QUALCOMM INC/DE
Form 8-K
December 17, 2003

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

December 2, 2003

Date of Report (Date of earliest event reported)

QUALCOMM Incorporated

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

000-19528	95-3685934
(Commission File Number)	(IRS Employer Identification No.)
5775 Morehouse Drive, San Diego, CA	92121
(Address of principal executive offices)	(Zip Code)

858-587-1121

(Registrant s telephone number, including area code)

TABLE OF CONTENTS

Table of Contents

Item 2. Acquisition or Disposition of Assets

On December 2, 2003 (the Closing Date), Vésper Holding, Ltd (VHL), a majority-owned subsidiary of QUALCOMM Incorporated (the Company), and QUALCOMM do Brasil Ltda. (QdB), a wholly-owned subsidiary of the Company, conveyed all of their rights, title and interest in and to the shares of capital stock of Vésper Holding S.A. and Vésper Holding São Paulo S.A. (collectively, the Brazilian Holding Companies), constituting all the issued and outstanding shares of capital stock of the Brazilian Holding Companies, to Embratel Particpações S.A. (Embratel), pursuant to that certain Share Purchase Agreement (the SPA) dated as of September 25, 2003 among VHL, QdB and Embratel. In addition to indirectly acquiring the shares of Vésper S.A. and Vésper São Paulo S.A. (the Vésper Operating Companies) held by the Brazilian Holding Companies, under the SPA Embratel also directly acquired on the Closing Date from VHL all of its rights, title and interest in and to all the remaining shares of capital stock of the Vésper Operating Companies. While the SPA provided for the payment by Embratel of nominal consideration in the total amount of approximately $1 U.S. for the shares of the Brazilian Holding Companies and Vésper Operating Companies, the Company and Embratel have separately agreed that no actual payment thereof was to be made, and no consideration for such shares was received. This price was determined by arms-length negotiations.

Although under the SPA Embratel directly or indirectly acquired 100% of the shares of the Vésper Operating Companies, the Company has effectively retained, through a new wholly-owned subsidiary (TowerCo), ownership and control of the Vésper Operating Companies 622 existing communication towers and related interests in tower site property leases (Vésper Towers). The communication towers had a net book value of approximately $5 million at September 30, 2003. All other assets of the Vésper Operating Companies as of the Closing Date were included in the Embratel sales transaction. Concurrent with the closing of the transaction, the Vésper Operating Companies and TowerCo entered into a 10-year agreement (renewable at the Vésper Operating Companies option for up to two successive five year terms) whereby the Vésper Operating Companies will pay a monthly fee for use of aerial and ground space on the tower sites. Under this arrangement, the Company preserves the ability, and plans, to sell some or all of its interest in TowerCo and/or the tower sites (with assignment of the associated rights under the usage rights agreement).

The Company provided approximately $6 million in the first quarter of fiscal 2004 to fund operations of the Vésper Operating Companies and additionally provided approximately $39 million in aggregate funding to or for the benefit of the Vésper Operating Companies on or before the Closing Date to facilitate the transaction. Such facilitation included enabling the Vésper Operating Companies to completely extinguish their existing local bank debt (at an agreed discount) and transfer ownership of the Vésper Towers to TowerCo free and clear of any local bank security interest. All other liabilities of the Vésper Operating Companies as of the Closing Date were included in the Embratel sales transaction. The Company expects to realize an estimated loss of $50 million to $60 million on the Embratel sales transaction in the first quarter of fiscal 2004.

On November 19, 2002, QdB won bids to acquire personal mobile service (SMP) licenses in the state of São Paulo (excluding São Paulo metro), the state of Minas Gerais, and in the Northeast region of Brazil. Approximately $8 million of the approximate $82 million purchase price for the SMP licenses was paid in December 2002. The remaining Brazilian real-denominated

Table of Contents

obligation was financed by the Brazilian government at an interest rate of 12% per annum, plus an adjustment for inflation, payable in six equal annual installments starting in fiscal 2006. These SMP licenses with a net book value of approximately $103 million and a corresponding liability of approximately $111 million at September 30, 2003 were not included in the Embratel sales transaction. The Company has initiated the waiver and return of the SMP licenses to Anatel, the telecommunications regulatory agency in Brazil. The unaudited pro forma condensed consolidated financial information does not include the accounting for the return of the SMP licenses.

Financial Accounting Standards Board (FASB) Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, was issued in January 2003. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The provisions of FIN 46 were effective immediately for all arrangements entered into after January 31, 2003. The Company has determined that the Vésper Operating Companies are variable interest entities; however, the Company is not the primary beneficiary of the Vésper Operating Companies. The Vésper Operating Companies will therefore not be consolidated in the Company s consolidated financial statements after the Closing Date. However, numerous implementation issues and questions exist related to the application of FIN 46 and it is expected that the FASB will issue additional guidance that may clarify or revise FIN 46 as issued. The Company will continue to monitor guidance provided by the FASB to determine the effect, if any, FIN 46 will have on this transaction.

None of the Company, its affiliates, the Company s directors or officers, or any of its directors or officers associates has any material relationship with Embratel.

In addition to the historical information contained herein, this Report contains forward-looking statements that are subject to risks and uncertainties. Such statements can be identified by the use of words such as expects or plans or similar expressions, and include statements regarding the Company s plans to sell all or part of its interest in TowerCo, the estimated loss regarding the sale transaction that will be reported in the Company s Quarterly Report on Form 10-Q for the first quarter of fiscal 2004 and the estimated loss for the first quarter of fiscal 2004 related to the Vesper Operating Companies through the Closing Date. Actual results may differ substantially from those referred to herein due to a number of factors, including the process of negotiation regarding the sale of the Company s interest in TowerCo, factors affecting the operating results of the Vésper Operating Companies as well as the other risks detailed from time to time in the Company s SEC Reports, including the Company s Annual Report on Form 10-K for the year ended September 28, 2003 (see Note (a) to unaudited pro forma condensed consolidated financial information).

Table of Contents

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

(a) Financial statements of businesses acquired

Not applicable

(b) Pro forma financial information

(1) Unaudited pro forma condensed consolidated financial information of QUALCOMM Incorporated.

The following unaudited pro forma condensed consolidated financial information is being filed herewith:

(c) Exhibits

2.5 Embratel Share Purchase Agreement dated as of September 25, 2003, by and among Vésper Holding, Ltd., QUALCOMM do Brasil Ltda. and Embratel Particpações S.A. (1) (2)

(1) Upon request by the Securities Exchange Commission, the Registrant will furnish a copy of any omitted schedule or similar attachment from this Exhibit.

(2) Filed as an exhibit to the Registrant s Annual Report on Form 10-K for the fiscal year ended September 28, 2003.

Table of Contents

QUALCOMM Incorporated
Unaudited Pro Forma Condensed Consolidated Balance Sheet
(In thousands, except per share data)

ASSETS

	September 30, 2003 (a)		
	Historical	Pro Forma Adjustments	Pro Forma (b)
Current assets:			
Cash and cash equivalents	$2,045,094	$ (47,828)(c)	$1,997,266
Marketable securities	2,516,003		2,516,003
Accounts receivable, net	483,793	(21,930)(d)	461,863
Finance receivables, net	5,795		5,795
Inventories, net	110,351	(7,579)(e)	102,772
Deferred tax assets	611,536		611,536
Other current assets	176,192	(13,033)(f)	163,159
Total current assets	5,948,764	(90,370)	5,858,394
Marketable securities	810,654		810,654
Finance receivables, net	181,622		181,622
Other investments	128,651		128,651
Property, plant and equipment, net	622,265	(98,620)(g)	523,645
Goodwill, net	346,464		346,464
Deferred tax assets	406,746	1,478(h)	408,224
Other assets	377,270	(7,980)(f)	369,290
Total assets	$8,822,436	$(195,492)	$8,626,944
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Trade accounts payable	$ 195,065	$ (61,894)(i)	$ 133,171
Payroll and other benefits related liabilities	141,000	(7,941)(j)	133,059
Unearned revenue	174,271	(6,360)(k)	167,911
Current portion of long-term debt	102,625	(102,537)(l)	88
Other current liabilities	195,241	(4,428)(m)	190,813
Total current liabilities	808,202	(183,160)	625,042
Unearned revenue	236,732	(65)(k)	236,667
Long-term debt	123,302	(12,775)(l)	110,527
Other liabilities	55,578		55,578
Total liabilities	1,223,814	(196,000)	1,027,814
Commitments and contingencies			
Minority interest in consolidated subsidiaries	50		50
Stockholders equity:			
Preferred stock, $0.0001 par value; issuable in series; 8,000 shares authorized; none outstanding at September 30, 2003			
Common stock, $0.0001 par value; 3,000,000 shares authorized; 798,353 shares issued and outstanding at September 30, 2003	81		81

Paid-in capital	6,324,971		6,324,971
Retained earnings	1,297,289	(46,002)(c) - (n)	1,251,287
Accumulated other comprehensive loss	(23,769)	46,510(n)	22,741
Total stockholders equity	7,598,572	508	7,599,080
Total liabilities and stockholders equity	$8,822,436	$(195,492)	$8,626,944

See accompanying notes to unaudited pro forma condensed consolidated financial information.

Table of Contents

QUALCOMM Incorporated
Unaudited Pro Forma Condensed Consolidated Statement of Operations
(In thousands, except per share data)

	Year Ended September 30, 2003 (a)		
	Historical	Pro Forma Adjustments	Pro Forma (b)
Revenues:			
Equipment and services	$2,985,760	$(123,112)(o)	$2,862,648
Licensing and royalty fees	984,876		984,876
	3,970,636	(123,112)	3,847,524
Operating expenses:			
Cost of equipment and services revenues	1,430,047	(161,714)(p)	1,268,333
Research and development	523,267		523,267
Selling, general and administrative	534,915	(63,283)(q)	471,632
Amortization of goodwill and other acquisition-related intangible assets	8,589		8,589
Asset impairment and related charges	194,258	(147,824)(r)	46,434
Other	(30,675)		(30,675)
Total operating expenses	2,660,401	(372,821)	2,287,580
Operating income	1,310,235	249,709	1,559,944
Interest expense	(30,709)	21,337(s)	(9,372)
Investment income, net	5,621	(42,756)(t)	(37,135)
Income before income taxes	1,285,147	228,290	1,513,437
Income tax expense	(457,706)	(58,510)(u)	(516,216)
Net income	$ 827,441	$ 169,780	$ 997,221
Net earnings per common share:			
Basic	$ 1.05		$ 1.26
Diluted	$ 1.01		$ 1.22
Shares used in per share calculations:			
Basic	789,586		789,586
Diluted	817,755		817,755

See accompanying notes to unaudited pro forma condensed consolidated financial information.

Table of Contents

QUALCOMM Incorporated

Notes to Unaudited Pro Forma Condensed Consolidated Financial Information

(a) QUALCOMM Incorporated (the Company) operates and reports using a 52-53 week fiscal year ending on the last Sunday in September. As a result, the fiscal year ended September 28, 2003 included 52 weeks. For presentation purposes, the Company presents its fiscal years as ending on September 30.

(b) The unaudited pro forma condensed consolidated balance sheet gives retroactive effect to the sale of shares of capital stock of Vésper Holding S.A. and Vésper Holding São Paulo S.A. (collectively, the Brazilian Holding Companies) to Embratel Particpações S.A. (Embratel) as if the sale had occurred as of September 30, 2003. The unaudited pro forma condensed consolidated statement of operations gives retroactive effect as if the sale had occurred as of the beginning of the period presented. Therefore, an estimated loss of $50 million to $60 million resulting from the Embratel sales transaction has not been included in this unaudited pro forma condensed consolidated statement of operations but will be reflected in the Company s Quarterly Report on Form 10-Q for the first quarter of fiscal 2004.

The Company provided cash of approximately $6 million in the first quarter of fiscal 2004 to fund operations of the wholly-owned subsidiaries of the Brazilian Holding Companies, Vésper S.A. and Vésper São Paulo S.A. (the Vésper Operating Companies). In addition to the estimated loss on the Embratel sales transaction, the Company expects to record an operating loss of approximately $5 million in the first quarter of fiscal 2004 related to the Vésper Operating Companies through the Closing Date. This use of cash and the estimated operating loss during the first quarter of fiscal 2004 are not considered in these unaudited pro forma condensed consolidated financial statements but will be reflected in the Company s Quarterly Report on Form 10-Q for the first quarter of fiscal 2004.

Although Embratel directly or indirectly acquired 100% of the shares of the Vésper Operating Companies, the Company has effectively retained, through a new wholly-owned subsidiary (TowerCo), ownership and control of the Vésper Operating Companies 622 existing communication towers and related interests in tower site property leases (Vésper Towers). The communication towers had a net book value of approximately $5 million at September 30, 2003. All other assets of the Vésper Operating Companies as of the Closing Date were included in the Embratel sales transaction. Concurrent with the closing of the transaction, the Vésper Operating Companies and TowerCo entered into a 10-year agreement (renewable at the Vésper Operating Companies option for up to two successive five year terms) whereby the Vésper Operating Companies will pay a monthly fee for use of aerial and ground space on the tower sites. Under this arrangement, the Company preserves the ability, and plans, to sell some or all of its interest in TowerCo and/or the tower sites (with assignment of the associated rights under the usage rights agreement).

Table of Contents

(c) Reflects the Vésper Operating Companies cash of $8 million to be acquired by Embratel and the net cash disbursement of $39 million to be paid by the Company to facilitate the Embratel sale transaction. Such facilitation included enabling the Vésper Operating Companies to completely extinguish their existing bank debt (at an agreed discount) and transfer ownership of the Vésper Towers to TowerCo free and clear of any local bank security interest.

(d) Reflects receivables, net of reserves, to be sold to Embratel.

(e) Reflects inventories to be sold to Embratel.

(f) Reflects other current and non-current assets to be sold to Embratel, primarily comprised of refundable Value Added Tax (VAT) and deposits.

(g) Reflects property and equipment, net of accumulated depreciation, to be sold to Embratel. The adjustment excludes communication towers with a net book value of approximately $5 million, which will be retained by the Company.

(h) Reflects additional deferred tax assets to be generated by the net cash disbursement of $39 million to be paid by the Company to facilitate the Embratel sales transaction.

(i) Reflects the settlement of certain accrued liabilities, with the remaining accounts payable of $47 million to be assumed by Embratel.

(j) Reflects payroll and other related liabilities to be assumed by Embratel, primarily comprised of wages and bonuses.

(k) Reflects deferred revenue, both current and non-current, that will not be recognized by the Company as revenue.

(l) Reflects the settlement of $101 million of local bank debt and capital lease obligations, with the remaining capital lease obligations of $14 million to be assumed by Embratel.

(m) Reflects current accrued liabilities to be assumed by Embratel, primarily comprised of VAT payable.

(n) Reflects the recognition of the cumulative translation loss related to the Company s investment in the Vésper Operating Companies.

(o) Reflects the elimination of $123 million in revenues related to the Vésper Operating Companies.

(p) Reflects the elimination of $162 million in cost of revenues related to the Vésper Operating Companies.

(q) Reflects the elimination of $63 million in selling, general and administrative expenses related to the Vésper Operating Companies.

Table of Contents

(r) Represents an impairment charge of $148 million recorded by the Company in fiscal 2003, which would not have been incurred had the Brazilian Holding Companies been sold at the beginning of the period presented. The adjustment excludes $4 million related to the impairment of the communication towers as the Company has retained ownership and control of these assets.

(s) Reflects interest expense incurred by the Vésper Operating Companies related to local bank debt and capital lease obligations.

(t) Reflects $37 million of Vésper Operating Companies losses allocated to the minority interests and $6 million in interest income recognized by the Vésper Operating Companies.

(u) Reflects the elimination of $59 million in income tax benefits that were recorded by the Company in fiscal 2003 primarily related to the write-off of loans to the Vésper Operating Companies, which would not have been realized in fiscal 2003 had the Brazilian Holding Companies been sold at the beginning of the period presented.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

QUALCOMM Incorporated

Date: December 17, 2003

By: /s/ William E. Keitel

William E. Keitel
Senior Vice President and
Chief Financial Officer

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
2.5	Embratel Share Purchase Agreement dated as of September 25, 2003, by and among Vésper Holding, Ltd., QUALCOMM do Brasil Ltda. and Embratel Particpações S.A.(1) (2)

(1) Upon request by the Securities Exchange Commission, the Registrant will furnish a copy of any omitted schedule or similar attachment from this Exhibit.

(2) Filed as an exhibit to the Registrant s Annual Report on Form 10-K for the fiscal year ended September 28, 2003.

es New Roman', Times">

The fourth action item in Operation 2003 aims to further reduce employed capital and improve free cash flow. This measure has already yielded positive results. In the fourth quarter of fiscal 2001, our liquidity improved considerably; and

- The fifth action item concerns corporate costs. In fiscal 2002, we intend to cut these costs by some 15 percent. A further cut of at least this magnitude will follow in fiscal 2003.

Our attention to portfolio optimization has involved a significant refocusing of our structure. Our intent is to divest businesses that no longer fit with our overall portfolio. Since fiscal year 2000, we have completed the following significant transactions aimed at realigning our businesses in order to achieve sustainable growth in profitability:

- Divestiture of 52.9% of Infineon Technologies AG by December 31, 2001 through various means including a public offering, the transfer of an approximate 15% stake to our domestic pension fund, open market sales and various other steps, as described in Infineon Technologies AG ;
- Divestiture of all but 12.5% plus one share of EPCOS AG in a public offering; EPCOS is our former joint venture with Matsushita in the field of passive components and electron tubes;
- Divestiture of our electromechanical components business to Tyco;
- Divestiture of Siemens Nixdorf Retail and Banking Systems;
- Divestiture of our telecommunications cable activities;
- Transfer of our hydroelectric power plants business to a joint venture with J.M. Voith AG;
- Transfer of our nuclear power business into a joint venture with Framatome;
- Acquisition of Entex Information Service Inc., an information technology service provider in the United States;
- Acquisition of Efficient Networks Inc., a leading DSL equipment provider in the United States;
- Acquisition of Shared Medical Systems, Inc., a leading provider of information technology systems and services for the healthcare industry;
- Acquisition of Acuson Corporation, a leading medical ultrasound producer; and
- Acquisition of VDO and Dematic and merger with our business Groups Siemens Automotive and Siemens Production and Logistics Systems.

Three of the acquisitions mentioned above were completed in fiscal year 2001. In November 2000, we acquired Acuson of Mountainview, California, a leading manufacturer and service provider of diagnostic medical ultrasound systems for generating, displaying, archiving and retrieving ultrasound images, which was integrated into our Medical Solution group s ultrasound division. As a result of the acquisition, we have created one of the world s largest ultrasound companies, based on total sales.

In April 2001, we acquired Efficient Networks, a leading provider of DSL broadband access equipment in the United States, for the Access Solution division of our Information and Communication Networks business group, thereby gaining a complete line of customer premises equipment and enhanced access to the U.S. carrier market.

In April 2001, we completed the acquisition of a controlling interest of 50% plus two shares in Atecs Mannesmann AG (Atecs), an automotive and automation technology company. The purchase agreement also provided us the option to acquire Mannesmann AG s remaining interest in Atecs, either at the option of Mannesmann during the period from the date of closing through September 2002, or at the option of Siemens during the period from April 1, 2002 through December 31, 2003. As part of the Atecs acquisition, Mannesmann VDO AG was merged with the former Siemens Automotive to form Siemens VDO Automotive AG, which offers a full range of integrated electrical, electronic and electromechanical systems and modules and individual components used in automotive applications. The Atecs Mannesmann Dematic Systems group was merged with the former Siemens Production and Logistics to form Siemens Dematic AG business group. Following the merger, Siemens Dematic is now the largest player overall in the material handling automation market. The businesses of Mannesmann Demag Delaval were merged into Power Generation s Industrial Turbines and Power Plants division of Siemens AG, which we believe will enhance the division s competitive position by allowing it to offer a fuller line of industrial turbine and power plant products. Siemens intends to dispose of the remaining businesses of Atecs within one year of its acquisition and holds these businesses as assets held-for-sale. For further information on these and other acquisitions see Item 5: Operating and Financial Review and Prospects Fiscal 2001 compared to fiscal 2000 Joint Ventures and Acquisitions and Note 3 to the consolidated financial statements.

Many of our business groups are leaders in their fields, and we are committed to a strategy of developing all of our business groups so that each remains or develops into a leading group in its industry, both in terms of market share and profitability. In some cases, we will seek acquisitions of complementary businesses or partnerships in order to achieve this; in others we may divest our interest to encourage independent growth.

Siemens seeks to distinguish itself from its competitors by being a provider of solutions , going beyond the traditional furnishing of products and services, and seeking to anticipate its customers needs as much as to fill their orders. Increasingly, our businesses are combining their products, systems and services into comprehensive responses to customers problems and needs through integrated approaches that we refer to as solutions . To give just three examples: in communications, Siemens endeavors to provide not just telephone devices and network access systems, but design and consulting services and even operational and maintenance support, providing a solution to a wide spectrum of a client s communications needs; our Medical Solutions group provides not just state of the art systems for diagnosis and therapy, but also professional consulting services, information technology systems for clinical and administrative applications as well as networking and remote processing services, the whole offering designed as a solution to allow our customers to improve their clinical workflow and become more efficient health care providers; our Siemens Building Technology group not only designs and builds a facility to the customer s specifications, but also operates the facility to whatever degree is desired, including providing for maintenance, security, upgrading and the like. A number of our groups and their divisions have incorporated the term solutions in their names, reflecting this large and growing aspect of Siemens business.

Corporate Structure

Our corporate structure consists of sixteen different business groups active in eight different business areas.

