for the year compared to 4.6% last year. Sales climbed 9%, to 4.367 billion, as TS converted large prior year orders into current year sales. Orders of 5.247 billion were 7% lower than in fiscal year 2001, when TS booked a large railcar order valued at approximately 1.6 billion. This year s new orders included a high-speed rail link in the Netherlands for 404 million, a turnkey subway system in Bangkok for 356 million and a 14-year, full-service contract for maintenance of high-speed trains in Spain for 305 million. The Group s backlog stood at 11.2 billion at year-end, level with the end of the prior year. Net capital employed increased from a negative 932 million to a negative 741 million as TS used advance payments for project inventories. Net cash from operating and investing activities decreased from 752 million to 95 million, due to lower advance payments. The rate at which TS receives advance payments for customer projects will have an impact on its cash flow in future periods. EVA increased on higher profitability due to improved productivity and an increased focus on higher-margin projects.

Siemens VDO Automotive (SV)

	Change	Year ended September 30, 2002	2001
		(in millions)	
Group profit		65	(261)
Group profit margin		0.8%	(4.6)%
Total sales	49%	8,515	5,702
New orders	49%	8,515	5,702
Net cash from operating and investing activities		224	(89)

	September 30, 2002	2001
Net capital employed	3,746	3,605
Employees (in thousands)	43	44

SV turned in a profitable year, with Group profit of 65 million compared to a negative 261 million in fiscal 2001 as its integration and consolidation programs, initiated last year showed results. SV benefited from a 56 million gain on the sale of its Hydraulik-Ring business in fiscal 2002 and from the effects of its cost-reduction program initiated in fiscal 2001. The relative improvement in Group profit also benefited from the fact that fiscal 2002 included 12 months of results from the automotive operations acquired from Atecs, while fiscal 2001 included only five months. The prior year included 90 million in asset write-downs split between losses on

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the divestment of the Group s wiring harness business and write-downs of investments. The current year included charges for write-downs of certain intangible assets. Sales and orders of 8.515 billion were 49% higher than in fiscal 2001, largely reflecting full-year inclusion of the Atecs businesses compared to five months in the prior year.

Net capital employed increased from 3.605 billion to 3.746 billion due to increased capital spending, especially for manufacturing equipment for Diesel technology. Net cash from operating and investing activities improved from negative 89 million to positive 224 million, due mainly to 107 million in proceeds from the sale of Hydraulik-Ring and to the improvement in earnings. Higher earnings also improved EVA, which remained negative.

Medical

Medical Solutions (Med)

		Year ended September 30,	
	Change	**2002**	**2001**
		(in millions)	
Group profit	26%	1,018	808
Group profit margin		13.4%	11.2%
Total sales	6%	7,623	7,219
New orders		8,425	8,444
Net cash from operating and investing activities		1,124	86

	September 30,	
	2002	**2001**
Net capital employed	3,414	3,844
Employees (in thousands)	31	30

Med achieved a new high in earnings with Group profit of 1.018 billion, 26% higher than the 808 million earned in fiscal 2001. Gross profit increased, particularly in the Group s imaging systems divisions, driven by productivity improvements in connection with new products. Group profit margin rose more than two percentage points, to 13.4%. Med s imaging systems businesses also drove sales growth of 6% to 7.623 billion compared with the prior year. Delayed investment decisions in new technologies by customers of the Health Services division combined with order increases at the imaging systems divisions resulted in stable order development for the year at 8.425 billion.

Net capital employed decreased from 3.844 billion to 3.414 billion due to improvements in accounts receivable management. Cash from operating and investing activities was 1.124 billion, up from 86 million in the prior year which included the acquisition of Acuson. Cash from operating and investing activities improved on increased profitability and asset management. Higher earnings on decreased assets increased EVA.

Lighting

Osram

		Year ended September 30,	
	Change	**2002**	**2001**
		(in millions)	

Group profit	(21)%	365	462
Group profit margin		8.4%	10.2%
Total sales	(4)%	4,363	4,522
New orders	(4)%	4,363	4,522
Net cash from operating and investing activities		284	349

	September 30,	
	2002	2001
Net capital employed	2,436	2,485
Employees (in thousands)	35	35

Osram generated 365 million in Group profit compared to 462 million a year earlier, a period that included 54 million in non-operating gains. Group profit margin was also lower, at 8.4%, but that level still ranked among the highest of the Groups. Sales of higher-margin products at the Automotive Lighting division resulted in a solid improvement in Group profit margin which were more than offset by margin erosion, in particular in the Opto-semiconductors division. Sales and orders slid 4%, to 4.363 billion, reflecting economic weakness particularly in Osram s large U.S. market.

Net capital employed decreased slightly to 2.436 billion, compared to 2.485 billion in the prior year. Net cash from operating and investing activities decreased from 349 million to 284 million. EVA decreased on lower earnings, but was still strongly positive.

Corporate, Eliminations (Operations) and Reconciliation to Financial Statements

Corporate, eliminations (Operations) and Reconciliation to financial statements include various categories of items which are not allocated to the Groups, because the Managing Board has determined that such items are not indicative of Group performance. These include certain one-time charges or gains and results from centrally managed projects. In addition, Corporate, eliminations (Operations) includes corporate costs such as domestic pension-related income or expense, certain corporate-related derivative activities, and centrally held equity investments, business units and corporate projects. Reconciliation to financial statements includes various items excluded by definition from Group profit.

We believe that this presentation provides a more meaningful comparison between the periods under review because it eliminates one-time gains or losses that management does not believe are indicative of the underlying performance of our business. This presentation reflects the assessment of our chief operating decision maker with respect to the performance of our components. However, you should be aware that different one-time items may occur in every period. While management believes that excluding special items in this way assists in understanding the underlying performance of our business in the periods under review, you should assess our performance on the basis of all the information presented herein.

Corporate, Eliminations

Corporate, eliminations consists of four main components: corporate items, consisting primarily of corporate expenses; investment earnings (losses), which include our share of earnings (losses) from equity investments held centrally; non-allocated pension-related income (expense); and eliminations, other. Group profit for Corporate, eliminations as a whole was a negative 1.183 billion compared to a negative 320 million a year ago.

Corporate items decreased to 671 million in fiscal 2002 from 838 million in 2001, driven primarily by reduction in corporate expenses.

Investment earnings were a negative 16 million compared to a positive 253 million a year earlier. The current period includes gains on the sale of two centrally held investments totaling 133 million, which were more than offset by Siemens equity share of Infineon s net loss in fiscal 2002. Fiscal 2001 includes a loss on the sale of a domestic equity and debt security fund of 209 million, which was more than offset by gains of 227 million on the sale of available-for-sale-securities.