The chart below sets forth graphically our different business groups as they are now structured. Fourteen of our groups involve manufacturing, industrial and commercial solutions and services, related more or less to our origins in the electrical business. These groups are active in business areas ranging from communications to energy to health care, to name only three. We refer to these groups as our operations , to distinguish them from our financial services activities.

Our financial services business comprises two additional activities that have a different character from our other businesses and that we manage differently from our operations groups. For example, we measure economic value added performance differently, based on earnings before taxes rather than earnings before interest and taxes, since interest expense and income is the primary source of revenue and expense for our financial services groups. In addition, much of the business of our two financial services groups consists today of internal services provided to the Siemens operations groups, although this is changing as we focus more on the value creating potential of these businesses.

In addition to our business groups, we hold non-controlling interests in a number of businesses. Other than Infineon, which is discussed below, the most significant of these is our interest in Bosch Siemens Hausgeräte GmbH (BSH), 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. We also provide our business groups with support through our corporate departments and offices in areas including finance, human resources, planning and development and information and communications structures.

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. At December 31, 2001, we held an ownership interest of approximately 47.1% and a direct voting interest of approximately 18.2% in Infineon Technologies AG. See Infineon Technologies AG . Other than subsidiaries that are substantially wholly owned and Infineon Technologies AG, we do not consider any of our subsidiaries to be individually significant.

We review below each of our operations and financial services groups.

---

* Infineon Technologies AG is a separately listed semiconductor manufacturing company in which we had a controlling interest at September 30, 2001. As described below under Infineon Technologies AG , we no longer have a majority voting interest in Infineon, and we will from December 5, 2001 no longer include the assets and liabilities and results of operations of Infineon in our consolidated financial statements and will instead account for our ownership interest in Infineon using the equity method. See Note 31 to the consolidated financial statements.

Information and Communication Networks (ICN)

Our Information and Communication Networks group develops, manufactures and sells public communication systems, private business communication systems and related software, and provides a wide variety of consultancy, maintenance and other services. Our worldwide customer base comprises public service providers, such as public communication network operators and Internet service providers, as well as private companies of all sizes ranging from small businesses to large multinational enterprises. We are increasingly becoming a supplier of complete end-to-end solutions from design to installation and management of networks. In fiscal 2001, ICN had total sales of €12.882 billion, including sales of €693 million to other Siemens business groups. External sales of €12.189 billion accounted for 14.0% of total Siemens net sales.

Our markets are characterized by increasing demand for products that upgrade existing voice-centered networks, especially for those that allow networks to transmit data, thereby protecting the enormous investment of public service providers in those networks. There is also growing demand for a new type of network optimized for the requirements of the Internet. With these trends, ICN s focus has shifted from systems that carry primarily voice over the entire network infrastructure to systems that combine voice and data networking into a single solution for our customers. ICN delivers Internet protocol products, solutions and services for carriers and business customers to build the next generation Internet. Internet protocol convergence and broadband access are accordingly the main areas of ICN s portfolio, with a supporting focus on Internet protocol routing and optical networking.

In fiscal 2001, ICN s business was divided into six divisions:

Our *Wireline Networks* division offers solutions for next generation Internet, traditional circuit switching telephony networks and communications access equipment, as well as related services to fixed-line public network service providers. Our product portfolio contains soft-switch products for call and feature control, voice over Internet protocol and voice over asynchronous transfer mode (ATM) gateways, public telephony switching systems, units allowing access to narrowband and broadband channels and public communication software that is integrated into such products. ATM is a broadband switching technology that permits the use of one network for transmission of different kinds of information, such as voice, data and video. These offerings are typically provided to public communications network operators and, increasingly, to Internet service providers that use this equipment as a gateway from their data network to the existing public telephony network and as a direct link to their end customers. Our voice/data convergence products include solutions that enable public network service providers to combine telephony and Internet services and enrich those services with further applications. Our Wireline Networks products include the following:

- EWSD (a German acronym for digital electronic switching system) is a product line comprised of central office circuit switching systems and related proprietary software that are primarily used for public telephony networks. Since its market introduction in the early 1980s, EWSD has become one of the best-selling switches in the worldwide market, with more than 250 million EWSD ports delivered in over 100 countries.

- Our SURPASS® solution enables public telecommunication operators to combine packet switched network technology and circuit switched networks. By using SURPASS call servers, gateways and access solutions, network operators can build next generation networks and offer voice, data and converged voice-data services across and independent from underlying network technologies. Because it integrates voice and data access across both packet switched and circuit switched networks, SURPASS also helps our customers protect their investment in their existing networks.

  SURPASS includes an open applications software platform, enabling third parties to provide new network features with significantly shortened innovation cycles. Examples of these new features include Internet web page initiated phone calls using voice over Internet protocol, e-mail waiting indication on the phone and e-mails made audible through a telephone. On the basis of our SURPASS architecture, we provide our customers with a broad range of cost-saving and revenue-generating solutions. Our Internet protocol-based local switch introduces local switch functionality into the next generation Internet. Virtual trunking provides carrier-grade telephony over Internet protocol with complete network services and features. Carrier-class dial-in offers carrier-grade solutions for both carriers and Internet service providers. For multimedia applications, we provide open application programming interfaces to members of our SURPASS partner program, we SURPASS . With this program, we encourage the worldwide Internet protocol software community to join its innovative potential with that of our own ICN force.

Our *Enterprise Networks* division provides communications servers, applications and comprehensive solutions for businesses of all sizes, government agencies and other organizations. Our products and solutions are designed for a wide range of information and communications infrastructures. We provide Internet protocol convergence solutions that combine traditional voice telephony and data networking based on Internet protocol into a single product or system for our customers. We also offer vertical market solutions, which are Internet protocol convergence solutions specially designed to meet the needs of specific industries. Our Internet protocol convergence solutions may be deployed across different platforms, including communications servers sold under the Hicom and HiPath product names, which offer a gateway to the Internet in addition to voice telephony, or advanced Internet protocol communication solutions for voice, e-mail and fax. Enterprise Networks operates globally and has installed products and systems for customers in more than 160 countries. We serve our customers with systems installation, systems integration, maintenance, consulting and training services worldwide through local Siemens companies and independent distributors. Our well-known brand names include Hicom and HiPath, our recently introduced enterprise convergence architecture.

Our *Optical Networks* division provides end-to-end solutions to public telecommunication operators that carry voice and data over long distances using optical or electrical transmission. The technologies applied include optical dense wave division multiplexing (DWDM), synchronous digital hierarchy (SDH) and time division multiplexing (TDM), as well as a proprietary software management system for DWDM, SDH, Internet protocol and third-party network elements. Our DWDM systems are developed for long-span transmission with ultra-high capacity. Our SDH solutions are designed for voice and data multiplexing for transmission over communications networks. We provide our customers with system installation, systems integration, maintenance, consulting and training services worldwide.

Our *Unisphere Networks* division, which we operate through our U.S.-based Unisphere Networks subsidiary, offers network elements that are especially designed for the Internet related business needs of public network service providers. Our product lines include core-routers for

Internet backbone networks, providing high data throughput and reliability over long distances. Our products support both ATM and Internet protocol technology. Edge-routers consolidate the data streams of several broadband access elements into one line and provide Internet access control functionality as well as voice over Internet protocol. Soft-switches are used for the transformation of packet switched voice transmission into circuit switched telephony and vice versa. Effective October 1, 2001, we integrated Unisphere Networks into our Wireline Networks division. Accordingly, ICN s business is now divided into five divisions.

Our *Integration, Services and Applications* division addresses the full range of ICN s customers: public network service providers as well as business and public sector organizations. We provide system integration, consulting and network applications by integrating the solutions of ICN s other divisions and third parties. A major part of this business is network planning and solutions, including complete project management, from maintenance of the network s physical infrastructure to operational support, out-tasking, education and training. We also offer products and services designed to implement cross domain management solutions, based on our experience in network operations. These products and services include building blocks for integrating the network technologies of the ICN business units and the leading manufacturers of voice, data, transport and Internet protocol products, as well as cross domain management solutions in the fault, service assurance, performance, connection management and service provisioning areas. Network security systems are an increasingly important area of our consulting business. We offer tailor-made security systems that include security analyses, integration and training in order to provide maximum security, confidentiality and integrity for our customers data transmissions and communications.

Our Integration, Services and Applications division also provides system consulting mainly relating to the integration of call center solutions into our customers existing business processes. Our call center business has been changing over the course of the last decade as our customers call centers shift from reliance on human operators who answer and route telephone calls or take messages, to reliance on automated answering systems. These customer interaction centers are increasingly accessible through media other than telephones, such as fax, Internet and video. Call center solutions can be used either to provide support to operators in a call center or to fully automate a call center, using voice recognition technology and Internet access to replace the functions of an operator. Effective October 1, 2001, our call center business was transferred to our Enterprise Networks division.

Access Solutions is a global division focused on providing solutions for the telecommunications access market. We created Access Solutions in fiscal 2000 to sharpen our focus on products and solutions that upgrade the last mile of public telephony networks to carry not only voice but data requiring very high bandwidth. The last mile refers to that part of the telephony network between homes and businesses and the first switching system, which is often a copper-wire-based network that was originally designed for voice transmission only. Because of the significant investment that exists in these networks, we expect that demand for products that effectively upgrade them will continue to increase.

Access Solutions offers a comprehensive line of hardware and software products, including both customer premise and central office equipment, that are intended to provide the following benefits to our customers:

- ensure a smooth migration from narrowband to broadband;
- ensure end-to-end operability and ease of installation;
- deliver a clear roadmap for the transition from circuit to packet voice transmission; and
- enable simultaneous delivery of voice, video and data services over a complete suite of access networking technologies.

Our line of broadband access products is based primarily on asymmetric digital subscriber line (ADSL) technology. In April 2001, we acquired Efficient Networks, a leading provider of DSL broadband access equipment in the United States, thereby gaining a complete line of customer premises equipment and enhanced access to the U.S. carrier market. The market for DSL equipment deteriorated rapidly in the second half of fiscal 2001. See Item 5: Operating and Financial Review and Prospects Fiscal 2001 compared to fiscal 2000 Consolidated Operations of Siemens worldwide Results of Siemens worldwide Special items and Note 14 to the consolidated financial statements. Our ADSL technology now comprises broadband access products such as the Attane XpressLink Digital Subscriber Line Access Multiplexer (DSLAM) and the SpeedStream series of customer premises equipment products, which provide high data rate transmission and enable local exchange carriers to enter the market of broadband Internet access by reusing their high investment in last mile copper wires to the home. Access Solutions also now produces access switch products. In addition, we offer wireless access solutions that enable new market entrants to bypass the last mile copper wires.

All of ICN s divisions offer services including network planning, maintenance and consulting services.

ICN operates its own sales force in Germany and uses dedicated personnel in Siemens worldwide network of regional sales units. Some of our more significant carrier customers include Deutsche Telekom, MCI Worldcom and Swisscom, while our larger non-carrier customers include Coca Cola, DaimlerChrysler and Deutsche Bank. Our larger contracts with both our carrier and business customers often involve tens of millions of euros. Our largest single customer accounted for approximately 8% of our total sales in fiscal 2001.

The following chart shows the geographic distribution of ICN s total sales in fiscal 2001:

ICN 2001 Total Sales by Region

Our global network of manufacturing sites and configuration centers helps us to develop products that meet local requirements. We have approximately 25 significant manufacturing and assembly facilities spread throughout the world, including 14 in Europe, of which three are located in Germany.

In fiscal 2001, we spent €1.307 billion, or 10.1% of ICN total sales, on research and development, compared to €1.204 billion, or 10.6% of total sales, in fiscal 2000. Our recent product introductions and research and development efforts reflect our focus on Internet protocol convergence and broadband access. In the field of convergence, our recent product developments include: our HiPath brand network products that allow real-time voice and multimedia communications over local area networks; a carrier-grade Internet platform distributed by our Unisphere Networks division (carrier-grade means that all single system components and the network as a whole are designed so that their proven reliability exceeds 99.99%); and the SURPASS solution.

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. A typical example is our Beijing International Switching Systems (BISC) joint venture. BISC manufactures our EWSD product line for delivery to the Chinese market. Siemens holds a 40% stake in BISC. Our partners are the Beijing Telecommunications Administration, Beijing C&W Electronics Group and Beijing Comprehensive Investment Company.

The worldwide communications industry is changing rapidly in several ways:

Growth in data communications traffic. The growth of the Internet, company-based intranets and local area computer networks as means of transmitting information require networks that can carry large amounts of different types of information at high speeds.

Convergence of data, voice and video communications. With the blurring of distinctions between voice, data and video information there is a growing trend toward carrying voice, data and video information over a single high speed network able to handle large amounts of all types of information, rather than through separate voice and data networks.

Deregulation of communications markets and privatization of communications providers. Throughout the world, governments are deregulating communications markets and opening them to competition, as well as selling their stakes in traditionally state-owned communications providers, resulting frequently in higher investments in communications networks by new or newly private companies, as well as more rapid development of new communications products and applications.

In response to these trends, ICN has focused its strategy on packet-switched network technology providing network solutions to our customers based on Internet protocol and designed to transport voice, video and data over a cost-efficient, future-oriented platform. For new entrants to the telecommunications market we offer consulting services, innovative products and, in cooperation with Siemens Financial Services, vendor financing.

ICN faced deteriorating market conditions in fiscal 2001, particularly among telecommunications operators and in the important U.S. market. Our subsidiary Efficient Networks, a provider of DSL broadband access equipment in the United States, for example, experienced rapid contraction of its customer base and the shutdown of operations by a number of previously fast-growing DSL service providers. In response to these difficult conditions, ICN is planning comprehensive adjustments in its cost structure and business portfolio and is intensifying its efforts in working capital management. In fiscal 2001, we implemented our Profitability and Cash Turnaround (PACT) program, which is aimed at cutting costs, reducing personnel, consolidating our worldwide manufacturing structure and optimizing portfolio management. In connection with our PACT Program, we intend to cut approximately 10,000 positions and to reduce our worldwide manufacturing capacity by approximately half. See Item 5: Operating and Financial Review and Prospects Fiscal 2001 compared to fiscal 2000 Segment information analysis Operations Information and Communications.

Changes in the worldwide communications industry are also leading to changes in our competitive environment. The markets for voice, data and wireline communications were until recently separate and distinct, and our competitors still tend to vary by business area. However, like us, traditional voice communications competitors such as Alcatel, Lucent and Nortel have expanded their data communications activities. Conversely, companies such as Cisco Systems, which formerly focused on intra-company data networks, have in recent years acquired voice communications capacity and have begun to provide products and services to carriers. In addition to the companies mentioned above, our other major competitors include Ericsson, Fujitsu and NEC.

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

Information and Communication Mobile (ICM)

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 2001, ICM had total sales of €11.299 billion, including sales of €148 million to other Siemens business groups. External sales of €11.151 billion accounted for 12.8% of total Siemens net sales.

Effective February 2001, we split our former Devices division into Mobile Phones, Cordless Products and Wireless Modules. ICM s structure now comprises these three divisions together with our Networks and Solutions divisions.

Mobile Phones: We offer digital mobile phones in GSM 900, 1800 and 1900 MHz as well as in GPRS technologies for all customer segments. We build our major mobile phone products from a common platform to reduce production costs while allowing us to readily tailor features for different market segments. To broaden our mobile phone line, we are introducing high-end products, but the core of our sales come from medium and lower priced phones designed for the consumer market. We currently offer mobile phones based on the GSM and GPRS standards, but we are developing mobile phones based on time division multiplexing access (TDMA) technology and expect to introduce these phones in fiscal 2002.

In fiscal 2001, we introduced our new triple band phone S40, which was our first mobile phone to be launched in the U.S. market, and our multimedia phone SL45 for the high-end segment. We also began selling low-end GSM-based models, which are primarily focused on the prepaid market. In the third quarter of fiscal 2001, we launched the new 45 series with our S45 phone for the business customer segment, which operates in both the GSM and GPRS transfer modes, and introduced our ME45 for the outdoor segment. In the fourth quarter of fiscal 2001, we also began selling the wireless pocket personal computer SX45 and the Java-enabled SL45i. We sold 28.7 million mobile handsets in fiscal 2001, versus 23.9 million mobile handsets in fiscal 2000. ICM is now among the leading vendors of mobile phones worldwide, based on market share at June 30, 2001 (Source: Gartner Dataquest, September 2001).

Cordless Products: Our cordless phone portfolio, based on digitally enhanced cordless technology (DECT), covers the entire range of products for consumers and small and home office use.

In fiscal 2001, we introduced the Gigaset 4000 family of cordless phones, which offer an innovative new design and improved cost position. We also brought our information appliance SimPad, which offers wireless Internet access, into the market. In addition, we introduced two data networking products: our wireless local area network product I-Gate, and our HomeRF Gigaset with HomeRF technology, which allows wireless interconnection of a diverse range of end-user devices such as notebooks and peripherals.

Wireless Modules: Our Wireless Modules division produces communication modules based on the GSM and DECT standards. We have also developed communications modules based on the GPRS standard, which we introduced in September 2001. Our communications modules enable voice communications and machine-to-machine data transfer and are used in personal data assistants, smart phones, vending machines, traffic control systems, burglar alarms, measuring instruments, navigation systems and other electronic systems and devices.

Networks: The Networks divisions covers the complete range of GSM, GPRS, TD-SCDMA, microwave networks and UMTS mobile network technologies, from base stations and switching systems for mobile communications networks to network services such as intelligent networks and prepaid services. Based on estimated market share at September 30, 2001, our Networks division is among the leading global providers of GSM networks and prepaid services.

ICM s current mobile network products, systems and solutions are designed to support the GSM standard as well as GPRS and EDGE technology. An entirely new generation of ICM products will be based on the international UMTS standard. UMTS 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.

Our Networks division is playing a leading role in the deployment of 3G mobile networks. Our joint venture Mobisphere with NEC of Japan has successfully completed demonstration UMTS calls by 13 network operators in eleven Western European countries. In July and August 2001, demonstration video and data calls were successfully completed. We are well-positioned in the European UMTS market, having concluded contracts and letters of intent to provide UMTS infrastructure to a significant number of mobile network operators in Western Europe.

In the fourth quarter of fiscal 2001, the Networks division introduced pay@once and payment@vantage, which are real time end-to-end payment platforms for e-commerce and mobile commerce that also allow efficient micropayments.

In April 2001, Microwave Networks, a Siemens radio networks unit based in Milan, Italy, was transferred from ICN to our Networks division. Our Microwave Networks products provide solutions for faster and more cost-effective network rollout through the use of microwave technology.

Solutions: This division focuses on providing mobile applications and solutions to network operators, service providers and other business enterprises. We work closely with these customers to develop products and solutions to meet their specific needs. Our open mobile internet platform (OMIP) allows the integration of application-specific middleware as well as proprietary and third party applications. We also offer wireless access protocol platforms through our partnership with Openwave Systems Inc., a leading global provider of mobile Internet software based in Redwood City, California. In addition, we develop applications for mobile commerce, such as mobile shopping or mobile video streaming, and for location dependent services. As of October 1, 2001, our location dependent business was transferred to our Networks division.

Our Wireless Modules division has recently entered into a strategic partnership with Legend, the top computer maker in China, to develop GPRS-based wireless handheld devices based on ICM modules. Our Networks division has continued to develop its joint venture Mobisphere, located in the United Kingdom, to develop third generation mobile radio infrastructure elements. Siemens holds a 51% stake in Mobisphere, with our partner NEC of Japan holding the balance. Fujitsu Siemens Computers, ICM s 50% joint venture with Fujitsu headquartered in Amsterdam, has manufactured and marketed personal computers, laptops, workstations, servers, mainframes and high capacity data storage devices since 1999. In July 2001, we established Siemens Mobile Acceleration GmbH to invest in start-up companies in the mobile business field.

In fiscal 2001, we spent €1.257 billion, or 11.1% of ICM s total sales, on research and development, compared to €862 million, or 9.7% of total sales, spent by ICM in fiscal 2000. In addition to our significant long-term development efforts in UMTS, we have focused development efforts on GPRS, EDGE and high-speed circuit switched data (HSCSD). In collaboration with the China Academy of Telecommunications and Technology, we carried out a successful TD-SCDMA video call in July 2001.

Our Mobile Phones customers are primarily large telecommunications companies and consumer retailers. Our Cordless 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 car vendors, IT vendors and other businesses. Customers of our Networks division primarily include mobile network operators. Increasingly, however, private companies are using our mobile network solutions for their internal wireless networks. Customers of our Solutions division also include mobile network operators, as well as service providers and a variety of enterprises.

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

The following chart shows the geographic distribution of ICM s total sales in fiscal 2001:

ICM 2001 Total Sales by Region

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

The markets for mobile communications devices and networks have grown rapidly worldwide as a result of the dramatic growth in mobile communications and the use of the Internet. In recent years, growth rates in the mobile phone market have been significantly higher than growth in the cordless and corded fixed-line markets. However, with increasing mobile phone penetration and the maturing of the GSM network market, mobile growth rates have slowed significantly, particularly in Europe, while growth rates remained high in Asia. In fiscal 2001, demand for mobile phones was also impacted by worsening economic conditions and saturation, particularly in Western Europe, which led to a sharp decline in market growth that resulted in excess inventories, oversupply and significantly reduced market prices for mobile handsets. The GSM network market was also adversely affected by slowing growth. Near-term prospects for both the mobile phone and GSM network markets could be affected by the timing of investment in and consumer acceptance of third-generation UMTS infrastructure and products.

In response to these difficult market conditions, ICM has begun to initiate restructuring programs. Our Mobile Phones division reduced its inventories significantly and instituted cost-cutting measures, such as concentrating our mobile phone production in Kamp Lintfort, Germany, and Shanghai, China. We also outsource a portion of our mobile phone production to third parties. Further outsourcing to third-party electronic manufacturing suppliers is under consideration. An additional program to reduce operating expenses has been implemented at our Networks division. See Item 5: Operating and Financial Review and Prospects Fiscal 2001 compared to fiscal 2000 Segment information analysis Operations Information and Communications.