Non-allocated pension-related income (expense) was a negative 250 million compared to a positive 279 million in the prior year. This line item was negatively affected by changes in pension trust net asset values, lower return assumptions and increased amortization expense related to the underfunding of our pension trusts.

Eliminations, other was negative 246 million in fiscal 2002 compared to negative 14 million in the prior year. Fiscal 2002 primarily includes charges of 146 million related to the sale of a portfolio of businesses to KKR and charges of 70 million relating to the write-off of centrally held investments. Fiscal 2001 included

78 million in expenses on centrally managed litigation, 74 million in corporate interest expense in part related to the Atecs acquisitions and 63 million in severance charges. Offsetting these items in fiscal 2001 were a gain of 114 million related to currency effects and the treatment of derivative contracts not qualifying for hedge accounting, and a gain of 162 million resulting from the positive resolution of certain asset-disposal contingencies.

Reconciliation to Financial Statements

Other interest expense: Other interest expense for fiscal 2002 was 96 million, compared to 304 million in fiscal 2001, a period which included interest expense on a temporary 3.6 billion liability related to the acquisition of Atecs. Lower interest expense in the current period reflects lower interest rates and lower payments on intracompany financing. See Liquidity and Capital Resources below.

Goodwill amortization and purchased in-process R&D expense: In fiscal 2001, Siemens recorded 665 million in goodwill amortization and purchased IPR&D expenses of Operations. IPR&D of 126 million derived from the acquisitions of Acuson, Efficient and Atecs.

Gains on sales and dispositions of significant business interests: Gains on sales and dispositions of significant business interests in fiscal 2002 include gains of 936 million resulting from the sale of 23.1 million Infineon shares during the first quarter and an additional 40 million shares in the second quarter. Both transactions took place on the open market.

Included in gains on sales and dispositions of significant business interests in fiscal 2001 was a 3.459 billion pre-tax gain as a result of the irrevocable transfer of 93,825,225 shares of Infineon to the Siemens German Pension Trust. We also recorded a 484 million gain resulting from an additional capital offering by Infineon, achieved through the sale of 60 million of its shares in the fourth quarter of fiscal 2001. Following an earlier capital increase at Infineon, achieved through acquisitions, we recorded an aggregate gain of 122 million. Siemens did not participate in these capital increases or receive any proceeds from them.

The 3.459 billion pre-tax gain on the contribution of the Infineon shares in April 2001 to the Siemens German Pension Trust was a non-cash item; the total amount recorded was based upon the market price of Infineon shares at the date of the transfer. The business purpose of the contribution of the Infineon shares to this pension trust was to shore up an already existing under-funded position in the pension trust, ahead of substantial new pension obligations arising from our acquisition of Atecs in the third quarter of fiscal 2001. As part of the purchase price, Siemens assumed Atecs unfunded pension obligations. In addition, the transfer of Infineon shares represented a further step towards meeting our long-stated goal of disposing of our interest in Infineon over time. While U.S. pension plans subject to the U.S. Employment Retirement Income Security Act of 1974 (ERISA) are restricted in the amount of securities they are permitted to own in the employer or its affiliates to 10% of plan assets, the Siemens German Pension Trust is not subject to such ERISA provisions.

Other special items: Other special items in fiscal 2001 included charges totaling 927 million taken for impairment of goodwill relating to acquisitions made by ICN and A&D, including a charge of 746 million resulting from the impairment of goodwill associated with the acquisition by ICN of Efficient Networks, Inc., a provider of DSL equipment in the United States. Shortly after the acquisition of Efficient, worldwide demand for DSL products contracted sharply. Additionally, the total charges include 181 million for impairment of goodwill primarily associated with the acquisition by A&D of Milltronics, Ltd. For more information see Notes to the consolidated financial statements.

Also included in special items in fiscal 2001 is a write-down of 258 million of inventories and other assets in connection with a long-term, centrally managed production and outsourcing contract for a border control system in Argentina. This contract, originally entered into by SBS, was canceled by government decree.

Lower tax rates enacted by the tax reform passed in Germany in October 2000, and the consequent adjustment of Siemens deferred tax balances at October 1, 2000, resulted in a one-time reduction of 222 million in income tax expense in fiscal 2001.

Financing and Real Estate

Siemens Financial Services (SFS)

	Change	Year ended September 30, 2002	2001
		(in millions)	
Income before income taxes	37%	216	158
Total sales	21%	582	481
Net cash from operating and investing activities		282	(496)

	September 30, 2002	2001
Total assets	8,681	9,501
Employees (in thousands)	1	1

Earnings before income taxes rose 37% at SFS, to 216 million, positively influenced by strong investment income in the Equity division, especially equity earnings from an investment in a power station in Indonesia and the sale of an investment in Portugal. Higher net interest income and lower provisions in the Equipment & Sales Financing division contributed significantly to the Group s earnings improvement. Earnings before income taxes for SFS in fiscal 2001 were 158 million. Sales increased 21%, to 582 million from 481 million in fiscal 2001. Sales primarily represent lease revenues from operating leases and do not reflect the bulk of the Group s business in capital leases and other financing activities. Total assets decreased from 9.501 billion to 8.681 billion in fiscal 2002, primarily at the Equipment and Sales Financing division, especially due to the division s factoring business and significant foreign exchange effects.

Net cash from operating activities and investing activities increased significantly, from negative 496 million in fiscal 2001 to a positive 282 million primarily due to the above-mentioned asset reductions at the Equipment and Sales Financing division. EVA improved due to the increase in earnings.

Siemens Real Estate (SRE)

	Change	Year ended September 30, 2002	2001
		(in millions)	
Income before income taxes	8%	229	213
Total sales	5%	1,612	1,542
Net cash from operating and investing activities		309	393

	September 30, 2002	2001
Total assets	4,090	3,791
Employees (in thousands)	2	2

SRE earned 229 million before income taxes on sales of 1.612 billion, up from 213 million and 1.542 billion, respectively, a year earlier. The Group s improved earnings were primarily due to increased profitability on higher sales related to real estate management and lease administration activities, which more than offset a reduction in gains from the disposal of real estate compared to the prior year. Total assets increased from 3.791 billion to 4.090 billion in fiscal 2002, due to the assumption of control of most of SBT s real estate properties in fiscal 2002. Net cash from operating and investing activities decreased from 393 million in fiscal 2001 to 309 million. EVA improved due to the increase in earnings.

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COMPONENT INFORMATION STATEMENTS OF INCOME

The following discussion adheres to our component model of reporting and includes an analysis of the income statement organized by component: Operations, Financing and Real Estate, and Eliminations, reclassifications and Corporate Treasury.

Operations

The following table presents selected income statement information for the Operations component:

	Year ended September 30,	
	2002	2001
	(in millions)	
Net sales from operations	83,127	82,427
Gross profit on sales	22,805	22,235
as percentage of sales	*27.4%*	*27.0%*
Research and development expenses	(5,650)	(5,427)
as percentage of sales	*(6.8)%*	*(6.6)%*
Marketing, selling and general administrative expenses	(15,083)	(15,559)
as percentage of sales	*(18.1)%*	*(18.9)%*
Other operating income (expense), net	326	(118)
Income (loss) from investments in other companies, net	(142)	(24)
Income from financial assets and marketable securities, net	124	263
Interest income (expense) of Operations, net	94	(41)
Other interest (expense) income, net	(96)	(304)
Goodwill amortization and purchased in-process R&D expenses of Operations		(665)
Gains on sales and dispositions of significant business interests	936	4,065
Other special items		(1,185)
Income before income taxes	3,314	3,240

Net sales from Operations increased 1% to 83.127 billion compared to 82.427 billion a year earlier. The net effect of acquisitions and dispositions contributed 4% to this development, reflecting primarily the inclusion of the VDO and Dematic businesses beginning in May 2001. Revenues were negatively affected by foreign currency effects of 2%, primarily involving exchange rates between the U.S. dollar and the euro. Positive contributions primarily from PG, TS and Med, as well as additions from the integration of the VDO and Dematic businesses were offset by declining sales at ICN, ICM, SBS as well as A&D.

Gross profit as a percentage of sales was 27.4% compared to 27.0% in the prior year. Higher productivity led to significantly higher gross margins at PG and Med. SV s gross margin increased in part due to the full year consolidation of the acquired Atecs businesses and an improved cost position. SBS increased its gross margin in comparison to fiscal 2001, a year which included severance charges and higher loss contract accruals. In contrast, A&D s gross profit margin declined in fiscal 2002 due in part to margin erosion and warranty charges. I&S recorded a lower gross margin in fiscal 2002 due primarily to severance charges. See the analysis above for further comments on the individual Groups.

Research and development expenses (R&D) increased 4% to 5.650 billion in fiscal 2002, reflecting our ongoing commitment to R&D in a wide variety of areas. R&D spending as a percentage of sales was 6.8% compared to 6.6% a year earlier, driven by increased R&D spending at SV and Med, and by stable R&D investments at ICN and ICM relative to declining sales.

Marketing, selling and general administrative expenses decreased 3% to 15.083 billion compared to last year, and declined as a percentage of sales from 18.9% to 18.1%. Reduced outlays for marketing lowered expenses at ICN, ICM and A&D, while higher sales drove higher expenses at PG and Med. The current year

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included lower provisions for accounts and loans receivable, while the prior year included higher loans receivable provisions including a write-down of a loan related to Winstar Communications, Inc.

Other operating income (expense), net was a positive 326 million compared to a negative 118 million last year. The current period includes a 421 million gain on the sale of Unisphere Networks by ICN, a 60 million nonrecurring gain at ICN, a 56 million gain on the sale of Hydraulik-Ring by SV, a 21 million gain from the sale of a portfolio of business activities to KKR, and contract cancellation penalties received by PG. Offsetting these gains was a 378 million goodwill impairment related to Efficient Networks at ICN s Access Solutions division. The prior period included a loss on the divestment of a business at SV.

Income (loss) from investments in other companies, net was a negative 142 million compared to a negative 24 million in the prior year. The current year includes Siemens equity loss relating to Infineon, offset by a 133 million gain on the sale of two investments. The prior year included a loss of 209 million on the sale of a centrally managed investment and higher charges and expenses resulting from write-downs of venture capital and equity investments at ICN and SV.

Income from financial assets and marketable securities, net was a positive 124 million compared to a positive 263 million in the last year. The current year was positively affected by higher gains related to the treatment of derivative contracts not qualifying for hedge accounting. Last year included a gain of 227 million on the sale of marketable securities from Siemens centrally managed equities portfolio, a gain of 44 million from the sale of an investment at SBS, as well as gains of 120 million from the sale of venture capital investments at ICN, offset by 184 million in charges from write-downs of marketable securities, that suffered a material decline in value which we have determined to be other than temporary.

Interest income (expense) of Operations, net was 94 million compared to net interest expense of 41 million a year earlier, primarily due to declining interest rates and lower average interest-bearing liabilities.

Other interest expense for fiscal 2002 was 96 million, compared to 304 million in fiscal 2001, a period which included interest expense on a temporary 3.6 billion liability related to the acquisition of Atecs. Lower interest expense in the current period reflects lower interest rates and lower payments on intracompany financing. See Liquidity and Capital Resources below.

In fiscal 2001, Siemens recorded 665 million in goodwill amortization and purchased IPR&D expenses of Operations. IPR&D of 126 million derived from the acquisitions of Acuson, Efficient and Atecs.

Gains on sales and dispositions of significant business interests in fiscal 2002 include gains of 936 million resulting from the sale of 23.1 million Infineon shares during the first quarter and an additional 40 million shares in the second quarter. Both transactions took place on the open market. Gains on sales and disposition of significant business interests in the prior year included a gain of 3.459 billion resulting from the irrevocable transfer of 93.8 million Infineon shares into the Siemens German Pension Trust, and a gain of 606 million resulting from capital increases at Infineon.

Other special items in fiscal 2001 included goodwill impairments of 927 million related to Efficient and Milltronics, and a 258 million write-down of inventories and assets associated with the cancellation of a centrally managed outsourcing contract in Argentina.

Financing and Real Estate

The following table presents selected income statement information for the Financing and Real Estate component:

	Year ended September 30,	
	2002	2001
	(in millions)	
Sales	2,186	2,016
Gross profit on sales	476	435
Marketing, selling and general administrative expenses	(282)	(297)
Other operating income, net	151	143
Income from investments in other companies, net	44	37
Income (expense) from financial assets and marketable securities, net	(25)	(15)
Other interest income, net	81	68
Income before income taxes	445	371

Sales from Financing and Real Estate for the fiscal year 2002 increased 8% to 2.186 billion compared to fiscal 2001. The increase is attributable predominantly to the Equipment and Sales Financing division at SFS and the assumption of SBT s real estate property at SRE. Marketing, selling and general administrative expenses decreased 15 million to 282 million. Other operating income, net was 151 million compared to 143 million last year. Income from investments in other companies, net increased from 37 million to 44 million in fiscal 2002, reflecting in part strong investment earnings at SFS Equity division. Income (expense) from financial assets and marketable securities, net was a negative 25 million compared to a negative 15 million in the prior year. For fiscal 2002, other interest income, net was 81 million compared to 68 million in fiscal 2001. As a result, income before income taxes for the fiscal year 2002 increased to 445 million compared to 371 million for fiscal 2001.