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. Demand for our mobile and cordless phone products also typically fluctuates by season, with most of our sales historically occurring around the Christmas holidays. Due to generally short product life cycles in our mobile handset and personal computer 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. Currently,

Infineon and Intel are significant suppliers of semiconductors and other components for mobile handsets.

We compete with both large, established mobile handset and network telecommunications manufacturers and computer companies with a broad focus as well as smaller start-up companies concentrating on particular market niches. Although competition differs by type of product, consolidation in this industry is occurring rapidly as companies adjust to address the increasing convergence of voice, data and multimedia communications. Some of our most significant competitors include Nokia, Motorola, Lucent Technologies and Ericsson in mobile phones and mobile networks and Matsushita, Alcatel, Philips and Sony in other digital communications products. The most important competitive factors 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.

Siemens Business Services (SBS)

Siemens Business Services provides information and communications services to customers in industry, the public sector, telecommunications, transport, utilities and finance. SBS designs, builds and operates both discrete and large scale information and communications systems, and provides related maintenance and support services. In fiscal 2001, SBS had total sales of €6.034 billion, including sales of €1.773 billion to other Siemens business groups. External sales of €4.261 billion accounted for 4.9% of total Siemens net sales.

Siemens established SBS in 1995 to provide information technology services to Siemens and build external business. SBS became a separate segment of Siemens in October 1998. 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 71% 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. We create these solutions for customers by drawing on our management consulting resources to redesign customer processes, our professional services to integrate, upgrade, build and install information technology systems, and our operational capabilities to run these systems on an ongoing basis. We currently generate approximately 28% of our total sales from our project and solutions business, 52% from operational services and 20% from product-related services.

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

- customer relationship management, to assist business 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 and pooling 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 s 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 solution 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 the design and consulting services provided by our consultants relate to information technology and communications systems that we also build or operate. As required by the customer, in a business process outsourcing arrangement we can operate an entire information technology system or provide only one or more discrete services, from data storage and processing to billing and customer management. We also provide technical support and maintenance of existing information and communication systems. As a complete solution, we can take control of all of a customer s information technology equipment and employees and design, build and operate a new information technology system to improve performance and lower costs. SBS is a partner of SAP, Microsoft, Siebel, i2 Technologies, Oracle and Computer Associates and can design and build systems and provide services using their software. Recent projects and partnerships include:

- a global service partnership with Toshiba for its multinational customers in Europe, the Middle East and Africa that enables Toshiba to provide its notebook, server and desktop customers with a comprehensive service platform;

- a global partnership with i2 Technologies for consulting, marketing, training and development in the field of supply chain management; SBS will also continue to integrate solutions based on i2 Technologies TradeMatrix software into customers existing system environments; and

- cooperation with SAP AG and Kordoba Gesellschaft für Bankensoftware mbH & Co. KG, a market leader in German banking software based in Munich, in the sale and development of an integrated Kordoba/SAP banking software system.

Our group s focus is on industry (including Siemens), the public sector, telecommunications, transportation, utilities and financial services. Siemens businesses considered together continue to be our largest customer. Although we compete with external service providers for all Siemens contracts, and each Siemens business segment 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. In October 2000, Siemens announced that it would invest €1 billion to incorporate Internet and e-business technology into its internal business processes and to found the Center of E-Excellence, a Siemens initiative to coordinate and promote this transformation. SBS is making a significant contribution to this project by providing consulting services and designing, building and operating the requisite IT infrastructure.

We have traditionally generated most of our sales in Germany. We are active worldwide in over 50 countries and also derive a significant percentage of our sales from European countries outside Germany. SBS has its own sales and delivery force both in Germany and in its major countries of operation, while in smaller countries sales and delivery are carried out by dedicated personnel in Siemens worldwide network of regional sales units.

The following chart shows the geographic distribution of SBS s total sales in fiscal 2001:

SBS 2001 Total Sales by Region

In June 2001, we combined Entex, a leading U.S. provider of platform-neutral and manufacturer-independent information services that we acquired in April 2000, and SBS s U.S. operations into a single legal entity, SBS Inc. We will continue to work with other business segments in the Information and Communications group and to use the industry-specific expertise of Siemens in the utilities, telecommunications and manufacturing industries to attract new customers in these areas.

In the near term, however, in response to difficult conditions in the IT services market and in the e-business arena in particular, we are concentrating on improving our profitability through cost-cutting measures, including personnel reductions, and several programs intended to enhance our operational efficiency. See Item 5: Operating and Financial Review and Prospects Fiscal 2001 compared to fiscal 2000 Segment information analysis Operations Information and Communications .

Our most significant competitors vary by region and type of service. A few are global, full service providers of information technology such as IBM Global Services and EDS. Our competitors that focus more narrowly on specific regions or customers include T-Systems, a unit of Deutsche Telekom AG, in Germany and Atos/Origin in France and the Netherlands. Those focusing on a particular service include Accenture (formerly Andersen Consulting) 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 balance demand for customized solutions with the need to manage risks in large projects and to achieve economies of scale.

The large size of some of our projects occasionally exposes us to technical performance, customer or country-related risks. In the recent past, we have suffered significant losses in connection with such risks. See Long-Term Contracts and Contract Losses .

Automation and Drives (A&D)

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 other materials processing industries. In fiscal 2001, A&D had total sales of €8.947

billion, including sales of €1.104 billion to other Siemens business groups. External sales of €7.843 billion accounted for 9.0% of total Siemens net sales.

We divide our products and services into four businesses, combining various internal organizational units: low voltage control and installation technology; manufacturing automation; drive systems; and process automation.

Our *low voltage control and installation technology* products include principally:

- low voltage switchboards, circuit protection and distribution products, motor control products and sensors commonly used in the control cabinets of switchgear and control gear manufacturers and automation providers in the capital equipment and construction industries. More than 80% of this division s products now employ totally integrated automation, an innovative combination of automation and power management in industrial and construction applications;

- electrical installation products such as circuit protection and wiring systems, fuses and small distribution board systems for the distribution of electricity in buildings from the connection with the power grid to the wall socket, mainly used in the construction market. We also provide modern bus systems for communication and monitoring, which link products and systems together and to building automation systems, and are used principally in residential buildings and large commercial facilities like hospitals and office buildings. This product line has recently been supplemented by wireless versions for renovation and modernization projects.

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 or software solutions and, for the automobile industry, plan, engineer and sell complete manufacturing automation solutions. Our products continue to keep pace with innovations in software and Internet-based capabilities.

Our *drive systems* products include drives and computerized numerical controls (CNCs) for machine tools, as well as automation and drive equipment for other types of machines. We also sell various types of motors and drives from medium 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. Recent product introductions include a new family of safety-based components for industrial applications, as well as new controllers developed for markets in China and Japan.

Within this business, our large drive activities underwent significant reorganization in fiscal 2001. We moved our large drives manufacturing facilities from Erlangen to Nuremberg and separated the manufacture of mechanical drive components into a separate subsidiary. Following this reorganization, Nuremberg now is our center of competence for the development, manufacturing and testing of large motors and drives.

Process automation engineers and sells instruments, process analytic systems and pumps to companies in the raw materials and other materials processing and capital equipment industries. Complete solutions integrating these products for specific applications are planned, engineered and sold to the chemical, glass, ceramic, stone and earth processing industries. We use PCS 7, a computerized process control system that we substantially upgraded this year, as the basis for our batch and process solutions.

In all of our business groups, 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 in certain areas through acquisitions and joint ventures in the field of process instruments and drive systems. Our 1999 joint venture with Yaskawa (Japan), a leading manufacturer of servo, servo motors and robotics products, is a recent example of this strategy.

In fiscal 2001, the majority of our sales to third parties were to industrial customers in the mechanical and electrical machines industries, with a significant portion made to distributors, system and software houses and engineering offices. We also distribute our electrical installation products and systems to customers in the building construction industry through third party distributors. For many years, we have also cooperated closely with customers in the automobile and chemical industries and we are working to expand both our business and our cooperation in this area. 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 12.3% of our total sales in fiscal 2001. 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.

Our products are sold to our customers primarily through our own sales force in Germany and through dedicated personnel in Siemens worldwide network of regional sales units. A significant proportion of our products go to original equipment manufacturers and end-users through third party distributors.

The following chart shows the geographic distribution of A&D s total sales in fiscal 2001:

A&D 2001 Total Sales by Region

We have approximately 60 significant manufacturing and assembly locations around the world, including approximately 25 in the Americas, ten in Asia, and 25 in Europe, of which 12 are located in Germany.

In fiscal 2001, we spent €498 million, or 5.6% of A&D s total sales, on research and development, compared to €464 million, or 5.8% of total sales, in fiscal 2000. 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. Our primary goals are sales growth in our traditional markets in Germany and Western Europe and continued expansion in the Americas. The most significant change in our marketing and sales efforts in fiscal 2001 took place in the United States, where, in combination with Siemens overall U.S. business initiative, our New Business Design will broaden our focus from our present construction sector concentration to include the industrial sector. We also aim to increase our profitability through productivity improvements and continued product innovation. In the beginning of fiscal 2001, we undertook a world-wide strategic program that emphasizes our e-business activities and aims to increase purchases and sales by e-commerce to 60% of our product business volume by the end of fiscal 2003, as opposed to roughly half that amount today. This initiative covers product life-cycle management, supply chain management and customer relation management to optimize our processes, reduce working capital requirements and improve product delivery times. After sales support services are also a key feature of this program.

Consolidation in our industry is occurring on several 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.

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 six years after introduction, and are extremely short where software and electronics play an important role. Product lifetimes tend to be longer in motors and in circuitry. We estimate that 75% of our total sales annually is generated by products that are less than five years old.

Our principal competitors Rockwell, ABB, Schneider and Emerson have wide business portfolios similar to ours. We also compete with specialized companies such as Eaton, Honeywell and Fanuc. Our U.S. competitors traditionally have strong positions in software technologies, while Japanese companies have generally focused on large-scale production and cutting costs. 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)

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, maintenance and modernization. In fiscal 2001, I&S had total sales of €4.563 billion, including sales of €1.165 billion to other Siemens business groups. External sales of €3.398 billion accounted for 3.9% of total Siemens net sales.

Our three core competence fields are:

- *industry sector solutions* for customers in materials processing industries and infrastructure related industries that include automation, instrumentation, drives, power distribution and control systems;
- *information technology solutions* to enhance productivity in facilities for manufacturing and materials processing by linking different levels of automation, process control and management information systems; and
- *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.

I&S is structured in seven divisions, as discussed below. For each, we give an example of a recent project that illustrates our business activity.

Five of our divisions use their industry-specific expertise to design and deliver industry sector solutions tailored to customers needs in the industry sectors listed below.

Metals, Mining and Paper Technologies provides the automation and process control systems, drive systems and electrical equipment used in steel making, rolling and processing plants and in pulp and paper mills. For the open pit mining industry we offer solutions including electrical power, drive and automation systems for bulk material handling and processing.

In this sector we recently delivered to a customer an automated steel galvanizing line with an integrated electrical system that reduces zinc consumption and lowers operation costs through the use of neural network technology that collects information on processes over time and uses it to adjust those processes for improved efficiency.

Oil & Gas and Petrochemical Technologies offers solutions for the off- and onshore operations of these industries, including power- and integrated drive systems, automation, process control and information technology. In the oil and gas industry, our solutions and services address both upstream exploration as well as midstream transportation and pipeline activities.

A recent project involved automation and electrical systems for an offshore oil platform including process control, safety, telecommunication systems and dynamic positioning for subsea production, contributing to a shorter project execution time, higher plant efficiency and reduced maintenance costs.

General Process Industries combines our activities in the food & beverages, water/wastewater and cement sectors. Its scope ranges from industry specific solution packages (e.g. process simulation) to supplying the entire spectrum of automation, process control, drive systems and electrical equipment for plants. This new division was created in 2001 from existing sections of our technical services division in order better to exploit these growing markets and to further expand our business in processing industries.

In a consortium with a machinery supplier and civil constructor, we recently integrated a new cement production line into an existing plant, which was also partially modernized, contributing to higher productivity, a safer and more comfortable operation and lower environmental impact that will strengthen our customer s position in the market.

Infrastructure and Marine Solutions provides automated airport ground traffic guidance and control systems and the electrical equipment used in seaport freight handling systems. We also deliver propulsion drives and integrated electrical systems for ships as well as fuel cells for submarines. In addition, we provide alternative power solutions like combined heat and power plants and we also specialize as general contractor for large- and medium-sized wind farms.

In this sector we recently completed turn-key delivery of a 31.5 megawatt onshore wind farm with 21 wind turbines. The scope of our services includes: project development, technical and financial engineering and construction as well as plant maintenance and operations management. This ensures optimal equipment availability and operating economy over the entire life cycle.

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.

We recently designed and installed an urban and interurban intelligent traffic control system for the city of Berlin, involving video detection and other traffic sensors as well as interconnections to tunnel control systems to improve the city s mobility, public transport and parking management systems.

Our other two divisions complete our scope by providing IT solutions and life-cycle services.

IT Plant Solutions is our division responsible for *information technology solutions.* It was created in fiscal 2000 to provide high value-added solutions for the growing market in advanced industrial information technology and industry- specific manufacturing execution solutions. This division focuses on consulting services, software products and applications to deliver solutions tailored to specific industries. These include discrete manufacturing, infrastructure and process industries such as oil & gas, petrochemicals, food & beverage, metals & mining and pulp & paper. By integrating the shop floor, production operations and business management levels, our information technology solutions manage the intricate flow of information among these levels and optimize production processes, thereby creating an intelligent plant .

As an example of an important project in this division, we recently delivered an integrated software solution for an international vegetable oils and fats producer to improve product quality, production quality control and delivery reliability, promoting schedule dependability and supply chain responsiveness and facilitating the management of change and flexibility in new product introductions.

Industrial Services is our largest division, typically accounting for over half of I&S 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 also provide plant decommissioning services. We are active globally on a local basis through a network of about 300 service locations in more than 90 countries with nearly 21,000 employees. Our strong local presence allows us to be close to our customers, increasing speed and efficiency in delivering our services.

In this division, we recently entered into a performance-based integral maintenance contract for all mechanical and electrical systems at a copper mine including a full condition monitoring program and management of supplies and spare parts. Our solution aims to provide the customer with optimized plant availability and reliability as well as lower production costs, reduced complexity, improved upkeep of assets and health, safety, and environmental regulatory compliance.

We are a multiple source vendor and place the interests and preferences of our customers in the foreground, integrating best of class products and systems regardless of their manufacturer. We cooperate extensively with Siemens A&D and PTD groups, integrating their products and systems into the solutions we design and deliver.

In Europe, our primary goal is to increase our business outside of Germany. We are also seeking to continue our growth in the Americas and Asia. In 2001, we completed three acquisitions: one in Brazil and another in Belgium, in order to expand our industrial information technology business and strengthen our expertise in delivering innovative solutions to the process industries, and the third in Great Britain, to complement our system integration expertise and broaden market access for our industrial services business.

Our industry sector divisions derive their sales revenues primarily from projects awarded on the basis of internationally solicited tenders, and their most significant customers vary from year to year. Our Industrial Services division provides its services to numerous customers across a variety of industries, as well as to our industry sector divisions and other Siemens businesses. While services provided to Siemens traditionally account for the most significant portion of the total sales of Industrial Services, accounting for approximately 50% of its sales in fiscal 2001, our goal is to expand the portion of services we provide to 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 2001, we generated about 53% of our total sales from projects and services performed outside Germany. The following chart shows the geographical distribution of I&S s total sales in fiscal 2001:

I&S 2001 Total Sales by Region

As a provider of innovative solutions and services tailored for our customers, I&S does not traditionally incur high expenses relative to sales for research and development unrelated to projects for specific customers. In fiscal 2001, we spent €48 million, or 1.1% of I&S s total sales, on research and development, compared to €49 million, or 1.2% of total sales, in fiscal 2000. 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 and range from large diversified multinationals to small, highly specialized local companies. I&S 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 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 industry sector divisions occasionally exposes us to technical performance, customer or country-related risks. 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.

Siemens Dematic (SD)

Siemens Dematic is the result of the merger in April 2001 of the former Siemens Production and Logistics Systems with Atecs Mannesmann Dematic Systems Group. Siemens Dematic designs, engineers and sells factory automation and logistics automation equipment, systems and solutions, postal automation, electronics assembly systems and internal transport systems for on-site use. Following the merger, we have reorganized our business into three divisions: Material Handling Automation, Postal Automation and Electronics Assembly Systems.

In fiscal 2001, SD had total sales of €2.520 billion, including sales of €139 million to other Siemens groups. External sales of €2.381 billion accounted for 2.7% of total Siemens net sales. These results include sales of the newly acquired Dematic businesses only for the period April September following its acquisition, which added approximately €822 million to our sales.

Our *Material Handling Automation* division designs, manufactures and assembles integrated distribution and factory logistic systems. We are organized into five market oriented business units each serving a different group of key customers. We automate materials flow, handling and logistics processes for major retail and wholesale operations and durable and non-durable goods manufacturers through our Distribution, Industrial and Automotive units. Our Warehousing, Parcel & Freight, Federal Systems (for government contracts) and Airport-Baggage/Cargo units automate parcel, freight, baggage and cargo handling for third-party warehousing and forwarding agents. Our core competencies in this division are product & systems development, planning, information technology, material handling automation architecture and consulting. Our acquisition of the Dematic businesses increased our presence in the U.S. market and provides us with the manufacturing capabilities for core hardware and software products that are part of the systems we sell and that we had previously purchased from third-party suppliers. Going forward, we expect this division to represent more than half of SD s annual revenues.

Postal Automation provides equipment for: sorting of both standard and large letters (so called flats); reading and coding systems; postal information technology; and postal services such as presort operations. Product responsibility for parcel & freight material handling was transferred to the Material Handling Automation division in fiscal 2001. In connection with the Atecs Mannesmann merger, antitrust authorities prohibited us from acquiring the Mannesmann Dematic Postal Automation business.

Key customers for this business are the traditional post and parcel services, including the German and U.S. postal services. Private parcel and package carriers, such as TNT, are also among our potential customers and are served jointly with the Material Handling Automation division. The Postal Automation business has been affected by the downturn in the U.S. postal business, and reduced volumes and expectations have led to delays and reduced investment by the companies involved in this industry. In particular, the U.S. Postal Service s investment freeze has had a negative impact on our business in the past year.

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 and solutions. 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-mechanical equipment (including drives and programmable logic controllers) and software from Automation & Drives (A&D). In recent years, these two businesses benefited from the boom in so-called e-logistics, with both traditional and new economy logistics and postal and parcel service providers investing heavily in capital equipment and information technology systems. While the e-logistics boom has dampened, we expect that going forward our Material Handling Automation division will benefit from an increase in demand from traditional customers investing in integrated systems. We believe that these integrated systems including information technology solutions we developed during the e-logistics boom and our industry knowledge create an opportunity 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.

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, including, in addition to the SMT placement system itself, other Siemens Dematic brand products as part of the line. 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.

This business has experienced an important downturn in calendar year 2001 due primarily to the decline in technology investment in the U.S. and the general malaise in the global telecommunications and semiconductor industries. On a more positive note, in 2001, we began to enter the Japanese market for these products.

In addition to our core placement systems business, we supply systems and solutions for injection molding of thermosetting and thermoplastic materials. We are also actively developing new business opportunities in various innovative areas. For instance, we have developed a laser structuring machine based on a new technology that uses a CAD-data controlled laser to transfer microstructures onto printed-circuit boards. It enables high- density 50-micrometer structures adapted to the requirement of the trend toward miniaturization in the electronics manufacturing industry.

Two operations acquired along with the Dematic businesses are being held centrally as assets for sale, and their results are not included in SD s results. These operations have been renamed Demag Cranes and Components and Demag Mobile Cranes, respectively, to take advantage of the strong Demag brand.

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

The following chart shows our sales broken down by region in fiscal 2001:

SD 2001 Total Sales by Region

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

In fiscal 2001, we spent €147 million or 5.8% of SD s total sales on research and development, compared to €108 million, or 6.0% of total sales, in fiscal 2000. Main areas of focus include our laser and polymer stud grid array package technology in our Electronics Assembly business, as well as a lower cost SMT placement product. In the Material Handling Automation business, a main area of focus is so-called mechatronics. The objective of this initiative is the development of globally applicable standard product families. 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.

Following the merger with Atecs Mannesmann Dematic, Siemens Dematic is now the largest player overall in the material handling automation market. Our main competitors in our Material Handling Automation and Postal Automation businesses are FKI Logistex (including the former Crisplant), Daifuku, Swisslog, Northrop Grumman (which acquired Mannesmann Dematic Postal Automation) and Lockheed Martin. Other competitors operate within niche markets or market specialized technologies to their customers; these include Vanderlande, BAE Division of Invensys and Duerr. Major competitors of our Electronics Assembly Systems division include Fuji Machine, Panasonic, Assembleon (formerly Philips Electronics Manufacturing Technology) and Universal Instruments, a subsidiary of the Dover Group.

Our short-term goal is to manage the current economic downturn by adjusting resources through modest headcount reduction and consolidation of capacity in our Postal Automation and Electronics Assembly Systems divisions. In addition, we are focusing on the most promising markets and redirecting attention and resources accordingly (e.g., in the case of Electronics Assembly Systems, from the Americas to the Asia-Pacific region), and have initiated cost controlling, risk management and project management initiatives. These latter initiatives are particularly directed at addressing long-term contract losses we experienced in fiscal 2001 in our Material Handling Automation and our Postal Automation divisions. For further information on our long-term contracts and contract losses, see Long-Term Contracts and Contract Losses . With these steps, in addition to the integration of the Atecs Mannesmann Dematic Systems businesses, we aim to position ourselves for future growth and a return to profitability.

Siemens Building Technologies AG (SBT)

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

management service provider. In fiscal 2001, SBT had total sales of €5.518 billion, including sales of €424 million to other Siemens business groups. External sales of €5.094 billion accounted for 5.9% of total Siemens net sales.

Formed in fiscal 1999, SBT combined Landis & Staefa and Cerberus, acquired from the Electrowatt Group, with Siemens pre-existing building systems business. In the beginning of fiscal 2001, SBT was re-organized into the following six divisions:

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 through its own branded distribution channel.

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 for fire detection and protection, including computerized gas leakage and fire alarms and fire extinguishing systems, as well as comprehensive computer-based danger management systems that centrally monitor and control each of these individual systems. In addition to buildings, our Fire Safety Division offers fire detection solutions for tunnels, ships and aircraft.

Building Automation offers solutions for regulating heating, ventilation and air conditioning (HVAC), electricity and lighting including computerized building automation systems that coordinate 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 OEM customers, 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 those of our competitors.

In fiscal 2001, we completed 11 acquisitions, seven in Security Systems, three in Fire Safety and one in HVAC Products. In the United States, we purchased Security Technology Group, a security systems integrator with a focus on large, enterprise accounts and annual sales in excess of $100 million. By combining the 40 branch offices of this acquisition with our existing security business, we can offer our business customers expertise in all areas of electronic systems integration and central monitoring services.

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, original equipment manufacturers of HVAC systems and wholesalers, specialized system builders and installers. Most of our sales revenue is attributable to a large number of relatively small orders and we generate approximately 40% 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 7.7% of SBT s total sales in fiscal 2001.

SBT has a decentralized business organization that combines a small central headquarters, design and manufacturing at sites in ten countries in Europe, North America and Asia and our own distribution network, operating independently of the Siemens sales organization, consisting of approximately 600 wholly owned local sales, project execution and services branch offices in 45 countries. For some markets, we also distribute our products, systems and services through a network of approximately 150 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 Asia and South America. In contrast, our Facility Management Services division currently offers services primarily in Germany, Switzerland, Norway, Austria, Italy and Turkey. Facility Management Services is currently seeking to expand its Facility Management unit in other European countries.

We generate most of our sales in Europe and the United States. The following chart shows the geographic distribution of SBT s total sales in fiscal 2001:

SBT 2001 Total Sales by Region

We have approximately 15 significant manufacturing and assembly facilities worldwide, including nine in Europe, of which three are located in Germany.

In fiscal 2001, we spent €168 million, or 3% of SBT s total sales, on research and development, compared to €151 million, or 3.1% of total sales, in fiscal 2000. 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 of different ages from different suppliers. 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.

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. 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.

We have identified several growth opportunities for our business in the near future. Our new Security Systems division experienced double-digit growth in its first year, significantly expanding its geographic presence through acquisitions. It plans to grow faster than the market in the future by cross-selling to existing customers of the Building Automation and Fire Safety divisions. The Fire & Security Products division also experienced double-digit growth and plans to follow the Security Systems division s cross-selling strategy to grow faster than the market. HVAC Products is expanding its range of products and components for original equipment manufacturers, making more of our existing brands available for offering on an OEM basis. Our Systems & Services divisions (Security Systems, Fire Safety, Building Automation and Facility Management Services) are using their current large installed base of our building technology products and systems as a means of generating service and maintenance contracts. In all four of our Systems & Services businesses, we have created solutions for focused vertical market segments such as hospitals, airports, tunnels, pharmaceutical, and Internet data centers, which require highly technical HVAC, safety and security systems. We believe there are opportunities in the facility management market for large international companies such as Siemens, due to the growing desire of many businesses that operate facilities in several countries to use a few outsource providers for comprehensive life-cycle facility management services.

Except in the two areas of HVAC Products and Fire Safety, where Siemens, Honeywell and Johnson Controls, and Siemens, Honeywell and Tyco, respectively, have significantly larger market shares than their competitors, the markets in SBT s business areas are generally 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 market, Tyco is a market leader and continues to expand through acquisitions. The market is still very fragmented, however, with the top seven companies comprising only about 25% of the market. Most of our competitors focus on a particular product, system or service, or have a regional orientation. For example, the principal competitors of our Project Business unit include large international companies with a broad scope, such as ABB, regionally significant competitors such as the German companies Rheinelektra and Rudolf Otto Meyer, and about 650 medium-sized installation contractors involved in the planning and implementation of building systems. However, due to the diversity of competition in our markets, some of our competitors are also active in facilities services outside of our primary business focus, such as elevators and escalators, waste management, food services and electrical systems. For our larger projects involving these services, we use non-Siemens companies as subcontractors to supply the elements of the project outside our business focus. Despite the traditional fragmentation, consolidation is beginning to occur in certain of our markets. In addition, the influence of e-commerce and the introduction of the euro are resulting in a harmonization of prices for our products and systems across regions.

In response to these trends, we plan to continue to expand our customized solutions business, where we can build close relationships with our customers by providing high value-added services. In addition, in fiscal 2001, we continued to implement programs to boost productivity and increase cross-sales with other Siemens units in order to further improve our performance.

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. We have not experienced significant liabilities in the past as a result of product or design defects.

Power Generation (PG)

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 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. In fiscal 2001, PG had total sales of €8.563 billion, including sales of €76 million to other Siemens business groups. External sales of €8.487 billion accounted for 9.8% of total Siemens net sales. Our total sales include approximately €285 million attributable to the newly-acquired turbo compressor business of Mannesmann Demag Delaval for the period April September following its acquisition.

Power Generation consists of three businesses, each with a clear market focus on specific customer groups and technologies: Fossil Power Generation; Industrial Turbines and Power Plants; and Instrumentation and Control. In furtherance of our strategy since the mid 1980 s to focus on fossil as opposed to nuclear energy, during fiscal 2001 we transferred our Nuclear Power Division into a joint venture with Framatome, as discussed below. Of the remaining businesses, Fossil Power Generation is by far the largest, accounting for approximately 83% of total sales in fiscal 2001.

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 into electricity. In a fossil fuel plant, the power generation process begins with working media like 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 over 500 gigawatts provides us with a good opportunity to grow our service business. Our successful integration of Westinghouse s fossil power generation unit, acquired in 1998, has improved our position in the market for 50 Hertz plants and strengthened our access to the 60 Hertz markets.

Industrial Turbines and Power Plants includes steam and gas turbines in the small and medium power ranges, related turbo generators and 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. In addition, we offer our customers combined cycle power plants fitted with gas turbines supplied by third parties. In the renewable energy sector, we also offer biomass power plants.

As part of Siemens acquisition of Mannesmann s advanced technology group, Mannesmann Atecs AG, we acquired the turbocompressor business of Mannesmann Demag Delaval during fiscal 2001. We are currently merging this business into the Industrial Turbines and Power Plants division. We believe that the acquisition of Demag Delaval s turbocompressor business will enhance our competitive position by allowing us to offer a fuller line of industrial turbine and power plant products. The new expanded division will be renamed Industrial Applications from the beginning of fiscal 2002.

Instrumentation and Control designs, manufactures, 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 technologies such as insulators and catalysts used for emissions reduction, as well as emerging technologies such as fuel cells.

In the second quarter of fiscal 2001, we contributed our former Nuclear Power division into a joint venture with Framatome, the French state-owned nuclear power plant producer. Siemens holds a 34% interest in this venture. This business, now named Framatome Advanced Nuclear Power S.A.S., designs and manufactures nuclear power plants, produces nuclear fuel assemblies and services and refurbishes nuclear power plants. As scale is important in the nuclear power generation business, we believe that this joint venture is well-positioned to take advantage of opportunities in Asia and the United States, as well as in Europe.

From January 1, 2001 our nuclear power operations are accounted for under the equity method.

We also have a 35% stake in a joint venture known as Voith Siemens Hydro Power Generation. Siemens electrotechnical expertise in the field of generators, and Voith s mechanical expertise in turbines, are complementary, and we expect these combined strengths to enhance the competitiveness of this business. This investment is also accounted for under the equity method.

Although we aim to expand primarily through internal growth, we will continue to make acquisitions and alliances where appropriate to increase market penetration, share costs or technologies and adapt to market changes. We will also continue to optimize our portfolio by dispositions where appropriate. In fiscal 2001, we entered into an agreement with TKA Aero Turbine Inc, a subsidiary of Thyssen Krupp, regarding our Winston Salem turbine blade forging operation. Under this agreement we will transfer the forging facility and related personnel into a special purpose company, Advanced Aero Components Inc, and Thyssen Krupp will take a 51% interest in this company.

Power Generation s principal customers are large power utilities and an increasing number of 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. Calpine Corporation, Dynergy Incorporated and Tractebel S.A. are among our largest customers in the United States. We also generate a portion of sales from industrial customers, who represent an important market for smaller power plants and turbines. Through the acquisition of Demag Delaval s turbocompressor business we added additional market segments with customers in the field of oil & gas, petrochemicals and refining operations.

Our business activities vary widely in size from 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 technical performance, customer or country-related risks. In the recent past, we have experienced significant losses in connection with such risks. See Long-Term Contracts and Contract Losses .

We work with Siemens Financial Services group (SFS) to assist our customers with financing. 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.

The following chart shows the geographic distribution of PG s total sales in fiscal 2001:

PG 2001 Total Sales by Region

We have optimized our global manufacturing network, and already achieved savings in procurement, by concentrating manufacturing mainly in North America and Europe. We have approximately 14 significant manufacturing and assembly facilities worldwide, including five in the Americas and nine in Europe. Of these, seven 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) and 50/60 Hertz gas turbines in Berlin (Germany).

PG s research and development efforts are currently focused on advancing systems that combine gas, coal gasification and steam technologies, particularly for use in new power plant designs combining high efficiency and lower emissions. We are also studying ways to reduce life-cycle costs for new power plants and further boost operating efficiency and performance while reducing emissions. We have recently developed standardized and modularized coal-fired power plants especially for the Asian markets. In fiscal 2001, PG spent €262 million, or 3.1% of its total sales, on research and development, compared to €231 million, or 3.0% of total sales, in fiscal 2000.

The worldwide aggregate sales in the power plant markets amount on average to 100 gigawatts per annum, approximately two-thirds of which comprise the markets for fossil fuel plant construction. Although the power generation industry is not itself cyclical, it is affected by trends in cyclical industries, such as fluctuations in fuel prices, that can have implications for demand for certain product types. The recent historical growth rate as measured in megawatts in the main markets for our products has been in the single digit range on average. (Source for market data: Turbo Machinery International Handbook.) We expect similar levels for the medium term, with most of this growth generated by gas turbines and combined-cycle plants. Factors contributing to worldwide demand for new plants and retrofitting services include deregulation and the need for reduced emissions and greater fuel efficiency.

Demand for plants, which was already strong in fiscal 2000, remains high in North America and we captured a significant share of orders. In particular, we have been successful in delivering gas turbines for combined-cycle power plants needed to replace existing plants and for new plants required to satisfy growing peak energy consumption. This has led to a significant increase in our backlog. Sales in the United States

amounted to 56% of our total sales in fiscal 2001. Furthermore, a growing amount of power plant retirement in industrialized countries will create an additional market in which we plan to participate. Following recent periods of slow growth, Asia and Europe already began to show signs of improvement.

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 most areas and ABB Utility Automation in instrumentation and control, where the market is more fragmented. Potential new competitors face formidable barriers, including high capital investments in engineering and production capacity, the high cost of research and development, developing a customer base, the need for broad systems know-how and global economies of scale. Due to these factors, we believe established companies will continue to enjoy new growth opportunities, particularly in North America and Europe where European Union requirements for cross-border tenders continue to weaken national barriers.

Power Transmission And Distribution (PTD)

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. In fiscal 2001, PTD had total sales of €4.053 billion, including sales of €235 million to other Siemens business groups. External sales of €3.818 billion accounted for 4.4% of total Siemens net sales.

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, information technology systems and consulting 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);
- *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; and
- *metering equipment*, systems and services used in electric, gas and heat metering.

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 design of power transmission and distribution networks; and information technology services and solutions to support customer management and energy trading. 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 growth in use of sensitive computerized, electronic and other equipment requiring continuous power with very little fluctuation in voltage or frequency. Our

recently formed PTD Services division aims specifically at responding to our customers increasing demands for these services.

For our large scale projects we work together with the Industrial Solutions and Services group to assist with construction and with Siemens Financial Services to provide 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 roughly half of our sales from projects and the remainder from sales of systems and components. Although 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, and we do not currently have any customers that account for more than five percent 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 as well as 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 China, India, Taiwan, Malaysia and Korea and South America.

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 metering products that can support the user s new ability to choose his power supplier. In addition to responding to these new sources of demand, we continue to seek new markets for expansion and to develop innovative new products and systems to respond to ongoing price pressure in our markets.

We traditionally generate the largest portion of our total sales in Germany and other European countries. Our most significant markets outside of Germany are the Americas and the Asia-Pacific region. The following chart shows the geographic distribution of PTD s total sales in fiscal 2001:

PTD 2001 Total Sales by Region

We generate a significant portion of our total sales in developing countries in South America and the Asia-Pacific region. We believe these regions represent growth markets for power transmission and distribution products and systems but 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 the Three Gorges Dam project in the People s Republic of China and the construction of converter stations for a high-voltage direct-current power line in India for the transportation of 2000 megawatts of electricity across more than 1400 kilometers under a €200 million contract, the largest single contract PTD has secured to date.

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

We recently completed several significant acquisitions. In May 2000, we acquired the Telegyr Systems Group in Switzerland and Eastern Metering Services Ltd. in the United Kingdom. A further acquisition in the metering and energy data service business was completed in February 2001, when we purchased East Midland Electricity Metering Business from Britain s power supplier Powergen. In July 2001, PTD took over the maintenance service for the power supply systems of United Network in New Zealand. The Telegyr acquisition has strengthened our position in the field of grid management for medium performance and lower power systems, while we view the acquisitions of Eastern Metering Services, East Midland Electricity Metering Business, and network maintenance from United Networks as important steps towards increasing our services to energy suppliers.

In fiscal 2001, we spent €111 million, or 2.7% of PTD s total sales, on research and development, compared to €128 million, or 4.1% of total sales, in fiscal 2000. 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 certain niches. Globally, our most significant competitors include ABB, Alstom and Schneider, as well as General Electric, Toshiba and VA Tech. 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 have approximately 45 significant manufacturing and assembly facilities worldwide, including 12 in the Americas, 12 in Asia, and 19 in Europe. Of these, six are located in Germany.

Transportation Systems (TS)

Siemens Transportation Systems group is 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 GPS-based service and diagnostic concepts, among others. We also combine rolling stock and automation and power product offerings in our turnkey systems business and 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. In fiscal 2001, TS had total sales of €4.021 billion, including sales of €21 million to other Siemens business groups. External sales of €4.000 billion accounted for 4.6% of total Siemens net sales.

Our *rolling stock* operations were our largest in terms of sales in fiscal 2001. We develop, manufacture and sell a full range of rolling stock in four product-focused divisions:

- *Heavy rail* products include subway and suburban rapid transit trains, subway cars and running gear, as well as their subsystems and components.

- *Locomotive* products include electric and European standard diesel-electrical locomotives for passenger or freight rail. Together with our U.S. partner EMD, a subsidiary of General Motors, we also design and manufacture the electrical traction equipment for American standard diesel-electric locomotives that are distributed by EMD in North America, Australia, India and South Africa. 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. In fiscal 2001, we established Siemens Dispolok GmbH, a subsidiary based in Munich, to manage our locomotive leasing-rental pool and to allow us to respond more quickly to demand in this growth area of the railway industry.

- *Light rail* products include streetcars, light rail vehicles and their components.

- *Trains* 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 *automation and power* operations were our second largest business by sales in fiscal 2001. In this business, we conduct our operations in two divisions:

- *Rail automation.* In fiscal 2001, we consolidated our Automation Railways and Automation Mass Transit divisions into a new division, Rail Automation, to better reflect our transformation from a signaling equipment supplier to a provider of rail automation systems for all modes of rail-bound transportation.

  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). We recently combined all of TS s telematic-related businesses, including fare management systems and passenger information systems, into a single independent subdivision, Public Transport Telematics, of our Swiss subsidiary, Siemens Transit Telematic Systems AG.

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

Our *turnkey systems* operations are our smallest in terms of sales. Here we cooperate closely with the other TS businesses, integrating their products and services to offer turn-key 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. We also assist our customers with arranging financing in cooperation with Siemens Financial Services. Current projects include the transrapid project in Shanghai, China, an electromagnetically elevated and propelled high-speed train; the new Dutch high speed link Zuid between Amsterdam and the Belgian border; a fully automatic metro line for the city of Toulouse, France; and a turnkey light rail system in Houston, Texas.

With our *integrated services* unit we are placing an increasing emphasis on our service and maintenance activities. We provide corrective and preventative 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 AG 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. The following chart shows the geographic distribution of TS s total sales in fiscal 2001:

TS 2001 Total Sales by Region

Germany and Europe have traditionally been our most important markets. We believe the most important 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 have approximately 15 significant manufacturing, assembly and testing locations worldwide, including ten in Europe, of which five are located in Germany. In fiscal 2001, we completed the consolidation of our production of streetcars and locomotives, historically performed at two sites in Germany, at one location.

In fiscal 2001, TS spent €138 million, or 3.4% of our total sales, on research and development, compared to €131 million, or 3.5% of total sales, in fiscal 2000.

The world markets for products and services in the railway transportation industry are 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 price and low life cycle costs that drive their own profitability. Budget pressures faced by many state operators further increase price pressure and require increasingly innovative financing solutions. There is a growing trend towards the outsourcing of servicing and maintenance of systems and equipment.

To address the demands of these new markets, we are continuing a comprehensive strategic initiative. Key goals of this program are:

- for *automation and power*, to 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 areas of traffic automation solutions and traffic telematics;

- for *rolling stock*, to focus on innovation in design and engineering, as exemplified by our planned development of a new generation of high-speed trains in strategic cooperation with Alstom; and to enter new markets, in part through expanding our partnerships world-wide, tailored case-by-case to meet both project needs and local-content requirements;

- for *integrated services,* to expand through strategic alliances in service enterprises; to emphasize our System plus Service segment, which offers a complete package of new products plus service and maintenance; and to improve our market penetration through e-business.

We have also participated in industry consolidation and rationalized our product portfolio. In fiscal 2001, we sold our U.K. subsidiary Railcare Ltd. because it provided services for railway vehicles sold by different producers, whereas we wish to focus our business on integrated

services related to our own products. We also increased our holding in Transrapid International GmbH & Co. KG, a marketing and sales company for transrapid projects, to 50% in order to strengthen our position in the market for magnetic levitation technology. The remaining 50% of Transrapid International is now held by Thyssen Transrapid System GmbH.

TS s current priority is to improve our profitability. After experiencing losses in fiscal 1998, we brought in a new management team and launched a comprehensive restructuring and realignment program called the TS Initiative. As a result, we managed to improve our cost position and returned to modest profitability in fiscal 2000. To build on this successful turnaround and to improve our competitive position as well, in fiscal 2001 we broadened the TS Initiative to include improving sales, promoting innovation and e-business and optimizing our product portfolio. See also Item 5: Operating and Financial Review and Prospects Fiscal 2001 compared to fiscal 2000 Segment information analysis Operations Transportation .

The large size of the projects performed by our TS businesses occasionally exposes us to technical performance, customer or country-related risks. 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 and risk and claims management system. We are also exploring 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 medium sized competitors who are either active on a regional level or specialize in a narrow product spectrum. In general, the sector is consolidating through the acquisition of smaller suppliers by the larger companies. Most recently, Bombardier completed its acquisition of ADtranz s railcar-related business, and ADtranz sold its rail electrification and traction power supply business to Balfour Beatty Rail. Our principal competitors are now Alstom and Bombardier.

Siemens VDO Automotive (SV)

Siemens VDO Automotive (SV) is the result of the merger in April 2001 of the former Siemens Automotive with Mannesmann VDO AG. Siemens VDO Automotive (SV) designs, manufactures and sells 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. In fiscal 2001, we had total sales of €5.702 billion, including sales of €8 million to other Siemens business groups. External sales of €5.694 billion accounted for almost 6.5% of total Siemens net sales.

As part of Siemens acquisition of Mannesmann s technology group, Mannesmann Atecs AG, in April 2001, Siemens acquired the business of Mannesmann VDO AG, which had 43 production sites and 68 marketing locations worldwide. In April 2001, Mannesmann VDO AG was merged with Siemens Automotive and renamed Siemens VDO Automotive AG (SV). Excluding the business of the former Mannesmann VDO, in fiscal 2001 SV had total sales of €4.016 billion, including sales of €8 million to other Siemens business groups.

Integrating Mannesmann VDO into our group to make a new, effective whole was our highest immediate priority in the second half of fiscal 2001. Following the merger, we established a new divisional structure for SV. We now offer our systems and products in the following five divisions:

- *Powertrain*, including components, modules and systems for use in diesel and gasoline fuel injection handling, diesel hydraulic, drivetrain transmission management and air intake systems, as well as engine actuators and emissions controls and sensors;
- *Safety & Chassis*, including active and passive safety electronic systems, such as crash and occupant sensors for controlling airbags and seatbelts; chassis electronics used in steering and braking; tank systems for fuel handling including fuel pumps, supply units and level sensors; electric motor drives for use in antilock brakes, heating, ventilation and engine cooling systems and power windows and sunroofs; and drive systems for electric and hybrid vehicles;
- *Carbody*, including access control and security systems with electric door and seat controls, electric and electronic distribution systems, intelligent switching units and climate control units;
- *Information & Cockpit*, including complete cockpit systems, driver s workplace systems in commercial vehicles, instrument clusters, tachographs, human machine interface displays, and head up displays for passenger and commercial vehicles; and
- *Communications & Multimedia*, including car audio, navigation and telematics and complex multimedia systems.