Eliminations, Reclassifications and Corporate Treasury

This component of Siemens worldwide includes results of intra-Siemens activity by our Corporate Treasury, which provides corporate finance and treasury management services to our Operations component (excluding Infineon Technologies AG) and to our Financing and Real Estate component. It also includes eliminations of activity conducted between those two components, and reclassification of certain financial items. Since December 2001, Infineon has been accounted for under the equity method. The results of Infineon for the first two months of fiscal 2002, a loss of 115 million, are included in Eliminations, reclassifications and Corporate Treasury. To the extent that Infineon provided products and services to the Operations Groups in the prior year, when Infineon was still consolidated in Siemens results, those effects are eliminated here as well.

Reclassifications in fiscal 2002 include gains of 936 million resulting from the Infineon share sales mentioned above, reclassified from gains on sales and disposition of significant business interests to other operating income for Siemens worldwide. Fiscal 2001 includes reclassification of 665 million in goodwill amortization and purchased IPR&D, with 126 million in IPR&D related to the acquisitions of Acuson, Atecs and Efficient reclassified as research and development expense for Siemens worldwide and the remainder consisting of goodwill amortization reclassified into other operating expense. Reclassifications from gains on sales and disposition of significant business interests in fiscal 2001 include the 3.459 billion gain from transferring shares of Infineon to the Siemens German Pension Trust and the 606 million gain from capital increases at Infineon, both reclassified to other operating income. Reclassification of other special items includes the 927 million in Efficient and Milltronics impairments, reclassified as other operating expense for Siemens worldwide, and the 258 million write-down related to the contract in Argentina, reclassified into cost of goods sold.

Economic Value Added

Siemens ties a portion of its executive incentive compensation to achieving economic value added (EVA) targets. EVA measures the profitability of a business (using Group profit for the operations Groups and income before income taxes for the Financing and Real Estate businesses as a base) against the additional cost of capital used to run a business (using Net capital employed for the operations Groups and risk-adjusted equity for the Financing and Real Estate businesses as a base). A positive EVA means that a business has earned more than its cost of capital, and is therefore defined as value-creating. A negative EVA means that a business is earning less than its cost of capital and is therefore defined as value-destroying. Other companies that use EVA may define and calculate EVA differently.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW FISCAL 2003 COMPARED TO FISCAL 2002

The following discussion adheres to our component model of reporting and includes an analysis of cash flow and related balance sheet effects in our Operations and Financing and Real Estate components.

Net cash provided by the operating activities of the Operations component for fiscal 2003 was 4.123 billion compared to 4.277 billion in the prior year. The current year includes increased earnings in fiscal 2003 in comparison to the prior year after adjusting for non-cash gains in fiscal 2002. Both periods included supplemental cash contributions to Siemens pension trusts, totaling 1.192 billion and 1.782 billion in fiscal 2003 and 2002, respectively. Changes in net working capital (current assets less current liabilities) within Operations used cash of 482 million, compared to cash provided of 1.019 billion in the same period a year earlier. While the prior fiscal year included positive cash flows from significant reductions in inventory at ICN, ICM and PG, further decreases at these Groups in fiscal 2003 were offset by an increase in inventories at TS. Other current liabilities decreased, in particular at PG, as a result of lower advance payments due to order cancellations in the U.S and as the Group used advance payments for project inventories. Severance programs negatively impacted cash flow during fiscal 2003 and we expect payments from these programs to continue in fiscal 2004, but at a lesser amount. Among the Groups, ICN, ICM, A&D and PTD achieved improvements in net working capital.

Net cash used in investing activities within Operations was 3.655 billion. Expenditures for intangible assets and property, plant and equipment were 2.468 billion, 681 million lower than in the previous fiscal year. Cash outflows for acquisitions in fiscal 2003 include 929 million for the purchase of the industrial turbine businesses of Alstom. Purchases of investments and marketable securities include an aggregate 599 million for the acquisition of various debt and fund securities. Total outlays within Operations for investments and marketable securities were 841 million. Net cash used in investing activities within Operations in fiscal 2002 was 250 million. Cash used for acquisitions in fiscal 2002 was 3.787 billion which included a 3.657 billion payment to complete the Atecs-Mannesmann acquisition initiated in fiscal 2001. Proceeds from sales and dispositions in fiscal 2002 totaled 6.097 billion, including sales of businesses related to Atecs including Rexroth AG and Mannesmann Sachs AG, as well as the sale of a portfolio of businesses to Kohlberg Kravis Roberts & Co. L.P. Other dispositions included the sale of Unisphere Networks, Inc. and the Hydraulik-Ring business of SV. Fiscal 2002 also included proceeds of 1.522 billion related to sales of shares of Infineon.

Net cash provided by operating activities within the Financing and Real Estate component in fiscal 2003 was 469 million compared to 558 million in fiscal 2002. The current year reflects improved earnings at SFS offset by a decrease in other liabilities.

Net cash used in investing activities within the Financing and Real Estate component was 515 million compared to net cash used of 100 million a year earlier. Fiscal 2003 included a net increase in financing receivables, compared to a substantial reduction in the prior year. Fiscal 2002 included a negative 607 million net effect from the sale of receivables by SFS, as collections on previously sold accounts receivable were greater than new sales. Sales of accounts receivable using the SieFunds asset securitization program have been discontinued for the time being.

Net cash provided by operating activities of Siemens worldwide totaled 5.712 billion in fiscal 2003 compared to 5.564 billion for fiscal 2002. Strong worldwide earnings were a primary factor in the high level achieved in the current year. As noted above, both periods included supplemental cash contributions to Siemens pension trusts. Changes in net working capital for Siemens worldwide provided cash of 71 million in fiscal 2003 compared to 1.323 billion in the prior year. Within this development, fiscal 2002 included substantial decreases in inventory, while current year decreases at several Groups were offset by an increase in inventory at TS. In addition, net cash includes a positive net effect from Corporate Treasury of over 1 billion associated with financial instruments which are utilized to help manage the Company s exposure to fluctuations in foreign exchange rates, particularly with regard to intra-company financing.