In addition, through our Trading and Aftermarket business unit, we offer spare parts and accessories for passenger and commercial vehicles, fleet management systems and car audio, navigation, and telematic hardware and software products.

Some of our recent product innovations and developments include:

- the common-rail injection systems with piezo-electronic actuators, resulting in quieter and lower-emission diesel engines;
- a variable valve control that significantly reduces emissions and fuel consumption while increasing engine performance;
- integrated powertrain management, allowing significant savings in fuel consumption;
- active noise control for engines, offering improved acoustic comfort;
- a color head up display that projects information about driving conditions and navigation instructions onto the windshield;
- our Tire Guard monitoring system that warns the driver in the event of gradual loss of tire pressure;
- an injection-molded diesel tank that is easy to install and environmentally friendly;
- an optical passenger detection device that makes airbags more intelligent and offers greater protection to passengers;
- electronic brake and steering systems that replace hydraulic components, reducing vehicle weight, fuel consumption and use of toxic materials; and
- a three-dimensional vehicle navigation system to be integrated into a modular Java-based software architecture.

In addition to developing these and other new technologies, we will also focus on the design and manufacture of systems and modules, which offer good profit margins and better opportunities for maintaining customer relationships than individual components.

Most of our customers are large automobile manufacturers. We also sell components to suppliers of completed 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 2001, four of the world s five largest automobile manufacturers together accounted for more than three quarters of our total sales.

Base materials and components account for about half of the total cost of our products. For semiconductors, other electronic components and some other base materials and components we rely on a few suppliers to meet most of our needs. Our significant 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 and the United States, with an increasing share in Asia-Pacific. The Japanese market is still served mostly by local and in-house suppliers.

The following chart shows the geographic distribution of SV s total sales in fiscal 2001:

SV 2001 Total Sales by Region

We have approximately 50 significant manufacturing and assembly facilities, including 17 in the Americas and 23 in Europe. Of these, eight are located in Germany.

In fiscal 2001, we spent €533 million, or 9.3% of SV s total sales, on research and development, compared to €345 million, or 9.0% of total sales, in fiscal 2000. Excluding amounts attributable to the former business of Mannesmann VDO, in fiscal 2001 we spent €398 million, or 10% of SV s total sales, on research and development. 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 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 led to the development of direct injection and other new engine technologies offering improved efficiency, as well as 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 skilled engineers and other technically proficient employees to remain technologically competitive.

In July 2001, we sold our Volkswagen-related wire harness business, consisting of the design, engineering and manufacture of automotive electrical distribution systems, to Aloca Fujikura Ltd. USA. In September 2001, we contributed our non-Volkswagen-related wire harness operations to three newly formed joint ventures with Yazaki Corporation of Japan. In fiscal 2001, we continued to develop completed cockpit modules through our joint venture with Sommer Allibert.

Automobile manufacturers and their suppliers have been through a period of significant change and consolidation. Opportunities and competition for independent suppliers have increased as car manufacturers have spun off or exposed their former in-house suppliers to increased competition, as, for example, General Motors with its former in-house supplier Delphi and Ford 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 the cockpit, safety system or another aspect of an automobile. 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 this consolidation among our competitors include business combinations involving Mannesmann Sachs and ZF Friedrichshafen in powertrains and chassis, Continental, Teves and Temic in brake systems, Autoliv, Morton, TRW and Magna in safety systems, Johnson Controls and Sagem in electronics, and Faurecia and Sommer Allibert in cockpit modules.

In fiscal 2001, after a period of growth in recent years, demand in the automobile industry weakened significantly, and automobile production levels declined. This was particularly true in North America and to a lesser extent in Spain, France, the United Kingdom and Italy. In Germany, due to a strong increase in export sales, German automakers were generally able to maintain production levels from the previous year, despite declining domestic demand. However, many automobile manufacturers have extracted price and other concessions from their suppliers, including SV, and some of our automobile manufacturer customers have canceled or postponed new development projects with us. Margins at SV and other automotive electronic suppliers have come under increasing pressure as electronic component prices and allocation costs have risen, largely as a result of the falling value of the euro in relation to the currencies of many countries in which we buy components.

In response to these difficult market conditions, in fiscal 2001 we implemented a restructuring program to cut costs, increase productivity, optimize our product and project portfolio, and reduce inventory, personnel and the number of production and assembly facilities. In fiscal 2001, we eliminated approximately 1,000 positions, and we plan to eliminate an additional 3,000 positions in fiscal 2002 and an additional 1,000 positions in fiscal 2003. Where technologically and economically feasible, we are shifting production facilities to lower labor cost countries in Southeast Asia, South America and Eastern Europe to reduce the cost of our products and to be closer to our customers. In addition, because only a relatively small percentage of our pre-merger operations overlapped with those of Mannesmann VDO AG, we expect to realize operational synergies as a result of our April 2001 merger. The merger has already strengthened our market position as a first-tier supplier to automobile manufacturers in North America, South America, Southeast Asia, China and Japan.

Our most significant competitors are generalists with a broad product range, systems integration capabilities and a global presence. These include Toyota s Denso and the independent and former in-house suppliers Bosch, Visteon and Delphi, all of which even after our merger with Mannesmann VDO AG are significantly larger than we are.

Medical Solutions (Med)

Our Medical Solutions group is engaged in the development, manufacture and sale of 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 which offers financing and related services to our customers. We are one of the leading companies in our field. In fiscal 2001, we had total sales of €7.219 billion, including sales of €20 million to other Siemens business groups. External sales of €7.199 billion accounted for 8.3% of total Siemens net sales.

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 minimal-invasive procedures.

- *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.

- *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 62% of total sales in fiscal 2001.

Worldwide demand for the products and services we offer is expected 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 health care delivery in developing countries.

In addition, efforts in many industrialized countries to contain healthcare costs have led to the need for improved efficiency in diagnostic and therapeutic processes. As an example, making patient information available to every caregiver who needs it is a prerequisite of efficiency, and is fueling 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 basis.

With more than 91% of our sales coming from outside of Germany, we have a strong worldwide presence, including in the United States where we generated 52% of our total sales in fiscal 2001. The following chart shows the geographic distribution of Med s total sales in fiscal 2001:

Med 2001 Total Sales by Region

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 product groups, as well as our health services division, are located in the United States. Our electromedical systems business is based in Sweden. The other product groups are headquartered in Germany. We have approximately 18 significant manufacturing and assembly facilities worldwide, including seven in North America and eight in Europe. Of these, five are located in Germany.

We have research and development and original equipment manufacturing cooperations with various companies, including with Bruker and Toshiba in the field of magnetic resonance imaging products, Marconi in computed tomography systems and Matsushita for low and mid range ultrasound systems. We also have joint ventures with Oxford Instruments for the development and manufacturer of magnets for magnetic resonance imaging, and with Philips and Thomson for the manufacture of 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, the United States and Sweden. In fiscal 2001, we spent €603 million, or 8.4% of Med s total sales on research and development, compared to €424 million, or 8.6% of total sales, in fiscal 2000. Approximately one-third of our research and development expenditure is typically spent on x-ray, computed tomography and magnetic resonance imaging technologies. Over the last five years we have consistently spent at least 8% of total sales on the development of new products and services and the improvement of our existing offerings.

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 leverage 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 July 2000, we acquired Shared Medical Systems (SMS) of the United States, one of the world s two largest suppliers of services and IT systems for the healthcare industry, with more than 5,000 customers in 20 countries and reported 1999 revenues of $1.217 billion. SMS s regional strength and synergy with our existing offerings is expected greatly to strengthen our business, particularly in the area of information technology. SMS has become the core of our health services division. In November 2000, we acquired Acuson of Mountainview, California, one of the world s leading manufacturers and service providers of diagnostic medical ultrasound systems for generating, displaying, archiving and retrieving ultrasound

images, with reported 1999 revenues of $475.9 million. By integrating Acuson into our ultrasound division, we have created one of the world s largest ultrasound companies, based on total sales.

Our principal competitors in medical imaging are General Electric, Hitachi, Marconi, Philips and Toshiba. Other competitors include Draeger, Instrumentarium, McKesson HBOC, Resound, Starkey, Tyco and Varian Medical Systems.

Lighting (Osram)

Our Lighting group, Osram, offers a full spectrum of lighting products for a variety of applications. In fiscal 2001, Osram had total sales of €4.522 billion, including sales of €322 million to other Siemens business groups. External sales of €4.200 billion accounted for 4.8% of total Siemens net sales.

Osram designs, manufactures and 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, xenon and neon discharge and incandescent lamps for use in motor vehicle headlights, brakelights, turn signals and instrument panels, and, through a fifty/fifty 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, 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. In August 2001, we acquired Infineon s interest in a former joint venture for the development, production, marketing and sales of opto-semiconductors, making it a wholly-owned subsidiary;
- *Ballasts and luminaires:* electronic ballasts for optimized operation of compact fluorescent, fluorescent, high-intensity discharge and low-voltage halogen lamps, as well as consumer fixtures and, increasingly, control systems for dimming lamps; 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.

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 some of the materials and equipment we manufacture to third parties. We have approximately 54 significant manufacturing and assembly facilities worldwide, including 26 in the Americas and 20 in Europe. Of these, 13 are located in Germany.

We focus on innovative products, especially in our automotive and photo-optic divisions, 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. General lighting typically accounts for approximately half of Osram s total sales. 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.

In fiscal 2001, we spent €217 million, or 4.8% of Osram s total sales, on research and development, compared to €201 million, or 4.6% of total sales, in fiscal 2000. 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 developing organic light emitting diodes and are establishing a production facility in Malaysia. Organic light emitting diodes are considered a key innovation in the production of clearly legible small displays with low power consumption and minimum weight. In April 2001, our subsidiary Osram Opto Semiconductors and Cambridge Display Technology, a U.K. company, entered into a patent cross-license agreement in the field of light-emitting polymer display technology.

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 Internet is also being established as a sales channel. Osram has implemented business-to-business extranet functionalities in the United States and myOSRAM.com , a web-based sales and information portal for registered business customers in Germany and Austria.

In recent years, the world market for lighting products has grown at moderate rates, with relatively higher growth in Southeast Asia, China and Eastern Europe. In fiscal 2001, Osram generated approximately 89% of its total sales outside of Germany, with most of its sales in Europe and North and South America. In North America we market most of our lighting products under the brand name Sylvania, the North American business operations of which we acquired in 1993. We currently aim to expand our sales in Eastern Europe and Asia. The following chart shows the geographic distribution of Osram s total sales in fiscal 2001:

Osram 2001 Total Sales by Region

As a result of acquisitions and consolidations over the last decade, General Electric, Philips and Osram together hold almost two-thirds of the world market. Osram is the second largest lighting manufacturer worldwide behind Philips, and the largest in Germany. Osram also has the second largest market share in North America, where General Electric is the leading manufacturer. General Electric is also the leading incandescent lighting manufacturer worldwide. Through two joint ventures with Mitsubishi, we are the largest foreign manufacturer of lighting products in Japan, where Toshiba and Matsushita also hold strong market positions. Osram s market position in Japan was reinforced by a joint venture between Osram-Melco Ltd., which is one of our joint ventures with Mitsubishi, and Toshiba Lighting and Technology Corp. for the development and manufacture of special purpose lamps, which began operations on October 1, 2000.

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 to increasing competition from new entrants, including a growing number of Chinese manufacturers. Price competition is also increasing in the more advanced halogen and compact fluorescent lamp types due to an increasing presence of Chinese manufacturers in these areas. To counteract price pressures and to improve our competitiveness for mass market lighting products, we manufacture some of our lower priced product lines in low labor cost countries. We perform back-end finishing operations for our LED products in Malaysia. As part of our ongoing efforts to reduce labor costs, we have established manufacturing operations in facilities in China, India, Indonesia, Mexico and Slovakia. In fiscal 2001, we closed our plant in the United Kingdom and shifted production to China and Slovakia. In September 2000, we acquired Czech manufacturer Hydrometalurgicke Zavody, now called Osram Bruntál, which specializes in the production of tungsten and is expected to take on the production of fine wire and filaments for incandescent lamps beginning in fiscal 2002. 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.

Infineon Technologies AG

Infineon has been a publicly traded company since March 2000. Infineon designs, develops, manufactures and markets a broad range of semiconductors and complete system solutions. In fiscal 2001, Infineon had total sales of €5.671 billion, including sales of €927 million to other Siemens business groups. External sales of €4.744 billion accounted for 5.5% of Siemens consolidated net sales. In fiscal 2001, Infineon s American Depositary Shares traded on the New York Stock Exchange between a high of $48.75 and a low of $11.07.

As a result of the series of transactions described below, we reduced our ownership interest in Infineon from approximately 71% at the beginning of fiscal 2001 to 47.1% at December 31, 2001.

In April 2001, we irrevocably transferred approximately 93.83 million Infineon shares into our domestic pension trust. As a result of this transfer, we reduced our ownership interest in Infineon by approximately 15% of Infineon s then outstanding share capital. In July 2001, Infineon successfully completed a capital increase by way of a public offering of its shares. We did not sell any of our Infineon shares in the offering. In addition, Infineon further increased its capital by issuing shares in connection with acquisitions. Our holding in Infineon was diluted by approximately 5.6% as a result of the combination of these Infineon capital increases. Finally, following Infineon s announcement of its fiscal

2001 results in November of 2001, we also sold 23.1 million shares in open market transactions, further reducing our ownership interest to its December 31, 2001 level of 47.1%. When relevant ownership thresholds are crossed, these open market transactions are reported under the regulations of the German Federal Supervisory Authority for Securities Trading (*Bundesaufsichtsamt für den Wertpapierhandel*).

On December 5, 2001, we transferred 200 million Infineon shares or approximately 28.9% of Infineon s share capital to an irrevocable, non-voting trust under a trust agreement. The trustee is not related to us or any of our affiliates. 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. See Additional Information Material Contracts .

The transfer on December 5, 2001 reduced our voting interest in Infineon by an amount corresponding to the number of shares transferred. Accordingly, while our ownership interest at December 31, 2001 is 47.1%, our voting interest is 18.2%. Such voting interest, when combined with the voting interest in Infineon shares of 13.2% held by our domestic pension trust, represented a combined voting interest of 31.4% at December 31, 2001. The 13.2% interest held by this pension trust represented a decline from its April 2001 level resulting primarily from the dilution caused by the Infineon capital increases described above. Since shareholders of Infineon other than Siemens and the pension trust own 39.7% of Infineon s share capital, they control a majority of the shares that may be voted at any Infineon shareholders meeting. The effect of the transfer of Infineon shares into the non-voting trust is that shareholders in Infineon other than Siemens and the pension trust have a disproportionate voting interest.

From December 5, 2001, we no longer have had a majority voting interest in Infineon and will no longer include the assets and liabilities and results of operations of Infineon in our consolidated financial statements. Instead, we will account for our ownership interest in Infineon using the equity method. See Note 31 to the consolidated financial statements.

We intend to divest our remaining interest in Infineon in an orderly fashion from time to time as market conditions permit.

Infineon s product portfolio consists of both memory and logic products and includes digital, mixed-signal and analog integrated circuits, or ICs, as well as discrete semiconductor products and systems solutions. Infineon s business activities are primarily organized into the following five major categories:

- The *Wireless Communications* division designs, develops, manufactures and markets semiconductors and complete systems solutions for a range of wireless applications, including cellular telephone systems, short range wireless systems such as cordless telephone systems and Bluetooth radios and devices used in connection with global positioning systems. The principal products in the wireless communications market include standard and customized radio-frequency products and baseband ICs.

- The *Wireline Communications* division designs, develops, manufactures and markets semiconductors and fiber optic components for the communications access, wide area network, metropolitan area network and local area network sectors of the wireline communications market. The division specializes in ICs for wireline data and telecommunications, for computer peripheral applications and for emerging networked multimedia applications.

- The *Automotive & Industrial* division designs, develops, manufactures and markets semiconductors and complete systems solutions for use in automotive applications such as power train management, safety and vehicle dynamics, driver information and in-car entertainment and body and convenience systems and in industrial applications such as power modules, discrete semiconductors and controllers.

- The *Memory Products* division designs, develops, manufactures and markets semiconductor memory products with various packaging and configuration options and performance characteristics for use in standards and embedded memory applications. The most common uses of memory products are in personal and notebook computers. Other applications include workstations, servers, communications devices, computer peripherals, consumer products and graphics applications.

- The *Security & Chip Card ICs* division designs, develops, manufactures and markets security controllers, security memories and other semiconductors and systems solutions for use in applications requiring special hardware security features.

In August 2001, Infineon sold its interest in a joint venture with Osram for the production of opto-semiconductors to Osram.

Within these categories, Infineon produces a broad range of both logic and memory products grouped according to their differences in signal processing technologies and levels of customization and circuit integration. Infineon s products include semiconductors based on digital and analog signal processing technologies, as well as products that can process both analog and digital signals on a single chip. Analog semiconductors perform their functions by collecting, monitoring, conditioning or transforming analog signals, which are real world phenomena such as temperature, sound, light or pressure that vary over a continuous range of values. Digital semiconductors, on the other hand, operate by collecting, storing or manipulating digital signals, which are created by switching electrical current on or off. Within its range of digital semiconductors, Infineon designs and produces both data storage, or memory, products, and data processing, or logic, products. Infineon s memory and logic products include not only standardized products designed for specific applications, but also standardized commodity components suitable for a variety of applications, fully customized devices and semi-customized devices.

Some of Infineon s significant recent product developments include new generations of memory products, including some fabricated on 300 mm silicon wafers, the TriCore microcontroller, which integrates a microprocessor and digital signal processor and the FingerTIP sensor, which can register and identify fingerprints for security and personal identification purposes in a variety of applications. Other major innovations include the introduction of the first dual mode UMTS/GSM single baseband chip and the first complete Bluetooth system.

Infineon manufactures its products in the 23 manufacturing facilities that it owns or leases around the world, including a joint venture for the production of memory products. In March 2001, Infineon invested in a second joint venture to construct and subsequently operate a 300-millimeter wafer fabrication foundry facility in Singapore. In addition, Infineon expects to begin volume production at its new 300-millimeter wafer facility in Dresden in early 2002.

Remaining competitive in the semiconductor industry requires significant investments in research and development. In fiscal 2001, Infineon spent €1.189 billion, or 21.0% of Infineon s total sales, on research and development, compared to €1.025 billion, or 14.1% of Infineon s total sales in fiscal 2000. Infineon s research and development expenditures in recent years have focused extensively on measures to increase its competitiveness in third-generation mobile communication (UMTS), 10- to 40-gigabit optical networks and other developing technologies. Infineon has also continued to develop process technologies for producing semiconductors and its portfolio of universally applicable processor modules.

As part of its research and development program, Infineon operates research and development centers independently and in cooperation with partners in the semiconductors industry in Europe, the United States, the Asia-Pacific region and Israel.

Infineon s customers vary by product area. Its significant customers include customers involved in a variety of industrial applications and manufacturers of the following products: wireless and wired network telecommunications equipment, automobiles and automobile components, personal, laptop and network computers and servers and memory product modules. The Siemens group (counted together as a single customer) was the only customer that accounted for more than 5% of Infineon s total net sales in fiscal 2001.

Infineon s customers are located principally in Germany and Europe, with significant yet smaller concentrations of customers in the United States and the Asia-Pacific region. In fiscal 2001, Infineon made total sales of €1.745 billion in Germany, €1.260 billion in the rest of Europe, €1.261 billion in the United States, €1.308 billion in the Asia-Pacific region and €95 million in the rest of the world. Infineon serves its customers through distribution centers throughout the world. In fiscal 2001, Infineon distributed most of its net sales through its own global network of independent distributors and a small amount through the use of Siemens sales facilities.

The ability to deliver high volumes of products quickly to customers on short notice is a defining characteristic of several of Infineon s businesses. To improve its product delivery abilities, Infineon uses a logistics action plan that relies on increased communications efforts with marketing and sales personnel to improve order forecasting reliability, Internet ordering and direct links to major customers to decrease delivery lead times, and distribution hubs in Frankfurt, San Francisco and Singapore to bring it closer to its major customers.

Prices in the global market for memory semiconductors, one of Infineon s most significant product groups, have historically been cyclical in nature, with steep price declines followed by periods of relative price stability, driven by changes in industry capacity at different stages of the business cycle. Demand in this market has increased substantially in recent years, from 13 million megabits in 1995 to 252 million megabits in 2000. At the same time, average selling prices for DRAM products have generally declined. The rate of this decline slowed in fiscal 1999, with prices falling by 21%, and reversed itself in fiscal 2000, with prices rising by 11%, as a result of short-term capacity constraints in the semiconductor industry. In fiscal 2001, however, average selling prices resumed their decline, falling by 55%. Because the decline in average selling prices has outstripped the growth in demand, the value of the global market for memory semiconductors has fallen in recent years, from approximately $41 billion in 1995 to approximately $21 billion in 2000, with further declines expected in 2001. (Source: World Semiconductor Trade Statistics, 2001 and Infineon Technologies AG).

The substantial price decline in DRAM products in fiscal 2001 has resulted in a substantial reduction of our revenues from this business. In response to the weakening conditions in the memory products market, Infineon has launched management initiatives designed to focus expansion on the non-memory segments of its business, improve manufacturing efficiency, convert to smaller die sizes for existing products, and shift its product mix toward higher density products. To counter higher inventory levels, Infineon has sold certain products at prices below their inventory value. Infineon has also implemented a cost-saving and restructuring program. See Item 5: Operating and Financial Review and Prospects Fiscal 2001 compared to fiscal 2000 Segment information analysis Operations Infineon. We cannot predict when prices in the DRAM products market will stabilize, however, or how long the current market cycle will last.

The markets for many of Infineon s products are intensely competitive. This business area faces competition from a variety of companies, including other broadly based major international semiconductor manufacturers as well as smaller niche companies and foundry companies focusing on mass production of standardized commodity semiconductors. Competitive factors vary in significance depending on product type, but usually include to various degrees price, production capacity, ability to create customized products, technical performance, product system compatibility and speed in delivery. Infineon s most significant competitors include Texas Instruments, Motorola, Philips, NEC/Hitachi, Samsung Electronics, Hynix Semiconductors, Micron Technology, ST Microelectronics and Hyundai/LGS, among others. We believe Infineon has competitive advantages over competitors in its product innovations, its research and development abilities, its strategic partnerships with customers, its focus on customer service, its large production capacity and its product performance and quality.

Siemens Financial Services (SFS)

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.

Our business is growing rapidly, from €8.532 billion in total assets at September 30, 2000 to €9.363 billion in total assets at September 30, 2001. Our principal assets are lease receivables and equipment leased under operating leases (together accounting for 60% of our assets) and purchased trade receivables (accounting for 32% 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.

Our largest division is *Equipment and Sales Financing*, which combines our mid-market finance and credit portfolio management business activities. Our principal mid-market finance product is equipment lease financing, where typically we purchase equipment supplied by various Siemens groups or a third party manufacturer 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.

The transactions financed by our Equipment and Sales Financing division are often between the customer and another Siemens group, primarily the 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 unrelated manufacturers. In particular, we finance equipment from unrelated manufacturers of computers and other IT equipment. During fiscal 2001, we completed the integration of Schroder Leasing Ltd., which increases our presence in small ticket leasing transactions, particularly in the United Kingdom.

We also purchase receivables of other Siemens groups through our credit portfolio management business activity, in almost all cases without recourse by us to the other Siemens group. The other Siemens group remains responsible for collection and documentation. Our current portfolio consists primarily of trade receivables. In the future, we intend to include sales finance and project finance receivables. We believe that the centralization of a portion of the Siemens group s receivables risk leads to greater transparency in respect of Siemens overall receivables exposure. In fiscal 2001, we started packaging portions of our portfolio and placing them on the market, initially to a third party bank and then to our newly established SieFunds program (which is described below), reducing Siemens capital requirements and improving the management of Siemens balance sheet.

The *Equity* division participates in nine infrastructure projects as a project developer and equity investor. At September 30, 2001, the equity investment in these projects amounted to approximately 2.9% of the total assets of SFS and 0.3% 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.

The *Structured Finance* division comprises two separate activities: project/export finance and asset securitization and placement.

Our project/export finance business advises other Siemens groups on sales financing transactions. We have a global network of established contacts with international project and export finance lenders, like 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 insure 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.

Our asset securitization and placement business activity advises Siemens groups and third parties with respect to identifying eligible assets for securitization or placement transactions, such as receivables. Additionally, we offer our services to third parties for the purpose of analyzing future receivables, future cash flows or inventory. We identify the future cash flows of these assets and assist in structuring capital efficient financing solutions for selling or repackaging them. In fiscal 2001, SFS launched SieFunds , a non-consolidated asset backed commercial paper program. The program acquires assets and other receivables from Siemens groups and third parties worldwide. It finances the purchase price with the proceeds from commercial paper issuance.

Our *Treasury and Financing Services* division provides cash management and payments services intercompany and capital-market financing for Siemens generally. In addition, we pool and analyze interest rate and currency risk exposure of the business groups and enter into derivative financial instruments with third party financial institutions to offset pooled exposures using a value at risk model. We believe that from a practical standpoint it is not cost efficient to avoid having some 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 .

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

The *Insurance* division acts as an agent and provides other Siemens groups with liability, property, marine and project insurance brokerage services. 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. Our Treasury and Financing Services division is our funding source in our business with both internal and external customers, and interest rate and currency exposures are typically matched.

Our competition includes captive leasing and finance companies from both inside and outside the electronics industry, including those of General Electric, ABB, 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)

SRE offers its customers and partners a service portfolio specializing in real estate development projects, real estate disposal, asset management, and lease and services management. In fiscal 2001, SRE reorganized its operations in order to reinforce its focus on the non-Siemens real estate market and to insure strong and sustainable profitability. Our divisions are Portfolio Management, Development & Sales, and Property Management & Services (Germany/International). SRE also offers building development and building management through Siemens Industrial Building Consultants GmbH (SIBC), for which SRE has the technical operational responsibility.

Portfolio Management is our strategic and advisory unit, providing the basis for and stimulating the active management of Siemens real estate portfolio. It focuses the general strategy for our real estate business and gives informational support for decision making by providing portfolio analysis, calculations of profitability, development of financing alternatives, market research, risk analysis and valuation and similar services, including suggestions for divestiture and rental rates.

Development & Sales was established to sharpen our focus on real estate development. This division 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 for projects we determine are more appropriately retained (at least until developed) rather than sold. In this regard, for example, it is currently planning the refurbishment of several former Siemens sites in city center locations in those markets where there is a high demand for office and commercial space.

Property Management & Services has two principal activities. First, it provides pure property management and leasing services to Siemens operating groups and to third-party lessees of our owned properties, billing and collecting lease payments and related charges such as utilities and providing other general services of a landlord. Second, it provides facilities services to our business groups and external tenants on an arm s length contract basis. Our tenants, including Siemens group companies, may outsource these services to us, provide them internally or acquire them from third parties, depending on the location. The services we provide include cleaning, maintenance, security, catering and a variety of other services. We in turn generally subcontract with third party suppliers for these services, thereby leveraging the purchasing power of the entire Siemens group. This division manages the real estate of Siemens in Germany as well as internationally.

The book value of Siemens worldwide real estate assets at September 30, 2001 amounted to approximately €5.816 billion, of which approximately €3.187 billion in book value was managed by SRE. The overall goal of our real estate activity is the optimization of Siemens real estate needs, assuring that:

- attractive and use-appropriate real estate is provided at market rates to the entire group for all of our activities from manufacturing to sales administration, ensuring efficient use of space group-wide at optimal rental rates;
- Siemens real estate capital is limited to the group s actual needs, and excess real estate is disposed of;
- the value of Siemens real estate capital is maintained and enhanced by active management investment; and
- favorable financing alternatives are developed and implemented.

The following table sets forth the key balance sheet and statistical data for SRE:

SRE Balance Sheet and Statistical Data

	At September 30,

	At September 30,	
	2001	2000
	(€ and square meters in millions)	
Total Assets (in euros)	3,469	3,590
Real Estate Assets Under Management (in euros)	3,187	3,112
Total Site Area (in square meters)	24.3	23.0
Total Building Area (in square meters)	11.6	11.0

In fiscal 2001, we had total sales of €1.542 billion, of which €1.319 billion were to other Siemens business groups. SRE s external sales amounted to €223 million, or 0.3% of total Siemens net sales.

Total sales of our International segment were up in fiscal 2001 as SRE took responsibility for real estate in several non-European countries, establishing seven new management units in Australia, Canada, China, India, Latin America, Russia and South Africa. These newly-formed units complement SRE s existing international network, which now encompasses more than twenty companies and management units in leading real estate locations around the world.

Our revenues are derived primarily from our lease administration and services operations, since gains on dispositions are not recorded as sales but as other income. A major portion of our overall earnings reflects capital gains on sales of real estate assets. We believe that Siemens currently owns more real estate than it needs for its operations, and that for the next several years we will continue an active disposal program. Income from disposals, especially in Germany, should continue to be a strong contributor to our earnings for the foreseeable future. Our objective is to increase the profitability of our operational units steadily as we continue to adjust our rental conditions to market rates.

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,		
	2001	2000	1999
		(in thousands)	
Information and Communication Networks	51	53	53
Information and Communication Mobile	30	27	33
Siemens Business Services	36	33	28
Automation and Drives	54	54	51
Industrial Solutions and Services	30	30	29
Siemens Dematic(1)	12	6	5
Siemens Building Technologies	37	34	32
Power Generation	26	27	28
Power Transmission and Distribution	21	20	19
Transportation Systems	14	14	14
Siemens VDO Automotive(2)	44	30	28
Medical Solutions	30	28	19
Lighting/Osram	35	32	30
Siemens Financial Services	1	1	1
Siemens Real Estate	2	2	2
Other(3)	27	28	27
Electromechanical Components(4)			13
Total	450	419	412
Infineon Technologies	34	29	25

(1)

Siemens Dematic was formed in fiscal 2001 through a merger of the existing businesses of Siemens Production and Logistics Systems and the Dematic AG operations of Atecs Mannesmann.

(2) Siemens VDO Automotive was formed in fiscal 2001 through a merger of the existing businesses of Siemens Automotive and the Mannesmann VDO automotive operations of Atecs Mannesmann.

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

(4) Sold in fiscal 2000.

Employees by geographic region

	At September 30,		
	2001	**2000**	**1999**
		(in thousands)	
Germany	199	181	189
Europe (other than Germany)	118	111	108
The Americas	107	105	91
Asia-Pacific	53	45	44
Africa, Middle East, CIS	7	6	5
Total	484	448	437

A significant percentage of our manufacturing employees, especially in Germany, are covered by collective bargaining agreements determining working hours and other conditions of employment, or 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.

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 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 decommissioned 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 2006, 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 €676 million at September 30, 2001 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.

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.

Long-Term Contracts and Contract Losses

A significant portion of the business of certain of our operations groups, including the Information & Communications groups, Industrial Solutions & Services (I&S), the Power groups and Transportation Systems (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.

As of September 30, 2001, we had approximately €1.4 billion of accrued contract loss provisions. Accrued contract losses relate primarily to the groups PG (€433 million), SBS (€127 million), ICN (€95 million) and ICM (€90 million), as well as €96 million for centrally managed projects. For all accrued contract losses, we anticipate that the cash outflows for labor, materials, contract penalties and related costs on such contract losses will be approximately €1.2 billion in fiscal 2002.

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

- In fiscal 2000, losses were suffered on two related long-term construction contracts, originally entered into by PG, for the reconfiguration, expansion, modernization and refurbishment of two oil refineries and the construction of a pipeline in Mexico. These projects were the first of this specific type, complexity and magnitude entered into by our PG group for the oil, gas and petrochemicals industry. Both of these fixed-price projects are extremely large and involve a high degree of technical complexity, including vast worksites, large volumes of technically sophisticated hardware, and an on site work force of several thousand, all in an environment of a running refinery. In these projects, PG was responsible for the process control and electrification elements. As the projects progressed, it became apparent that the cost of certain significant project elements were not adequately anticipated at the time of entering into the contracts. For example, certain technical and logistical issues could only be fully assessed after equipment had been taken off line and disassembled and accordingly the full cost of facility refurbishment required became clear only as work progressed. In addition, various technical design and specification issues arose, and the solutions were often more costly to us than originally expected. Finally, as on-site activities progressed, the project suffered considerable delays due to on-site difficulties encountered, such as environmental and property rights issues and archaeological findings. As a result of all of all the above, both the quantity of materials and labor hours required to ultimately complete the projects will significantly exceed our original expectations. We recognized losses of €450 million in fiscal 2000 to take account of the resulting estimated losses on these contracts. The Managing Board has taken the necessary steps to ensure that both projects are operated under the very close oversight of senior management through completion. The Managing Board also decided to require the PG group to cease offering such process control and electrification projects to the oil, gas and petrochemicals industry. Due to the fact that the Managing Board assumed direct oversight of these projects and required PG to no longer accept such projects, these losses were not included in the results of PG, but were recorded centrally within special items. See Item 5: Operating and Financial Review and Prospects Fiscal 2000 compared to fiscal 1999 Business groups Corporate, eliminations (Operations) and Reconciliation to Financial Statements . See also discussion of centrally managed contracts below.

- In our PG business, it is common in the industry to guarantee customers that a turbine will achieve certain performance standards. If such 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 loss contract at PG had an accrual of approximately €72 million at September 30, 2001 and related to a gas turbine project.

- We have experienced significant losses on a fixed-price long-term production and outsourcing contract originally entered into by our SBS group that involves the processing of identity documents and the implementation of a border control system for the government of Argentina. In fiscal 2000, a loss of €68 million was recorded. This loss was the result of unfavorable contract pricing terms agreed to after it became necessary to renegotiate the original contract with the new government of Argentina that came into office in December 1999. Our Managing Board made the strategic decision to accept the new pricing terms in order to gain market entry into this important region. In fiscal 2001, this contract was canceled by government decree and a loss of €258 million was recorded for the write-down of inventories and other assets associated with this project. Due to the fact that the Managing Board assumed the direct oversight of this project, the losses noted above were not included in the results of SBS, but were recorded centrally. See Item 5: Operating and Financial Review and Prospects Fiscal 2000 compared to fiscal 1999 Business groups Corporate, eliminations (Operations) and Reconciliation to Financial Statements and Item 5: Operating and Financial Review and Prospects Fiscal 2001 compared to fiscal 2000 Consolidated Operations of Siemens worldwide Results of Siemens worldwide Special items . See also discussion of centrally managed contracts below.

- In fiscal 2001, SBS established contract loss provisions of €192 million related to two long-term outsourcing contracts in the U.K. In January 1999, SBS entered into a ten year agreement to insource the back-office functions of National Savings Bank, 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 the spring of 1996, SBS entered into an agreement with the Immigration and Nationality Directorate (IND) of the U.K. government to redesign the processing of asylum and immigration applications. The seven year contract focused on a complex document management and archiving system with the goal of increasing the efficiency of the system s processing functions as well as business process re-engineering and change management. As the project progressed, an unexpected increase in immigration cases led to a change in customer focus from cost reduction to the ability of the system to manage higher volumes of asylum and immigration applications. Due to this change in customer focus, additional costs have been incurred, payment for which the customer disputes. SBS has since redefined new processes and is working closely with the customer to reduce project risk exposure and accordingly related costs, thus to ensure the successful completion of the project.

  SBS management is closely monitoring both of these projects and is committed to completing them within the revised cost estimates. However, there can be no assurance that additional losses will not be incurred in connection with these contracts.

Property

Siemens and its consolidated subsidiaries have as of September 2001 approximately 220 production and manufacturing facilities of over 15,000 square meters each throughout the world. Approximately 130 of these are located in Europe, with approximately 65 in Germany, and approximately 70 are located in the Americas, with approximately 55 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 the individual group discussions in Item 4: Information about the Company . However, none of our business groups is dependent on a single patent or license or a group of related patents or licenses.

Legal Proceedings

Our former indirect subsidiary Siemens Business Communication Systems, Inc. (now Siemens Enterprise Networks LLC, a subsidiary of Siemens Information and Communications Networks, Inc.) was sued in the United States District Court for the Northern District of Georgia in 1994 by five independent service organizations and two customer end-users seeking treble damages of approximately $162 million for alleged monopoly pricing for maintenance services and an injunction against practices they allege to be anticompetitive, involving the sale and service of Siemens-Rolm branded PBX equipment. Siemens filed a countersuit against the five independent service organization plaintiffs, alleging that they misappropriated Siemens trade secrets, interfered with Siemens contractual and prospective business relationships and infringed on Siemens patents and copyrights. The court ordered that these intellectual property and related claims be tried first and separately. On September 2, 1999, the jury rendered a verdict in favor of Siemens on all claims and awarded Siemens damages of $7 million. On July 14, 2000, the court upheld the jury s finding that Siemens copyrights and patents were valid and that plaintiffs infringed Siemens intellectual property rights but eliminated duplicative damages awarded by the jury, reducing the $7 million award to just under $2 million. On August 10, 2000, the court granted Siemens renewed motion for summary judgment and dismissed plaintiffs case with prejudice in its entirety, holding that the lawful exercise of Siemens intellectual property rights insulated Siemens from antitrust liability. On September 8, 2000, plaintiffs filed a notice of appeal with the United States Court of Appeals for the 11th Circuit appealing the order dismissing their case, and Siemens subsequently filed a cross-appeal on certain limited issues. On procedural grounds, the clerk for the 11th Circuit forwarded the notices of appeal to the Court of Appeals for the Federal Circuit, the appropriate court to hear the issues presented on appeal. The parties have now filed briefs with the Court of Appeals for the Federal Circuit, which has scheduled oral arguments for February 4, 2002.

We are defending a claim in the courts of Pakistan for approximately $1.4 billion in damages relating to alleged breaches of claimed financing obligations. The claim arises out of a transaction involving the Westinghouse business unit that is the predecessor to Siemens Westinghouse Power Corporation, an indirect subsidiary that is a part of our Power Generation group. The claim was originally filed in the Civil Court in Lahore, Pakistan in September 1998 by WAK Orient Power and Light against Westinghouse Electric Corporation, Raytheon Ebasco Overseas Ltd. and others. The claim was subject to an arbitration proceeding in London, decided on December 18, 2000, in which the arbitrators found in favor of Siemens Westinghouse on all grounds and awarded Siemens Westinghouse $2 million in damages and $762,000 in costs. The panel found no breach of any obligation by Westinghouse, Raytheon or any of the other defendants. On May 7, 1999, while the claim was being arbitrated in London, WAK nonetheless obtained a default judgment of approximately $1.4 billion from the trial court in Pakistan. In October 2000, this judgment was vacated on procedural grounds by the Lahore High Court. The High Court declined to address Siemens application for a stay pending conclusion of the London arbitration, however, and remanded the case back to the trial court for further proceedings. Both parties subsequently appealed this decision to the Supreme Court of Pakistan. In a preliminary hearing in May 2001, the Supreme Court of Pakistan accepted our appeal and denied WAK s interim application to require us and the other defendants to post security or a guarantee pending the appeal. The Supreme Court also granted our request for a stay of any proceedings before the trial court pending disposition of the Supreme Court appeal. A hearing date on the Supreme Court appeal is expected to be set in the near future. In addition to the proceedings in Pakistan, in June 1999, WAK also attempted to enforce the Pakistani trial court s default judgment in the United States. The United States District Court for the Eastern District of Pennsylvania enjoined enforcement of the Pakistani default judgment and upheld the London arbitration award, entering judgment in favor of Westinghouse Electric Corporation, Raytheon Ebasco Overseas Ltd. and the other defendants. WAK appealed that decision to the United States Court of Appeals for the Third Circuit. In May 2001, the new parent company of Raytheon Ebasco Overseas Ltd., called the Washington Group, filed for Chapter 11 bankruptcy protection and included Raytheon Ebasco Overseas Ltd. in the bankruptcy proceedings. The appeal before the Third Circuit has accordingly been stayed pending resolution of the Washington Group bankruptcy proceeding. Approval of a final plan for reorganization of the Washington Group and its subsidiaries, including Raytheon Ebasco Overseas Ltd., may come within the next few months, which would permit the appeal before the Third Circuit to proceed.

We are party to an action in the administrative court in Antioquia, Colombia filed by a consortium of contractors for the Aburra Valley mass transit system against the Aburra Valley mass transit authority. The original action seeks a judgment annulling a resolution by the authority that declared a breach of contract by the consortium and triggered the authority s rights to certain legal remedies such as liquidated damages for delay and contractual claims for damages. In a counterclaim to this action, the authority has claimed damages of $427 million for breach of contract without specifying the details of the alleged breach. The consortium has contested the jurisdiction of the administrative court on the basis of the contractual provisions governing jurisdiction. The court is currently considering the case.

We are subject to a valuation proceeding (*Spruchstellenverfahren*) in the Landgericht München I, the regional court in Munich, in connection with a resolution passed at the 1999 annual shareholders meeting to abolish multiple voting rights that were attached to an outstanding class of preferred shares without providing compensation to the holder. The preferred shares were then converted to common shares. The holder of these shares, von Siemens-Vermögensverwaltung GmbH (vSV), brought the valuation proceeding seeking reasonable compensation for the elimination of these multiple voting rights, based on an expert s opinion that assumed a value of €7.59 for each voting right. The court appointed an independent expert to give an opinion as to the value, if any, of the multiple voting rights. This opinion supported our view that the multiple voting rights have no value. Having accepted the independent expert s method of calculation, however, the Landgericht München I made its own determination on September 14, 2001 that the value of each voting right was €0.70, which would correspond to a total value of all the multiple voting rights of approximately €33 million. Both parties have lodged an appeal.

We are subject to a valuation proceeding (*Spruchstellenverfahren*) brought against us in 1992 in connection with our offer to exchange shares of Siemens Nixdorf Informationssysteme AG, Paderborn, for our shares in connection with the integration of Siemens Nixdorf into Siemens AG. We made an offer to all outstanding Siemens Nixdorf shareholders to effect the share exchange at a ratio of six Siemens Nixdorf shares for one Siemens share, or fifteen Siemens shares when adjusted for stock splits that have occurred since 1992, and to buy any number of

Siemens Nixdorf shares that cannot be divided by six for DM 156.50 (€80.02) per share. The proceeding was brought before the Landgericht Dortmund (the regional court in Dortmund) by 68 holders of Siemens Nixdorf shares and relates to all 1,780,462 Siemens Nixdorf shares that were subject to our exchange offer. The plaintiffs alleged that the value of our exchange offer was insufficient. The Landgericht Dortmund asked an independent expert to give an opinion as to the values of Siemens Nixdorf and Siemens shares. This opinion concluded that the exchange ratio was sufficient but suggested that the cash settlement amount be raised to DM 177.80 (€91.93) per Siemens Nixdorf share. In spite of this opinion, on November 18, 2000, the Landgericht Dortmund rendered a decision setting the exchange ratio at three Siemens Nixdorf shares for fifteen Siemens shares, after adjustment for stock splits that have occurred since 1992, and the cash settlement at DM 209.38 (€107.05) per Siemens Nixdorf share. Siemens believes this decision is wrong and has lodged an appeal at the Oberlandesgericht Düsseldorf, the court of the second instance.