Net cash used in investing activities of Siemens worldwide was 3.939 billion in fiscal 2003 compared to 810 million in fiscal 2002, a period which included approximately 2.8 billion in net proceeds from portfolio activities described above. The current period included cash outflows of 929 million for the acquisition of the industrial turbine businesses of Alstom and 957 million for purchases of investments and marketable securities. For further information regarding net cash from operating and investing activities of the Groups, see Segment Information Analysis above.

Net cash used by financing activities of Siemens worldwide was 487 million in fiscal 2003 compared to net cash used of 859 million in fiscal 2002. The current year total includes proceeds of 2.5 billion from the issuance of notes, convertible into shares of Siemens AG. In fiscal 2003, Siemens made repayments of debt totaling 1.742 billion, which includes the repurchase of nominal 1.440 billion of a bond exchangeable into Infineon shares. During the current fiscal year, 896 million of dividends were paid to shareholders. Fiscal 2002 included 847 million for repayment of debt and 888 million in dividend payments.

For Siemens worldwide, total net cash provided by operating activities of 5.712 billion, less net cash used in investing and financing activities of 4.426 billion, less currency translation effects of 333 million, resulted in a 953 million increase in cash and cash equivalents, to 12.149 billion.

CASH FLOW FISCAL 2002 COMPARED TO FISCAL 2001

The following discussion adheres to our component model of reporting and includes an analysis of cash flow and related balance sheet effects in our Operations and Financing and Real Estate components.

Net cash provided by the operating activities of the Operations component for the fiscal year 2002 totaled 4.277 billion compared to 5.885 billion in fiscal 2001. Cash flow from operating activities for fiscal 2002 included 1.782 billion in supplemental cash contributions to Siemens pension trusts. Before the contribution, cash provided from operating activities of Operations in fiscal 2002 was 6.059 billion. Changes in net working capital (current assets less current liabilities) provided 1.019 billion in the current fiscal year compared to cash provided of 3.523 billion in fiscal 2001. The current year period reflects positive cash flows from the reduction of inventories, particularly at ICN, ICM and PG, while the prior year experienced an increase in inventories. Accounts receivable were reduced at ICN, ICM, A&D, TS and Med and accounts payable decreased, following a significant increase in fiscal 2001. Cash flow from customer prepayments at PG and TS within other liabilities declined significantly compared to an increase in the prior year and are expected to decrease further in fiscal 2003. Severance programs initiated in fiscal 2001 and expanded in fiscal 2002 will negatively impact cash flow from operating activities over approximately the next two years.

Net cash used in investing activities within Operations was 250 million, compared to net cash used of 4.519 billion in fiscal 2001. Capital expenditures excluding acquisitions were 3.412 billion, 1.051 billion lower than in previous fiscal year. Cash used for acquisitions was 3.787 billion compared to 3.898 billion in the prior year. The current fiscal year included a 3.657 billion payment to complete the Atecs-Mannesmann transaction initiated in fiscal 2001. Cash used in acquisitions in the prior year included a 1 billion initial deposit for Atecs and 2.38 billion for the acquisitions of Acuson and Efficient Networks. Proceeds from the sales and dispositions of businesses in fiscal 2002 totaled 6.097 billion, including sales of Rexroth, Sachs, the portfolio of businesses sold to KKR, Unisphere, Hydraulik-Ring and 1.522 billion related to Infineon. Proceeds from sales of long-term investments, intangibles and property plant and equipment totaled 801 million compared to

3.454 billion in the prior year, a period which included 2.555 billion in proceeds from the sale of a domestic equity and debt security fund.

Net cash provided by operating activities within the Financing and Real Estate component for the fiscal year 2002 was 558 million compared to 654 million in fiscal 2001. Higher net income was offset by a net increase in working capital.

Net cash used by investing activities in Financing and Real Estate was 100 million compared to net cash used of 870 million a year earlier. This development was driven by decreases of finance receivables, primarily related to leasing, compared to a significant increase in the prior year. Fiscal 2001 included higher proceeds, net of collections, from the sale of accounts receivable by SFS, including asset securitization using SieFunds amounting to 866 million. During fiscal 2002, collections on previously sold accounts receivable outpaced new sales by 607 million.

Net cash provided by operating activities of Siemens worldwide totaled 5.564 billion in fiscal 2002 compared to 7.016 billion for fiscal 2001. Cash provided by operating activities for fiscal 2002 included 1.782 billion in supplemental cash contributions to Siemens pension trusts. Changes in net working capital provided 1.323 billion of cash in fiscal 2002 compared to 4.328 billion in fiscal 2001. This decrease was due primarily to the effect of receivable sales and lower liabilities in fiscal 2002.

Net cash used in investing activities of Siemens worldwide was 810 million in fiscal 2002 compared to net cash used of 5.886 billion last year. Capital expenditures including the purchase of investments and excluding acquisitions were 4.226 billion, down 3.532 billion compared to 7.758 billion a year earlier, a period which included 2.578 billion in capital expenditures at Infineon.

Net cash provided by operating and investing activities of Siemens worldwide was 4.754 billion compared to net cash provided of 1.130 billion a year earlier.

Net cash used by financing activities for Siemens worldwide was 859 million compared to net cash used of 95 million in fiscal 2001. The current period included the payment of dividends of 888 million and 847 million for repayment of debt. The prior year period included the proceeds received through the issuance of two bonds with a total volume of 4 billion shown in Corporate Treasury, partially offset by dividends of 1.412 billion, which included a bonus dividend and repayments of debt amounting to 976 million.

For Siemens worldwide, total net cash provided by operating activities of 5.564 billion, less net cash used in investing and financing activities of 1.669 billion as well as the deconsolidation of Infineon and currency translation effects, resulted in 3.394 billion increase in cash and cash equivalents, to 11.196 billion.

CAPITAL RESOURCES AND CAPITAL REQUIREMENTS

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

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

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

Moody s Investor Service rates our long-term corporate credit Aa3 (negative outlook). The rating classification of Aa is the second highest rating within the agency s debt ratings category. The numerical modifier 3 indicates that our long-term debt ranks in the lower end of the Aa category. The Moody s rating outlook is an opinion regarding the likely direction of an issuer s rating over the medium-term. Rating outlooks fall into the following six categories: Positive, Negative, Stable, Developing, Ratings Under Review and No Outlook. Our outlook was changed from stable to negative in December 2002.

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 generally with a maturity not exceeding one year.

Standard & Poor s rates our long-term corporate credit AA- (stable outlook). Within Standard & Poor s long-term issue and issuer credit ratings, an obligation rated AA has the second highest rating category assigned. The modifier indicates that our long-term debt ranks in the lower end of the AA category. The Standard & Poor s rating outlook is an opinion regarding the likely direction of an issuer s rating over the intermediate to longer term. Rating outlooks fall into the following four categories: Positive, Negative, Stable and Developing.

Our short-term debt and commercial paper is rated A-1+ within Standard & Poor s short-term issue credit ratings, giving Siemens the highest-ranking short-term rating.

Siemens has no further agreements with nationally recognized statistical rating organizations to provide a long-term and short-term credit rating for our Company.

The rating agencies have focused more specifically on an assessment of liquidity risk. Moody s most recent liquidity risk assessment for Siemens as of October 23, 2003, classified the liquidity profile of the Company as very healthy.

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

Capital resources at September 30, 2003 included 12.149 billion in cash and cash equivalents held in various currencies. Corporate Treasury generally manages cash and cash equivalents for the entire Company, except in countries where local capital controls require otherwise. At September 30, 2003, Corporate Treasury managed approximately 93% of Siemens worldwide cash and cash equivalents. Corporate Treasury carefully manages investments of cash and cash equivalents subject to strict credit requirements and counterparty limits. Another 650 million is held in available-for-sale marketable securities, including shares in Epcos AG. Furthermore, our remaining shares in Infineon had a market value of approximately 3.2 billion based on the share price at September 30, 2003. In addition to these capital resources, SFS has established structures for raising funds through the sale of accounts receivable, either by issuing asset-backed securities under our SieFunds program or by selling receivables directly to banks. Due to our ample capital resources, we have phased-out for the time being the use of the SieFunds structure. Siemens continues to place a high priority on improving cash flows from operating and investing activities.

Capital requirements include normal debt service and regular capital spending and cash requirements. Other commercial commitments, including primarily guarantees, are contingent upon the occurrence of specific events. Approximately 1.7 billion of debt including 385 million of commercial paper is scheduled to become due in fiscal 2004. Capital spending programs have been reduced in line with more difficult market conditions. In addition, the deconsolidation of Infineon at the end of the first quarter of fiscal 2002, which had accounted for a substantial percentage of overall capital expenditures of Siemens worldwide, has resulted in considerably lower capital expenditures compared with previous periods. We plan capital expenditures for property, plant and equipment for the coming fiscal year to approximate current depreciation expense of approximately 2.5 billion for fiscal 2003.

Our shareholders equity at September 30, 2003 was 23.715 billion, an increase of 194 million since September 30, 2002. See also the discussion of pension plan funding below as well as the consolidated statements of changes in shareholders equity. We have authorization from our shareholders to repurchase up to 10% of our outstanding shares at any time until July 22, 2004. Such stock may be (i) retired with the approval of the Supervisory Board, (ii) used to satisfy the Company s obligations under the 1999 Siemens Stock Option Plan and the 2001 Siemens Stock Option Plan or (iii) offered for sale to employees within the employee share program.

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Principal Sources of Liquidity

Our principal source of Company financing is cash flow from operating and investing activities, totaling 1.773 billion in fiscal 2003 after supplemental cash contributions of 1.192 billion to Siemens pension trusts. Cash flows are complemented by the substantial capital resources noted above. We further strengthened our financial flexibility through a set of backstop facilities, commercial paper programs, and a medium-term note program. The backstop facilities consist of 3.7 billion in unused committed lines of credit. We also have two commercial paper programs, under which we typically issue instruments with a maturity of less than 90 days, for an aggregate U.S. $3.0 billion in the U.S. domestic market and an aggregate 3.0 billion in the euro market. The amount outstanding under all commercial paper programs was 385 million at September 30, 2003. In addition, the Company has a medium-term note program under which we may issue up to 5.0 billion in medium-term notes. The amount outstanding under this program was 1.368 billion at September 30, 2003.

In addition to our existing cash and cash equivalents, and current cash flows, our unused backstop facilities are available in the unlikely event that we are unable to access commercial paper or medium-term notes markets. The backstop facilities at our disposal include a U.S.$3.0 billion multi-currency revolving loan facility expiring May 2007 provided by a syndicate of international banks. During the third quarter of fiscal 2003, the Company terminated its 1 billion revolving loan facility, which was to expire in February 2004, and entered into a new revolving loan facility with a domestic bank for an aggregate amount of 750 million expiring in June 2008. In addition, we have a 400 million revolving loan facility expiring in July 2006 also provided by a domestic bank. None of our backstop facilities contain a material adverse change clause of the type typically included in low-risk backstop facility agreements.

Neither our commercial paper and medium-term note programs nor our backstop facilities have 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 support, except in the case of nonpayment of amounts when due.

In June 2003, the Company issued 2.5 billion of convertible notes through its wholly owned Dutch subsidiary, Siemens Finance B.V., which are fully and unconditionally guaranteed by Siemens AG. The convertible notes have a 1.375% coupon and are convertible into approximately 44.5 million shares of Siemens AG at a conversion price of 56.1681 per share, which is subject to change under certain circumstances. The conversion right is contingently exercisable by the holders upon the occurrence of one of several conditions, including, upon the Company s share price having exceeded 110% of the conversion price on at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of any calendar quarter. The Company may, at any time from June 18, 2007, redeem the notes outstanding at their principal amount together with interest accrued thereon, if Siemens share price exceeds 130% of the conversion price on any 15 of 30 consecutive trading days before notice of early redemption. Unless previously redeemed, converted or repurchased and cancelled, the notes mature on June 4, 2010.

In addition to the above-described sources of liquidity, we constantly monitor funding options available in the capital markets as well as trends in the availability and cost of such funding, with a view to maintaining excellent financial flexibility and limiting undue repayment risks.

Contractual Obligations and Commercial Commitments

In the ordinary course of business, Siemens primary contractual obligations regarding cash involve debt service as well as operating lease commitments. Other commercial commitments, including primarily guarantees of credit of third parties, are contingent upon the occurrence of specific events. Following is a detailed discussion of these contractual obligations and commercial commitments.

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The following table summarizes contractual obligations for future cash outflows as of September 30, 2003:

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	(in millions)				
Debt	13,178	1,745	3,552	2,558	5,323
Operating leases	2,834	473	820	596	945
Total contractual cash obligations	16,012	2,218	4,372	3,154	6,268

Debt At September 30, 2003, Siemens worldwide had 13.178 billion of short- and long-term debt, of which 1.745 billion will become due within the next 12 months. Included in short-term debt is 385 million of commercial paper, reflecting all amounts outstanding under our commercial paper programs, therefore limiting refinancing risk. The remainder is represented by bonds and other loans from banks coming due within the next 12 months. At September 30, 2003, the weighted average maturity of our bonds and notes due after one year was 4.9 years. At September 30, 2002, total debt was 12.346 billion. Further information about the components of debt is given in the Notes to the Consolidated Financial Statements.