On November 29, 2000, Siemens received a written demand from the Atomic Energy Organization of Iran claiming unspecified damages plus interest for the breach of a 1976 contract between Siemens and the Atomic Energy Organization of Iran involving the construction of two nuclear power plants in Bushehr. The Atomic Energy Organization of Iran claims that Siemens breached the contract by failing to disclose the existence of promotion and marketing agreements in connection with securing the contract. The Atomic Energy Organization of Iran requested a sixty-day period from receipt of the demand to discuss the claims with Siemens, after which the Atomic Energy Organization of Iran threatened to take actions before arbitral tribunals and/or competent national courts. The sixty-day period has elapsed without any resolution of the issue by the parties and no actions have been initiated by the Atomic Energy Organization of Iran before an arbitral tribunal or competent national court. Siemens intends to defend vigorously against any claim that arises from this situation.

Siemens AG and its subsidiaries are party to a variety of other legal proceedings arising in the ordinary course of business. These involve allegations of breach of contract, improper delivery of goods or services, product liability and patent and other intellectual property infringement and other matters. We have accrued provisions for litigation risks including the costs of legal representation and the expected costs of resolving these matters. Although the final resolution of such matters could have a material effect on Siemens consolidated operating results for any reporting period in which an adjustment of the estimated reserve is recorded, Siemens believes that any resulting adjustments should not materially affect its consolidated financial position.

Item 5: Operating and Financial Review and Prospects

This Annual Report contains forward-looking statements based on beliefs of Siemens management. We use the words anticipate , believe , estimate , expect , intend , should , plan and project to identify forward-looking statements. Such statements reflect our current views with 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.

Table of Contents:

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. GAAP as of and for the years ended September 30, 2001, 2000 and 1999. We converted our financial accounting to euros as of the first day of fiscal 2000, and have restated fiscal 1999 results in euros for comparison.

In fiscal 2001, we introduced a component model for reporting our financial results as described below. Fiscal 2000 has also been provided on this component model basis, while component model information has not been provided for fiscal 1999. Our segment information,

however, has been restated in accordance with the new presentation.

In fiscal 2001, we also changed the measure of profitability of our operations from EBIT to EBITA. Fiscal 2000 has been restated on a comparable basis. Fiscal 1999 has not been so restated, and the discussion below of fiscal 2000 compared to fiscal 1999 therefore uses the prior EBIT measurement. Our EBITA and previous EBIT measures are more fully described below.

In fiscal 2001 and 2000, foreign currency translation effects had significant effects on our results due to the weakness of the euro, in which our consolidated financial statements are denominated, compared to other currencies, most notably the U.S. dollar and to a lesser extent the Swiss francs, 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 Note 2 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 below under Joint Ventures and Acquisitions, 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 2001 and 2000, see Item 4: Information about 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 our shareholders follow our growth and progress, our worldwide financial results are prepared in accordance with US GAAP enhanced by a component model presentation that presents the worldwide results for (i) our Operating Groups separately from the results for (ii) the activities of Infineon Technologies AG, (iii) our Financial and Real Estate activities, and (iv) the effects of Eliminations, reclassifications and Corporate Treasury activities.

The four components of Siemens worldwide are as follows:

- Operations This component is defined as Siemens Operating Groups including corporate headquarters and excluding the other components.
- Infineon Infineon Technologies AG, Munich, was until December 5, 2001 a consolidated subsidiary whose shares are listed on the stock exchanges in Frankfurt and New York. From December 5, 2001, we no longer include the assets and liabilities and results of operations of Infineon in our consolidated financial statements and will instead account for our ownership interest in Infineon using the equity method. See Recent Developments and Outlook .
- Financing and Real Estate Siemens Financing and Real Estate segments are responsible for the Company s international leasing, finance, credit, and real estate management activities.
- Eliminations, reclassifications and Corporate Treasury The fourth component included in Siemens financial statements enhances the transparency of the other components by separately presenting the elimination of transactions among Operations, Infineon and Financing and Real Estate and certain reclassifications. This component also includes Siemens Corporate Treasury activities, excluding those for Infineon.

Our thirteen Operations business groups involve manufacturing, industrial and commercial solutions and services related more or less to our origins in the electrical business. We refer to these groups as our Operations to distinguish them from our financial services activities. We measure the profitability of our Operations component and of our segments by EBITA. EBITA is the measure used by our Managing Board as the chief operating decision maker for the Company in assessing performance. EBITA is also the basis for calculating Economic Value Added (EVA) for Operations, which in turn is part of the determination of the amount of executive incentive compensation in accordance to our company-wide bonus program. Therefore, we believe that EBITA enhances investor s understanding of our Operations because we consider it the best measure of our Groups operational performance. Other companies that use EBITA may calculate it differently, and their figures may not be comparable to ours.

EBITA for our Operations component is defined as earnings before financing interest, income taxes, amortization of goodwill and purchased in-process R&D expenses and excludes certain one-time items, (specifically, special items see Fiscal 2001 compared to fiscal 2000 Consolidated Operations Special items) which are deemed by the chief operating decision maker, the Managing Board to not relate to the business performance of the Operations component. EBITA for segments is defined as earnings before financing interest, certain pension costs,

income taxes and amortization of goodwill and purchased in process R&D and excludes certain one time items, which do not relate to the business performance of the Groups. Financing interest is any interest income other than interest income related to receivables from customers, from cash allocated to the segments and interest expense on payables. We believe that it is appropriate to exclude financing interest from EBITA because decision-making regarding financing is typically made either centrally in Corporate Treasury. Similarly, income taxes are excluded from EBITA since tax expense is subject to legal structures which typically do not correspond to the structure of our Operating segments. Goodwill amortization and IPR&D are excluded from EBITA corresponding to the measure of EBITA assets, which are not reduced for either amortization of goodwill or IPR&D expense. As a result, increases or decreases in EBITA reflect only the operational performance of the operations, as defined by the Managing Board, without regard to these effects. For further information on segment EBITA see also Note 29 to the consolidated financial statements.

In contrast, we assess the profitability of our Financing and Real Estate component by income before income taxes since interest expense and income is an important source of expense and revenue for this component. The profitability of our Infineon component, however, is measured by EBIT as Infineon has determined that EBIT, defined as earnings before interest, taxes and minority interest, is the relevant measure for its chief operating decision maker in assessing performance. Since Infineon is a separately listed company, we integrate its relevant measures into our financial reporting. EBITA assets is the asset measure used to assess the capital intensity of our Operations component and our segments. It represents net capital employed (total assets less tax related assets, less accruals and less non-interest bearing liabilities other than tax related liabilities). EBITA assets are not reduced for amortization of goodwill and in-process research and development as such expenses are added back to calculate EBITA. For further information regarding EBITA assets see Note 29 to the consolidated financial statements.

FISCAL 2001 COMPARED TO FISCAL 2000

CONSOLIDATED OPERATIONS OF SIEMENS WORLDWIDE

Economic environment and market trends

Despite a weakening economic environment throughout fiscal 2001, many of our Operating Groups delivered strong earnings, others were adversely affected by rapidly deteriorating business conditions. These developments are best understood in terms of the different market cycles in which our Groups operate.

- A number of Groups operate in fields whose markets are stable over extended periods and are currently benefiting from favorable conditions. This applies particularly to Power Generation (PG), Transportation Systems (TS) and Medical Solutions (Med) which comprise roughly 30 percent of our business. Our market positions and profitability in these fields are continuing to improve. Power Transmission and Distribution (PTD) also belongs in this market cycle.

- A second set of Groups which also contribute about 30 percent of our sales are subject to shorter, general business cycles. Two good examples here are Automation and Drives (A&D) and Osram. Both units have sustained high levels of earnings, effectively demonstrating how a leading business can cope with economic cycles without significant declines in income. Industrial Solutions and Services (I&S), Siemens Building Technologies (SBT) and portions of Siemens Dematic (SD) also belong to this market cycle.

- Around 40 percent of our sales are generated by Groups dependent on industry-specific cycles currently experiencing deteriorating business conditions. These include primarily Information and Communication Networks (ICN), Information and Communication Mobile (ICM), Siemens Business Services (SBS), Siemens Dematic (SD), Siemens VDO Automotive (SV) and Infineon. Accordingly, these Groups must make appropriate adjustments in the light of these conditions.

Results of Siemens worldwide

We took aggressive action to address the more difficult market environment by restructuring the capacities of ICN, ICM, SBS and SV, which resulted in total charges with respect to restructuring and asset write-downs of €1.863 billion. These effects contributed to a negative earnings development for Siemens worldwide as a whole compared to the previous fiscal year. In this difficult environment, we initiated successful asset management measures and significantly improved our cash flow.

- Sales for Siemens worldwide increased 12% compared to fiscal 2000, to €87.000 billion. Excluding Infineon, sales increased 15% to €82.256 billion. Positive currency translation effects contributed one percentage point to this increase.

- Gross profit decreased by 1.2 percentage points to 26.6% in fiscal 2001. Higher gross margins at PG, TS and Med in fiscal 2001 were offset by charges taken due to deteriorating market conditions at ICN, ICM, SBS and SD, and margin erosion at ICN and ICM. Gross profit in the current fiscal year also includes unusual charges from asset write-downs related to a large outsourcing contract and was negatively affected by the significant decrease in gross profit at Infineon.

- R&D spending represented 7.8% of sales, compared to 7.5% last year. Marketing, selling and general administrative expenses were 19.1% of sales, compared to 18.3% of sales last year, reflecting in part higher provisions on trade and financing receivables at ICN and ICM a well as increased advertising costs at ICM. Other expenses in fiscal 2001 includes €927 million impairment charges

related to ICN and A&D.

- Siemens worldwide net income of €2.088 billion in fiscal 2001 included gains on sales and dispositions of significant business interests including €4.065 billion, primarily related to the transfer of part of our share in Infineon to our German pension trust. Prior-year earnings of €8.860 billion included €7.826 billion in gains from divestments implemented as part of a portfolio optimization program. Infineon, in which we held a 50.4% economic interest at the end of fiscal 2001, recorded a net loss for the fiscal year of €591 million compared to net income of €1.126 billion in fiscal 2000.

- Earnings per share were €2.36 in fiscal 2001, compared to €9.97 in the previous year. 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 for trading purposes on April 30, 2001.

- Net cash from operating activities of Siemens worldwide was €7.016 billion for the year, sharply up from the previous year s level of €6.154 billion despite increasingly difficult market conditions.

- EBITA from Operations was €1.329 billion including restructuring charges and asset write-downs of €1.863 billion. Excluding these charges and write-downs, EBITA from Operations was €3.192 billion. Prior year EBITA was €2.799 billion.

- The proposed dividend of €1 per share is comparable on a post-split basis to the prior-year dividend of €0.93 excluding the prior-year bonus dividend.

Special items

	Siemens worldwide		Siemens excluding Infineon	
	For the fiscal year ended September 30,			
	2001	2000	2001	2000
	(€ in millions)			
Gain on irrevocable transfer of Infineon shares into German Pension Trust	3,459			
Gain on issuance of Infineon stock	606			
Gains on sales of significant business interests		7,826		
Impairment of goodwill at ICN and A&D	(927)			
Other exceptional gains and charges	(258)	(280)		
Subtotal	2,880	7,546		
Tax effect of special items	(1,099)	(1,325)		
Reduction of income tax expense associated with German tax reform	222			
Special items, net of taxes	2,003	6,221		
Net income	2,088	8,860	2,351	7,989
Less: Special items (net of taxes)	(2,003)	(6,221)	(2,003)	(6,221)
Net income excluding special items	85	2,639	348	1,768

Net income excluding special items adjusts reported net income by removing certain one-time items from results in our Operations segments and Financing and Real Estate segments. We believe that adjusting net income in this way provides a more meaningful comparison between the periods under review because it eliminates one-time or non-recurring 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 or non-recurring 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 in Item 5: Operating and Financial Review and Prospects . All figures for Siemens worldwide include the results of Infineon.

Net income excluding special items for Siemens worldwide was €85 million in fiscal 2001 compared to net income of €2.639 billion in the previous year. For Siemens worldwide, earnings per share excluding special items for the fiscal year 2001 were €0.10, compared to earnings per share of €2.97 for the fiscal year 2000. Excluding Infineon, net income excluding special items for fiscal 2001 decreased to €348 million compared to €1.768 billion in fiscal 2000, principally reflecting reduced earnings from Operations.

Our largest special item 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 our German pension trust. We also recorded a €484 million gain resulting from Infineon s sale of 60 million of its shares in a capital increase in the fourth quarter. In addition, Infineon increased its capital in connection with acquisitions which resulted in an aggregate gain of €122 million. Siemens did not participate in these capital increases. These items are recorded on our income statement as gains on sales and dispositions of significant business interests. Taken together, these transactions had the effect of reducing Siemens ownership interest in Infineon from approximately 71% as of the end of last fiscal year to 50.4% as of September 30, 2001.

The €3.459 billion pre-tax gain on the contribution of the Infineon shares in April 2001 to our German pension trust was a non-cash item recorded 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 which was to increase substantially during the third quarter following our acquisition (which is described below) of Atecs Mannesmann AG (Atecs), a large German automative and automation technology group. As a result of the Atecs acquisition, Siemens assumed Atecs unfunded pension obligations. In addition, the transfer represented a further step towards meeting our long-stated goal of disposing of our interest in Infineon over time. While United States pension plans subject to the 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, our German pension trust is not subject to such ERISA provisions. At September 30, 2001, Infineon shares represented approximately 13% of the assets of our German pension trust.

Offsetting these gains are charges totaling €927 million taken in the fourth quarter of 2001 for impairment of goodwill relating to acquisitions made by ICN and A&D. These charges are not included in EBITA from Operations. They include 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. See Note 14 to the consolidated financial statements.

Also included in special items in fiscal 2001 is the 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. This benefit was recorded in the first quarter of fiscal 2001.

After adjusting the amounts described above for taxes, special items totaled €2.003 billion in fiscal 2001.

Special items in fiscal 2000 included €7.826 billion from pre-tax gains on sales of significant business interests, principally including gains relating to the initial public offering of Infineon. Special items in 2000 also included exceptional gains from certain marketable securities and exceptional charges related to contract losses, certain restructuring costs, the write-off of goodwill, a one-time bonus for employees, and a provision related to a loan. These other special items totaled a negative €280 million for fiscal 2000. For more information see Note 29 to the consolidated financial statements. Adjusted for taxes, special items for fiscal 2000 totaled €6.221 billion.

JOINT VENTURES AND ACQUISITIONS

We completed the following transactions in fiscal 2001:

- In November 2000, Med acquired Acuson Corporation of the United States for a purchase price of approximately U.S.$700 million;
- In January 2001, PG transferred its nuclear power operations into a joint venture with Framatome in exchange for a 34% interest in the joint venture. This investment is accounted for under the equity method;
- In April 2001, Siemens completed the acquisition of a controlling interest of 50% plus two shares in Atecs Mannesmann AG (Atecs), an automotive and automation technology company. In accordance with the purchase agreement, prior to closing we paid €3.1 billion to Mannesmann AG. As of the date of closing, Siemens made a capital contribution to Atecs. The purchase agreement also provides for our acquisition of Mannesmann AG s remaining interest in Atecs, either at the option of Mannesmann during the period from the date of closing through September 30, 2002, or at the option of Siemens during the period from April 1, 2002 through

December 31, 2003. We plan to exercise this latter option. The purchase price for the remaining interest in Atecs is between €3.7 and €3.8 billion under both options. We have accounted for the Atecs transaction as a purchase of a 100% interest, at a price of €9.6 billion, using the purchase method of accounting. The purchase price, including the assumption of €2.8 billion of financial debt and pension liabilities, was allocated to the assets acquired and liabilities assumed based on estimated fair values. In connection with the Atecs transaction, we entered into a put option contract giving Siemens the right to sell Rexroth AG (Rexroth), a wholly-owned subsidiary of Atecs, to Bosch GmbH for €2.7 billion. The put option is exercisable from January, 2002 through December 31, 2002. We plan to exercise this option.

The Dematic systems, VDO and Demag Delaval businesses acquired in the Atecs transaction have been integrated into our Siemens Dematic (previously Siemens Production and Logistics Systems), Siemens VDO Automotive, (previously Siemens Automotive) and Power Generation segments, respectively. We intend to sell the other businesses acquired in the Atecs acquisition. Accordingly, we have accounted for these other businesses as assets held for sale.

- In April, 2001, ICN completed the acquisition of Efficient Networks, Inc. The purchase price was approximately €1.6 billion, plus the assumption of €457 million of debt.

SEGMENT INFORMATION ANALYSIS

The following table setting forth key performance data for our business groups is derived from our segment data in our consolidated financial statements and should be read in conjunction with that data and with Note 29 to the consolidated financial statements:

Key Performance Data by Business Group

	New Orders(1) (Unaudited)		Total Sales(2)		EBITA(3)		EBITA Assets(4)	
	2001	2000	2001	2000	2001	2000	2001	2000
	(€ in millions)							
Operations								
Information and Communication Networks (ICN)	12,639	11,648	12,882	11,323	(861)	686	3,298	4,454
Information and Communication Mobile (ICM)	11,866	10,420	11,299	8,910	(307)	718	2,623	2,876
Siemens Business Services (SBS)	6,303	5,857	6,034	5,882	(259)	70	518	1,396
Automation and Drives (A&D)	9,065	8,163	8,947	7,943	981	865	2,653	2,632
Industrial Solutions and Services (I&S)	4,881	4,401	4,563	4,226	97	111	493	375
Siemens Dematic (SD)	2,281	1,913	2,520	1,786	(59)	196	984	560
Siemens Building Technologies (SBT)	5,549	5,066	5,518	4,932	132	297	2,276	2,226
Power Generation (PG)	12,219	9,409	8,563	7,757	634	66	(1,003)	178
Power Transmission and Distribution (PTD)	3,887	3,566	4,053	3,151	96	45	1,004	784
Transportation Systems (TS)	5,647	3,722	4,021	3,710	186	75	(916)	(337)
Siemens VDO Automotive (SV)	5,702	3,839	5,702	3,833	(261)	89	3,691	937
Medical Solutions (Med)	8,444	5,253	7,219	4,924	808	463	4,099	3,308
Osram	4,522	4,327	4,522	4,326	462	388	2,505	2,533
Corporate, eliminations	(6,890)	(4,759)	(3,416)	(1,100)	(320)	(1,270)	(2,555)	2,143
Total Operations	86,115	72,825	82,427	71,603	1,329	2,799	19,670	24,065
Reconciliation to financial statements							51,247	45,044
Other interest expense					(304)	(220)		
Goodwill amortization and purchased in-process R&D expenses					(665)	(253)		
Gains on sales and dispositions of significant business interests					4,065	7,826		
Other special items					(1,185)	(280)		
Operations income before income taxes/total assets/total amortization, depreciation and write-downs					3,240	9,872	70,917	69,109

(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)

EBITA is measured as earnings before financing interest, income taxes, amortization of goodwill and purchased in-process R&D expenses and certain one-time items included in Corporate, eliminations and Reconciliation to financial statements. EBITA differs from our Income before income taxes and you should not consider it to be the same. Other companies that use EBITA may calculate it differently, and their figures may not be comparable to ours.

(4) EBITA assets represent net capital employed (total assets less tax related assets, less accruals and less non-interest bearing liabilities other than tax related liabilities) without amortization of goodwill and purchased in-process R&D expenses.

(5) Infineon EBIT is measured as earnings before interest, taxes and minority interest. EBIT differs from Income before income taxes and you should not consider it to be the same. Other companies that use EBIT may calculate it differently, and their figures may not be comparable to those of Infineon.

(6) Net Capital Employed, as an EBIT-related asset indicator, represents total assets less cash not allocated to the segments and deferred tax assets and less non-interest bearing liabilities other than deferred tax liabilities.

The following discussion adheres to our component model of reporting and includes an analysis of the financial performance of Operations, Infineon, and our Financing and Real Estate component.

Operations

Information and Communications

Information and Communication Networks (ICN)

ICN Performance Data:	Change	Year ended September 30, 2001	2000
		(€ in millions)	
EBITA		(861)	686
EBITA Margin		(6.7%)	6.1%
Total Sales	13.8%	12,882	11,323
New Orders	8.5%	12,639	11,648

ICN was affected by substantial cut-backs in capital spending by telecom operators for telecommunications and networking products due to financial difficulties in these sectors. In this challenging environment, ICN s EBITA for the fiscal year was a negative €861 million, including restructuring charges and asset write-downs of €1.059 billion. Excluding these effects, EBITA at ICN was €198 million. EBITA in fiscal 2000 was €686 million, which included €204 million in nonrecurring gains from the sales of investments and real estate. Both fiscal 2000 and fiscal 2001 included approximately €120 million in gains on shares of start-up companies. ICN s EBITA in fiscal 2001 does not include the impairment of goodwill associated with the Efficient acquisition, as described above in Special items.

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 connection with its PACT Program, ICN intends to cut approximately 10,000 positions and to reduce its worldwide manufacturing locations by approximately half. The anticipated reduction in employees will be achieved through attrition, early retirement, and voluntary and involuntary terminations. In fiscal 2001, the plan resulted in charges for employee severance of €387 million related to the termination of approximately 4,000 employees employed in various functions, including manufacturing, and administration which is expected to be paid out in fiscal 2002. ICN expects to incur additional charges to complete this plan during approximately the next two fiscal years. Asset write-downs unrelated to the restructuring plan involved accounts receivable, inventories, and venture capital investments. Write-downs of accounts receivable totaled €330 million, partly related to a major U.S. customer, Winstar Communications. Inventory write-offs were €173 million and the Group also wrote down €169 million primarily in venture capital investments.