Debt for Siemens worldwide at September 30, 2003 consisted of the following:

	Short-Term	Long-Term	Total
	(in millions)		
Notes and bonds	436	9,997	10,433
Loans from banks	777	287	1,064
Other financial indebtedness	494	904	1,398
Obligations under capital leases	38	245	283
Total debt	1,745	11,433	13,178

Our notes and bonds contain no specific financial covenants such as rating triggers or interest coverage, leverage or capitalization ratios that could trigger a requirement for early payment or additional collateral support, except in the case of nonpayment of interest or principal.

Our Corporate Treasury has primary responsibility for raising funds in the capital markets for the entire Company, including the Financing and Real Estate component, except in countries with conflicting capital market controls. In these countries, the Siemens subsidiary companies obtain financing primarily from local banks. Corporate Treasury lends funds via intracompany financing to the Operations and Financing and Real Estate components. This intracompany financing together with intracompany liabilities between the components is shown under intracompany liabilities in the balance sheets. Under this approach, at September 30, 2003, 7.659 billion of such intracompany financing was directly attributable to the Financing and Real Estate component and the remainder to the Operations component. At September 30, 2003, the Financing and Real Estate component additionally held 122 million in short-term and 509 million in long-term debt from external sources.

In fiscal 2000, Siemens Nederland N.V., as the owner of the underlying shares of stock of Infineon Technologies AG, issued 2.5 billion of 1% exchangeable notes due in 2005. For fiscal years 2001 and 2002 this debt was recorded under Corporate, eliminations (Operations). Beginning fiscal 2003 this debt is recorded under Corporate Treasury. In fiscal 2003, Siemens repurchased and retired a notional amount of 1.440 billion of exchangeable notes, which resulted in a gain of 35 million. As of September 30, 2003, of the issued 2.5 billion, notional 1.060 billion is still outstanding.

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The capital structure of the Financing and Real Estate component at September 30, 2003 and 2002 consisted of the following:

	September 30, 2003		September 30, 2002	
	SFS	SRE	SFS	SRE
	(in millions)			
Assets	8,445	3,607	8,681	4,090
Allocated equity	1,080	920	930	920
Total debt	6,821	1,469	6,730	1,751
Therein intracompany financing	*6,571*	*1,088*	*6,469*	*1,402*
Therein debt from external sources	*250*	*381*	*261*	*349*
Debt to equity ratio	6.32	1.60	7.24	1.90

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

The allocated equity for SFS is determined and influenced by the respective credit ratings of the rating agencies and by the expected size and quality of its portfolio of leasing and factoring assets and equity investments and is determined annually. This allocation is designed to cover the risks of the underlying business and is in line with common credit risk management standards in banking. The actual risk profile of the SFS portfolio is monitored and controlled monthly and is evaluated against the allocated equity.

Operating leases At September 30, 2003, the Company had a total of 2.834 billion in total future payment obligations under non-cancellable operating leases.

Off-balance sheet arrangements

The following table summarizes contingent commercial commitments as of September 30, 2003:

Other commercial commitments	Total amounts committed	Less than 1 year	1-3 years	4-5 years	After 5 years
	Amount of commitment expiration per period				
			(in millions)		
Lines of credit	111	88	8		15
Guarantees	1,778	856	792	47	83
Other commercial commitments	949	426	362	77	84
Total commercial commitments	2,838	1,370	1,162	124	182

Lines of credit At September 30, 2003, Siemens provided lines of credit totaling 111 million which primarily related to asset based lending transactions of SFS where SFS provides a line of credit and in return receives assets as collateral.

Guarantees Guarantees are principally represented by credit guarantees and guarantees of third-party performance. Credit guarantees cover the financial obligation of third-parties in cases where Siemens is the vendor and/or contractual partner. See also Customer financing below. In addition, Siemens provides credit line guarantees with variable utilization to associated and related companies. Performance bonds and guarantees of advanced payments guarantee the fulfillment of contractual commitments of partners in a consortium where Siemens may be the general or subsidiary partner. In the event of non-performance under the contract by the consortium partner(s), Siemens will be required to pay up to an agreed-upon maximum amount. Furthermore, the Company has provided indemnifications in connection with dispositions of business

entities, which protect the buyer from tax, legal, and other risks related to the purchased business entity. The 1.778 billion total in the table above includes 206 million in customer financing guarantees. In the event that it becomes probable that Siemens will be required to satisfy these guarantees, provisions are established. Such provisions are established in addition

to the liabilities recognized for the non-contingent component of the guarantees. Most of the guarantees have fixed or scheduled expiration dates, and in practice such guarantees are rarely drawn. For additional information with respect to our guarantees, see Notes to the Consolidated Financial Statements.

Other commercial commitments The Company has commitments related to customer financing arrangements represented by approved but unutilized loans and guarantees of approximately 622 million at September 30, 2003. See Customer financing below. Siemens also has commitments to make capital contributions of 57 million through Siemens Project Ventures (SPV) in connection with investments whose primary goal is the development of infrastructure projects. At September 30, 2003, Siemens has a small portfolio of ten infrastructure projects, eight in the power business and two in the telecommunications business. The largest of such commitments relates to Jawa Power, a power generation project in Indonesia. In connection with such projects, Siemens purchases insurance that covers certain specific project risks, particularly political risks. At September 30, 2003, the net equity investment in these projects totaled approximately 328 million. Other than capital contributions, Siemens has no other commercial commitments related to these projects.

We also have commitments to make capital contributions totaling 199 million to certain project companies and to venture capital investments. Other commercial commitments also include 61 million in discounted bills of exchange and 10 million in collaterals for third-party liabilities.

Customer financing Siemens strong financial profile enables us to selectively provide customers with financing. We also selectively assist customers in arranging financing from various third-party sources, including export credit agencies. This has historically been an important competitive advantage in such long-cycle businesses as power generation, transportation, and telecommunications. We also provide direct vendor financing and grant guarantees to banks in support of loans to Siemens customers and we may enter into a combination of the above arrangements. Financing requirements are entered into on a very selective basis; we have forgone, and will continue to forgo, new business contracts if the financing risks are not justifiable relative to the rewards. Due to significantly lower levels of capital spending at most major telecommunications operators, however, requests for such financing have decreased. As a result, customer financing commitments requiring the approval of Siemens Corporate Executive Committee of the Managing Board have decreased significantly. The total loans and guarantees relating to such customer financing as of September 30, 2003 amounted to 1.378 billion including loans and guarantees of 756 million for approved and utilized commitments and 622 million for approved but not utilized commitments. As of September 30, 2002, total loans and guarantees relating to this customer financing amounted to 2.526 billion including loans and guarantees of 1.590 billion for approved and utilized commitments and 936 million for approved but not utilized commitments.

Variable Interest Entities The Company holds variable interests in various Variable Interest Entities (VIE s), which are not significant either individually or in the aggregate. The impact of consolidating certain of these VIE s on the Company s financial statements will not be material. For additional information on VIE s, see Notes to the consolidated financial statements.

Provisions

In the ordinary course of business Siemens establishes various types of provisions. As of September 30, 2003, provisions for contract losses totaled approximately 1.2 billion. Accrued contract losses relate primarily to the Groups PG (276 million), ICM (179 million), TS (171 million), ICN (143 million), SD (129 million) and SBS (106 million). For all accrued contract losses, we anticipate that the cash outflows for labor, materials, contract penalties and related costs on such contract losses will occur predominantly over the next two fiscal years. In addition to provisions for losses, losses on contracts can include write-offs of inventories and other charges. For additional information with respect to long-term contracts and contract losses, see Item 4: Information on the Company Long-Term Contracts and Contract Losses.

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Pension Plan Funding

Siemens projected benefit obligation (PBO), which considers future compensation increases, amounted to 20.9 billion on September 30, 2003, compared to 19.5 billion on September 30, 2002. This increase is due primarily to a reduction in the average discount rate from 6.0% to 5.4%, which reflects the worldwide decline in interest rates in financial markets. The fair value of plan assets as of September 30, 2003 was 15.9 billion, compared to 14.5 billion on September 30, 2002. Over the last twelve months, the actual return on plan assets amounted to 7.4%. Because the measurement date for the valuation of certain Siemens pension funds, particularly our large funds in the U.S. and U.K., does not coincide with the end of our fiscal year, we are not able to fully recognize this return for fiscal year 2003. On September 30, 2003, the combined funding status of all Siemens pension plans showed an underfunding of 5.0 billion, unchanged from the end of fiscal 2002.

Siemens was one of the first German companies to transfer its pension obligations to a pension trust with segregated assets to cover pension obligations. The principal funded pension plans outside Germany had already been established in this manner. The assets allocated to these pension trusts serve solely to cover future pension obligations and are not available for other purposes. At the time we established our German pension trust, it was fully funded based on the fair value of its assets. However, substantial declines in equity valuations due to stock market trends over the past three years have led to lower fair values for plan assets, which in turn has resulted in underfunding of pension plans.

The Company constantly reviews the design and the asset allocation of its pension plans, in order to detect and analyze trends and events that may affect asset values and initiate appropriate counter-measures at a very early stage. These efforts are part of the Company s overall program of sound financial management of its pension funds, including adjustments to the asset allocation and supplemental contributions to pension plans. In fiscal 2003, these supplemental contributions included 1.192 billion in cash and 377 million in real estate. In fiscal 2002, supplemental contributions totaled 1.782 billion in cash.

In fiscal 2003, we decided to change the design of the German pension plan from a defined benefit plan into effectively a defined contribution plan. This change in approach will enable the Company to better control future benefit obligations. Under the new system (BSAV), previously earned benefits are not affected. From October 1, 2004 onward, all employees of Siemens AG and domestic affiliates will receive pension benefits in line with the new system only. We expect to continue to review the need for defined contribution plans also outside Germany in the coming years.

For more information on Siemens pension plans, see Notes to the consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management estimates and assumptions that affect reported amounts and related disclosures. All estimates and assumptions are made to the best of management s knowledge and belief in order to fairly present our position and the results of our operations. The following of our accounting policies are significantly impacted by such management judgment and estimates.

REVENUE RECOGNITION ON LONG-TERM CONTRACTS

Our ICN, ICM, SBS, I&S, SD, PG, PTD and TS Groups conduct a significant portion of their business under long-term contracts with customers. We generally account for long-term projects using the percentage-of-completion method, recognizing revenue as performance on a contract progresses. This method places considerable importance on accurate estimates of the extent of progress towards completion. Depending on the methodology to determine contract progress, the significant estimates include total contract costs, remaining costs to completion, total contract revenues, contract risks and other judgments. The managements of the operating Groups continually review all estimates involved in such long-term contracts and adjust them as necessary. We also use the percentage-of-completion method for projects financed directly or indirectly by Siemens. In order to qualify for such accounting, the credit quality of the customer must meet certain minimum parameters as evidenced by the customer s credit rating or by a credit analysis performed by SFS, which performs such reviews

in support of the Corporate Executive Committee. At a minimum, a customer s credit rating must be single B from the rating agencies, or an equivalent SFS-determined rating. In cases where the credit quality does not meet such standards, we recognize revenue for long-term contracts and financed projects based on the lower of cash if irrevocably received, or contract completion.

ACCOUNTS RECEIVABLE

The allowance for doubtful accounts involves significant management judgment and review of individual receivables based on individual customer creditworthiness, current economic trends and analysis of historical bad debts on a portfolio basis. For the determination of the country-specific component of the individual allowance, we also consider country credit ratings, which are centrally determined based on information from external rating agencies. Regarding the determination of the valuation allowance derived from a portfolio-based analysis of historical bad debts, a decline of receivables in volume results in a corresponding reduction of such provisions. As of September 30, 2003 and 2002, Siemens recorded a total valuation allowance for accounts receivable of 1.122 billion and 1.585 billion, respectively. Additionally, Siemens selectively assists customers, particularly in the telecommunication equipment area, through arranging financing from various third-party sources, including export credit agencies, in order to be awarded supply contracts. In addition, the Company provides direct vendor financing and grants guarantees to banks in support of loans to Siemens customers when necessary and deemed appropriate. Due to the previous high levels of capital spending and associated debt at most major telecommunications operators, however, requests for such financing continued to decrease.

GOODWILL

SFAS 142 requires that goodwill be tested for impairment at least annually using a two-step approach at the division level. In the first step, the fair value of the division is compared to its carrying amount including goodwill. In order to determine the fair value of the division, significant management judgment is applied in order to estimate the underlying discounted future free cash flows. In the case that the fair value of the division is less than its carrying amount, a second step is performed which