Margin erosion and pricing pressures impacted earnings throughout the Group. While the Wireline Networks Division remained strongly profitable, ICN s other major Divisions posted losses, involving the charges and write-downs noted above. The most significant loss was in our Access Solutions division which bore a substantial portion of the restructuring and asset write-downs noted above and was also negatively affected by start-up losses at Efficient Networks. Weakening in their respective markets contributed to operating losses in the Enterprise Networks and Optical Networks Divisions, both of which were profitable in the previous year. Unisphere Networks Division substantially narrowed its loss compared to fiscal 2000.

EBITA margin was a negative 6.7% for ICN as a whole. Excluding the restructuring charges and asset write-downs, EBITA margin was a positive 1.5%. EVA remained negative. Working off its large order backlog, ICN increased sales to €12.882 billion for the full fiscal year, 14% higher than in fiscal 2000. A highlight was the Wireline Networks Division, which delivered a record 31 million EWSD ports during the year. Order growth slowed within the year, but still increased 9% year-over-year to 12.639 billion. Asset write-downs and disposal of certain marketable securities were partially offset by increased goodwill due to the acquisition of Efficient. This together with improved working capital management resulted in a decrease of EBITA assets by €1.156 billion year-over-year, to €3.298 billion at the end of fiscal 2001. Cash flow was

also negatively affected by operating losses and the acquisition of Efficient Networks. Cash flow will be negatively affected in future periods due to the provisions for severance recorded in the current year, as noted above.

Information and Communication Mobile (ICM)

ICM Performance Data:	Change	Year ended September 30, 2001	2000
		(€ in millions)	
EBITA		(307)	718
EBITA Margin		(2.7%)	8.1%
Total Sales	26.8%	11,299	8,910
New Orders	13.9%	11,866	10,420

In fiscal 2001, demand for mobile phones was also impacted by worsening economic conditions and saturation, particularly in Western Europe, which led to a sharp decline in market growth that resulted in excess inventories, oversupply and significantly reduced market prices for mobile handsets. The GSM network market was also adversely affected by slowing growth. Near-term prospects for both the mobile phone and GSM network markets could be affected by the timing of investment in and consumer acceptance of third-generation UMTS infrastructure and products.

ICM increased profitability in its infrastructure business and addressed sharply slower market growth in its mobile phone business in fiscal 2001 with a rapid realignment through cost cutting measures in its Mobile Phone Division in the second half of the fiscal year, and initiated plans for the elimination of approximately 2,000 positions in its Mobile Networks Division expected in fiscal 2002. EBITA of negative €307 million includes asset write-downs of €441 million, which were largely confined to the Mobile Phones Division in the third quarter. Excluding the write-downs, EBITA was a positive €134 million compared to €718 million a year earlier. The largest item within the €441 million was an inventory write-off of €213 million due to significantly reduced market prices for handsets. Other asset write-downs totaled €228 million, including a €69 million write-down of ICM s investment in the German mobile commerce software company, Brokat AG and a €71 million write-down incurred in connection with the closing of ICM s U.S. Opuswave operation.

The Mobile Networks Division strongly increased its EBITA contribution to €435 million for the year, and increased sales by 52% despite a slowing market. The Mobile Phones Division had EBITA of negative €540 million approximately half of which relates to asset write-down charges compared to positive EBITA of €632 million a year earlier. The Division sold more than 28.7 million units compared to 23.9 million units in the previous fiscal year. Rigorous cost-cutting initiated in the third quarter helped the Division reduce its loss to €22 million in the fourth quarter. ICM s Fujitsu Siemens joint venture contributed a modest profit and thus reversed its loss in fiscal 2000. Sales for ICM in the fiscal year grew 27%, to €11.299 billion. Orders of €11.866 billion were 14% higher than fiscal 2000. EBITA assets decreased from €2.876 billion to €2.623 billion, despite significant sales growth principally due to successful asset management initiatives which led to a reduction in working capital. Due to negative earnings, however, EVA was negative for the year. Negative EBITA contributed to a decrease in cash flow during the year. Cash flow will be negatively affected in future periods due to the planned headcount reduction activities noted above and due to commitments to extend customer financing. For additional information on customer financing see Customer Financing .

Siemens Business Services (SBS)

SBS Performance Data:	Change	Year ended September 30, 2001	2000
		(€ in millions)	
EBITA		(259)	70
EBITA Margin		(4.3%)	1.2%
Total Sales	2.6%	6,034	5,882
New Orders	7.6%	6,303	5,857

EBITA at SBS was a negative €259 million including fourth-quarter charges for severance and asset write-downs totaling €242 million. Excluding these effects, EBITA was a negative €17 million compared to a positive €70 million a year earlier. In response to difficult conditions in the IT services market and in the e-business arena in particular, SBS is concentrating on improving its profitability through cost-cutting measures, including personnel reductions. Charges totaling €196 million in employee severance costs arose from the elimination of 2,200 positions primarily in Europe, as part of a program to address deteriorating economic conditions in the region. The Group expects to pay out substantially all of this charge in fiscal 2002. Asset write-downs of €46 million related to accounts receivable and venture capital investments. Fiscal 2001 EBITA includes loss provisions relating to two significant business process outsourcing contracts totaling €192 million. See Item 4:

Information about the Company Long-Term Contracts and Contract Losses . Results in fiscal 2001 and 2000 include gains on investments of €44 million and €54 million, respectively. Results at SBS in fiscal 2001 do not include a write-off of assets related to a contract in Argentina as described in Fiscal 2001 compared to fiscal 2000 Consolidated Operations Results of Siemens worldwide Special items above. As discussed in Fiscal 2001 compared to fiscal 2000 Segment information analysis Corporate, eliminations (Operations) and Reconciliation to Financial Statements below, results in fiscal 2000 do not include losses related to the canceled contract in Argentina.

EBITA margin at SBS was a negative 4.3%. Excluding the severance charges and asset write-downs noted above, EBITA margin was a negative 0.3%. As a result, EVA was negative. Sales for the fiscal year edged up 3%, to €6.034 billion, while new orders rose more quickly, to €6.303 billion. Asset write-downs and contract loss provisions, together with effective working capital management, resulted in a decline in EBITA assets from €1.396 billion at the end of fiscal 2000 to €518 million at the close of fiscal 2001. The personnel reductions noted above will negatively affect cash flow in future periods.

Automation and Control

Automation and Drives (A&D)

		Year ended September 30,	
A&D Performance Data:	**Change**	**2001**	**2000**
		(€ in millions)	
EBITA	13.4%	981	865
EBITA Margin		11.0%	10.9%
Total Sales	12.6%	8,947	7,943
New Orders	11.0%	9,065	8,163

A&D delivered strong double-digit growth in earnings, sales, and orders, based on excellent performance by the Group s three largest divisions: Industrial Automation Systems, Low Voltage Controls and Distribution, and Motion Control Systems. EBITA increased to €981 million, €116 million higher than in fiscal 2000, and EBITA margin reached 11%. Acquisitions and higher business volume in existing businesses pushed EBITA assets up slightly, but the faster growth in earnings enabled A&D to further increase its positive EVA. The Group s results do not include impairment of goodwill associated with the acquisition of Milltronics, discussed above in Fiscal 2001 compared to fiscal 2000 Consolidated Operations Results of Siemens worldwide Special items. In fiscal 2001, sales rose 13% to €8.947 billion and orders climbed 11% to €9.065 billion, compared to €7.943 billion and €8.163 billion in fiscal 2000. Slowing market demand began having an effect in the fourth quarter, as new orders slid 5% compared to the comparable quarter of fiscal 2000.

Industrial Solutions & Services (I&S)

		Year ended September 30,	
I&S Performance Data:	**Change**	**2001**	**2000**
		(€ in millions)	
EBITA	(12.6%)	97	111
EBITA Margin		2.1%	2.6%
Total Sales	8.0%	4,563	4,226
New Orders	10.9%	4,881	4,401

EBITA at I&S fell to €97 million from €111 million in fiscal 2001. EBITA margin declined slightly to 2.1%. Although the Group posted an 8% increase in sales to €4.563 billion from €4.226 billion a year earlier, primarily in the Industrial Service Division, significantly lower margins in its petrochemical business and its industrial services business contributed to a lower EBITA than in the prior year. Mid-year weakness in the Group s project-related divisions also contributed to the decreasing profitability. Orders rose 11% to €4.881 billion from €4.401 billion. EBITA assets increased by €118 million, due to higher receivable and contract inventories, to €493 million. Coupled with reduced earnings, this resulted in a lower EVA.

Siemens Dematic (SD)

	Year ended September 30,

SD Performance Data:	Change	Year ended September 30, 2001	2000
		(€ in millions)	
EBITA	(130.1%)	(59)	196
EBITA Margin		(2.3%)	11.0%
Total Sales	41.1%	2,520	1,786
New Orders	19.2%	2,281	1,913

SD was formed during the year via a third-quarter merger of the existing businesses of Siemens Production and Logistics Systems (PL) and Dematic AG (part of the Atecs acquisition). EBITA was a negative €59 million compared to a positive €196 million for PL in fiscal 2000. Profitability at the Electronics Assembly Division was reduced by a sharp slow-down in the telecommunications and other electronics manufacturing industries. Negative results at the Postal Automation Division and contract loss provisions of €66 million primarily at the Material Handling Automation Division combined with €29 million in integration and other costs to further reduce EBITA. EBITA margin moved from 11% for PL in fiscal 2000 to a negative 2.3% for SD in fiscal 2001.

Sales rose 41% to €2.520 billion and orders rose 19% to €2.281 billion compared to fiscal 2000, driven by Dematic AG s contribution of €822 million in sales and €983 million in orders. Both sales and orders declined year-over-year on a comparable basis, principally due to postponement of major projects by customers, including the U.S. Postal Service, at the Postal Automation Division. EBITA assets rose 76% as a result of the merger, from €560 million to €984 million. Coupled with negative earnings for the year, this resulted in a negative EVA.

Siemens Building Technologies (SBT)

SBT Performance Data:	Change	Year ended September 30, 2001	2000
		(€ in millions)	
EBITA	(55.6%)	132	297
EBITA Margin		2.4%	6.0%
Total Sales	11.9%	5,518	4,932
New Orders	9.5%	5,549	5,066

SBT recorded EBITA of €132 million, compared to €297 million in fiscal 2000. EBITA margin fell to 2.4%, and the Group s EVA turned negative. Margin erosion and certain one-time charges primarily at the Fire and Safety Division in the United States, together with costs associated with the closure of certain facilities and related headcount reduction at the Building Automation and Fire and Safety Divisions, combined to reduce the Group s profitability. The prior year benefited from a gain of €22 million from asset disposals. Acquisitions in Europe, the United States, and Brazil helped increase sales and orders by 12% and 10%, respectively, to €5.518 billion and €5.549 billion. However, SBT s EBITA assets remained flat at €2.276 billion.

Power

Power Generation (PG)

PG Performance Data:	Change	Year ended September 30, 2001	2000
		(€ in millions)	
EBITA		634	66
EBITA Margin		7.4%	0.9%
Total Sales	10.4%	8,563	7,757
New Orders	29.9%	12,219	9,409

EBITA at PG surged from €66 million in fiscal 2000 to €634 million in fiscal 2001. EBITA margin rose 6.5 points, to 7.4%, and the Group s positive EVA increased substantially. The Fossil Power Generation Division drove the Group s profitability, primarily on strong demand for its gas turbines in the United States. Sales grew 10% to €8.563 billion and orders jumped 30% to €12.219 billion, reflecting the strong

demand for gas turbines in the United States. In the second quarter, the Group s nuclear power business was contributed to a joint venture with Framatome in exchange for a 34% interest in the venture. This interest is accounted for using the equity method. In the third quarter, PG acquired Demag Delaval as part of the Atecs acquisition. On a comparable basis, sales grew 24% compared to fiscal 2000, including a positive currency translation effect of 4%, and orders grew 40%. The Group s order backlog reached €26 billion at year-end including €11 billion of reservations. Higher customer prepayments enabled the Group to reduce its EBITA assets to a negative €1.003 billion, compared to a positive €178 million at the end of fiscal 2000. The higher prepayments primarily related to the gas turbine business in the U.S. resulting from the increased orders discussed above and higher profitability positively impacted cash flow.

Power Transmission and Distribution (PTD)

		Year ended September 30,	
PTD Performance Data:	**Change**	**2001**	**2000**
		(€ in millions)	
EBITA	113.3%	96	45
EBITA Margin		2.4%	1.4%
Total Sales	28.6%	4,053	3,151
New Orders	9.0%	3,887	3,566

PTD improved its EBITA to €96 million, including restructuring charges and capacity adjustments of €31 million. Excluding these effects, EBITA was €127 million compared to €45 million a year earlier. EBITA margin was 2.4%, and EVA moved closer to positive territory. Excluding the restructuring charges and capacity adjustments, EBITA margin was 3.1%. The High Voltage Division drove the Group s earnings improvement. The €31 million in charges were split between the Medium Voltage Division and Metering Division. Major projects helped push sales up 29%, to €4.053 billion for the fiscal year, while customers postponement of major projects in the Energy Management Division held order growth to 9%, or €3.887 billion. EBITA assets increased 28%, to €1.004 billion, due in part to acquisitions and lower advances received from customers with a corresponding negative effect on cash flow.

Transportation

Transportation Systems (TS)

		Year ended September 30,	
TS Performance Data:	**Change**	**2001**	**2000**
		(€ in millions)	
EBITA	148.0%	186	75
EBITA Margin		4.6%	2.0%
Total Sales	8.4%	4,021	3,710
New Orders	51.7%	5,647	3,722

TS more than doubled its earnings compared to the previous year, with EBITA of €186 million. EBITA margin also more than doubled, from 2.0% to 4.6%, improving the Group s already positive EVA. Effective implementation of a Group-wide productivity initiative enabled TS to achieve its strong earnings performance on comparatively modest sales growth of 8%, to €4.021 billion compared to €3.710 billion a year earlier. The Group also excelled in winning new business, with orders growing 52% to €5.647 billion. New orders during the year included 1,200 new passenger railcars and related maintenance in the United Kingdom, and a super-high-speed train for the city of Shanghai. These and other successful bids pushed the Group s order backlog toward €11 billion at the end of the fiscal year. TS further reduced its already negative EBITA assets to a negative €916 million through ongoing asset management programs and higher customer prepayments, which positively impacted cash flow.

Siemens VDO Automotive (SV)

		Year ended September 30,	
SV Performance Data:	**Change**	**2001**	**2000**

		Year ended September 30,	
		(€ in millions)	
EBITA		(261)	89
EBITA Margin		(4.6%)	2.3%
Total Sales	48.8%	5,702	3,833
New Orders	48.5%	5,702	3,839

SV is the new name of Siemens automotive businesses, which merged with the VDO automotive operations of Atecs in the third quarter. SV recorded an EBITA of negative €261 million including €90 million in asset write-downs split between losses on the divestment of the Group s wiring harness business and write-downs of investments. EBITA excluding these charges was a negative €171 million compared to a positive €89 million a year earlier due to pricing pressures, and continued significant development costs for innovative new technologies including advanced diesel injection systems as well as communications and multimedia systems. Margins at SV have come under increasing pressure as electronic component prices and allocation costs have risen, largely as a result of the falling value of the euro in relation to the currencies of many countries in which SV buys components. Sales and orders rose 49%, to €5.702 billion, compared to fiscal 2000, primarily due to the merger. The VDO Automotive businesses contributed €1.686 billion to both sales and orders for the year, while sales and orders grew slowly for the former Siemens Automotive businesses. Positive effects of the acquisition on volume were partially offset by weakened demand in fiscal 2001 in the automobile industry particularly in North America. However, demand in Germany remained stable, due to a strong export business. EBITA assets, which include goodwill from the VDO acquisition, jumped to €3.691 billion from €937 million at the end of fiscal 2000, pushing EVA further into negative territory.

Medical

Medical Solutions (Med)

Med. Performance Data:	Change	Year ended September 30, 2001	2000
		(€ in millions)	
EBITA	74.5%	808	463
EBITA Margin		11.2%	9.4%
Total Sales	46.6%	7,219	4,924
New Orders	60.7%	8,444	5,253

Med turned in excellent performance, achieving record levels in earnings, sales, and orders due in large part to successful integration of Acuson, acquired in fiscal 2001, and Shared Medical Systems Corp. (SMS), acquired in late fiscal 2000. EBITA of €808 million was 75% higher than in fiscal 2000. EBITA margin increased to 11.2%. Imaging systems remained the primary engine of Med s profitable growth. Sales increased by 47% to €7.219 billion, and orders grew 61% to €8.444 billion. Currency translation effects contributed five percentage points of sales growth. The acquisition of Acuson was the main factor in the Group s higher EBITA assets, which stood at €4.099 billion at the end of the fiscal year. The effect of acquisitions on EBITA assets resulted in a lower EVA than the prior year. The acquistion of Acuson also negatively affected cash flow.

Lighting

Osram

Osram Performance Data:	Change	Year ended September 30, 2001	2000
		(€ in millions)	
EBITA	19.1%	462	388
EBITA Margin		10.2%	9.0%
Total Sales	4.5%	4,522	4,326
New Orders	4.5%	4,522	4,327

Year ended September 30,

Despite a significantly more difficult economic environment, particularly in the United States, Osram increased its EBITA to €462 million in fiscal 2001 from €388 million a year earlier. EBITA margin climbed to 10.2%, and EVA was positive. EBITA benefited from €54 million in nonrecurring gains, including €31 million related to the successful resolution of a patent rights issue in the fourth quarter and €23 million from an earn-out payment received in the first quarter related to the Group s interest in a joint venture. Excluding these effects, Osram continued to maintain a 9% EBITA margin despite deteriorating economic conditions in its large U.S. market. Sales grew 5% compared to fiscal 2000, to €4.522 billion, primarily due to positive currency translation effects. EBITA assets decreased slightly, to €2.505 billion, from €2.533 billion at the end of fiscal 2000.

Corporate, eliminations (Operations) and Reconciliation to Financial Statements

The Managing Board is responsible for assessing the performance of the Groups. Corporate, eliminations (Operations) and Reconciliation to Financial Statements include various categories of items which are not allocated to the Groups since the Managing Board has determined that such items are not indicative of Group performance. These include non-recurring, one-time charges or gains and results from centrally managed projects. In addition, Corporate, eliminations (Operations) includes corporate charges such as personnel as well as domestic pension related income or expense, certain corporate-related derivative activities, centrally held equity investments, business units, and corporate projects. Reconciliation to Financial Statements includes various items excluded by definition from EBITA. Group EBITA is used to determine bonus payments in accordance with our management incentive program.

Corporate, eliminations (Operations). EBITA for Corporate, eliminations was a negative €320 million in fiscal 2001 compared to a negative €1.270 billion a year earlier.

Corporate headquarter expenses increased to €910 million in fiscal 2001 from €827 million in 2000, reflecting an increase of €252 million relating to activities in various central projects, particularly the Company s e-business initiatives, partly offset by a decline in central personnel related expenses associated with the Company s employee stock purchase program.

In fiscal 2001, gains on available for sale securities increased to €227 million from €98 million in the prior fiscal year, reflecting the continuing disposal of a portion of the centrally managed equities portfolio.

Domestic pension-related benefit (expense) increased from a negative €177 million in fiscal 2000 to a positive €418 million in fiscal 2001. In March 2000, the Company established a domestic pension trust and assets were contributed at that date. As a result, expected return on plan assets were included in the determination of net periodic pension benefit (expense) for the entire year in fiscal 2001. Prior to the establishment of the pension trust, the return on trading securities designated as pension assets was recorded as income from marketable securities.

Other corporate charges totaled negative €168 million in fiscal 2001 compared to a negative €445 million in fiscal 2000. The total for fiscal 2001 includes a €209 million loss on the sale of a centrally held investment, €78 million in expenses on centrally managed litigation issues, €74 million in corporate interest expense in part related to the Atecs acquisition, €63 million in severance charges and €49 million attributable to the service cost component of domestic pension expense which is no longer allocated to the Groups. Fiscal 2001 also included a gain of €114 million related to currency effects and the treatment of derivative contracts not qualifying for hedge accounting, and positive resolution of certain asset disposal contingencies of €162 million.

In fiscal 2000, other corporate items included the following: higher charges related to currency effects and the treatment of derivative contracts not qualifying for hedge accounting of €212 million, losses on asset dispositions totaling €210 million, €178 million in employee severance and contract termination costs and €68 million related to the centrally managed outsourcing contract in Argentina originally entered into by SBS. The €178 million in employee severance and contract termination costs relate to the Groups primarily as follows: PG €60 million, SBT €46 million, SBS €35 million and TS €10 million. Fiscal 2000 also included €692 million in income from marketable securities classified as trading.

EBITA assets in the prior year included an initial deposit of €2.1 billion related to the Atecs acquisition, which closed in fiscal 2001. As a result of the closing, the assets of the acquired and consolidated Atecs activities were assigned to their respective Operating Groups (SD, SV and PG) in fiscal 2001. EBITA assets were reduced in fiscal 2001 by the recognition of a minimum pension liability of €2.7 billion, offset in part by assets from the Atecs acquisition that are classified as held for sale.

Reconciliation to Financial Statements. Other interest expense increased in fiscal 2001 as a result of higher borrowings to fund Operations. Goodwill amortization and IPR&D expenses increased as a result of acquisitions in fiscal 2000 and 2001, primarily Atecs and SMS. Gains on sales and dispositions of significant business interests and other special items are discussed under Fiscal 2001 compared to fiscal 2000 Consolidated Operations Results of Siemens worldwide Special items.

Infineon

Infineon Technologies (Infineon)