SIEMENS

Annual Report 1998

CORPORATE STRUCT

Managing Board

Heinrich v. Pierer, Dr. jur. Dr.-Ing. E. h.
President and
Chief Executive Officer
Planning and Development
Special responsibilities:
UK, WPA

Volker Jung, Dr. Eng. h. c.
Special responsibilities: EC, HL, ICN, ICP, PR, SBS
Africa, Middle East, C.I.S.

Edward G. Krubasik, Dr. rer. nat.
Special responsibilities: A&D, ATD, AT, PL,
SBT, VT, ZT

Heinz-Joachim Neubürger
(from 11/5/97)
Finance
Special responsibilities: SFS, SIM

Peter Pribilla, Prof.
Human Resources
Special responsibilities: IK
the Americas

Groups*

Energy

Power Generation (KWU)
Adolf Hüttl
Andreas Kley
Norbert König
Randy H. Zwirn

Power Transmission and Distribution (EV)
Uriel J. Sharef, Dr. rer. pol.
Klaus Voges

Industry

Automation and Drives (A&D)
Klaus Wucherer
Günther Fritsch
Hans M. Strehle

Industrial Projects and Technical Services (ATD)
Konrad Pernstich
John Schubert
Udo N. Wagner, Dr. rer. oec.

Production and Logistics Systems (PL)
Manfred v. Raven
Alfred Frank

Siemens Building Technologies AG (SBT)**
Oskar K. Ronner
Paul E. Otth

Transportation

Transportation Systems (VT)
Herbert H. Steffen
Hans-Dieter Bott
Karl-Heinz Sämann, Dr.-Ing.

Automotive Systems (AT)
Franz Wressnigg, Dr.-Ing.
Jürgen Mache

Communications (until 9/30/98)

Public Communication Networks (OEN)
Roland Koch
Hans-Walter Bernsau
Helmuth von Deimling
Anthony Maher

Private Communication Systems (PN)
Rudi Lamprecht
Adrian v. Hammerstein, Dr. phil.
Werner Schmücking

Information (until 9/30/98)

Siemens Nixdorf Informationssysteme AG (SNI)
Gerhard Schulmeyer
Friedrich Fröschl, Dr. rer. nat.
Reinhard Grasse
Rudi Lamprecht
Alfred Nowosad

Information and Communications (from 10/1/98)

Information and Communication Networks (ICN)
Roland Koch
Hans-Walter Bernsau
Anthony Maher
Werner Schmücking

Information and Communication Products (ICP)
Rudi Lamprecht
Helmuth von Deimling
Adrian v. Hammerstein, Dr. phil.

Siemens Business Services GmbH & Co OHG (SBS)**
Friedrich Fröschl, Dr. rer. nat.
Alfred Nowosad

Regional organization Regional offices, regional companies, representative offices, agencies

URE

Jürgen Radomski
Special responsibilities: EL, Med, Osram Europe

Günter Wilhelm, Dr.-Ing. E.h.
Special responsibilities: EV, KWU Asia, Australia

Adolf Hüttl KWU
Roland Koch ICN
Ulrich Schumacher, Dr.-Ing. HL
Claus Weyrich, Prof. Dr. phil. ZT

until 12/31/97:
Werner Maly, Dr. h. c.

until 2/19/98:
Karl-Hermann Baumann, Dr. rer. oec.
Finance
Special responsibilities: SFS, SIM

until 9/30/98:
Horst Langer, Dr.-Ing.
Special responsibilities: Med, VT, Osram, the Americas

Wolfram O. Martinsen, Dr.-Ing. E. h.
VT

Health Care

Medical Engineering (Med)

Erich R. Reinhardt, Prof. Dr.-Ing.
Robert Kugler, Dr. techn.
Götz Steinhardt

Components

Semiconductors (HL)

Ulrich Schumacher, Dr.-Ing.
Peter Fischl

Passive Components and Electron Tubes (PR)

Klaus Ziegler
Bodo Lüttge, Dr. oec. publ.

Electromechanical Components (EC)

Volkhart P. Matthäus
Helmut Brauneis

Lighting

Osram GmbH**

Wolf-Dieter Bopst, Dr. oec. publ.
Heinz-Peter Mohr (until 11/30/98)
Jörg Schaefer, Dr.-Ing.
Thomas Seeberg, Dr. rer. pol. (from 12/1/98)

Financial Services

Siemens Financial Services (SFS)

Gerhard Kluth, Dr. rer. pol. (until 11/30/98)
Herbert Lohneiß, Dr. rer. nat. (from 12/1/98)

Corporate departments*

Finance (ZF)

Heinz-Joachim Neubürger
Charles Herlinger
Gerhard Kluth, Dr. rer. pol. (until 11/30/98)
Herbert Lohneiß, Dr. rer. nat. (from 12/1/98)
Karl Heinz Midunsky
Albrecht Schäfer, Dr. jur.

Human Resources (ZP)

Peter Pribilla, Prof.
Günther G. Goth

Technology (ZT)

Claus Weyrich, Prof. Dr. phil.
Horst Fischer, Dr. rer. nat.

Planning and Development (ZU)

Heinrich v. Pierer, Dr. jur. Dr.-Ing. E. h.
Reinhart Bubendorfer
Hansjörg Franzius, Dr.-Ing.
Michael Mirow, Prof. Dr. rer. pol.

Corporate Purchasing and Logistics (EL)
Erich Hautz, Dr. rer. comm.

Information and Communication Structures (IK)
Chittur Ramakrishnan

Siemens Real Estate Management (SIM)
Peter Niehaus, Prof.

Corporate Communications (UK)
Eberhard Posner, Dr. rer. oec.

Economics and Corporate Relations (WPA)
Bernd Stecher, Dr. sc. pol.

* The first named is Group president or corporate department head
** Separate legal unit

as of January 1, 1999

THIS IS SIEMENS

Siemens is undeniably a global powerhouse in electrical engineering and electronics. We have more than 400,000 employees around the world working to develop and manufacture leading-edge products, design and install complex systems and projects, and tailor a range of individualized services as varied as our customers' requirements. By harnessing innovative technologies and comprehensive know-how, we help our customers in more than 190 countries meet their business and technical needs. The life technologies offered by our Energy, Industry, Transportation, Health Care, Lighting, and Information and Communications segments help improve living standards around the globe. In everything we do, we aim to benefit humankind, help protect the environment, and utilize resources responsibly.

With business success a prerequisite for achieving all these goals, our foremost priority is to create value for our shareholders and employees. As a systems supplier, we possess an unmatched range of technical competencies, enabling us to meld knowledge and skills from many different areas of electrical engineering and electronics to create new customer-focused solutions. Our far-reaching commitment to research and development, coupled with the efforts of our highly motivated and exceptionally well-qualified employees, engenders a steady stream of outstanding innovations. With our culture of continuous improvement, our company-wide learning process and our focused drive toward market leadership, we are positioning Siemens to deliver world-class products and solutions for the global markets of today and tomorrow.

Selected financial data

	1998	1997	1996
New orders	119,601	113,120	100,805
Net sales	117,696	106,930	94,180
Net income before extraordinary items	2,658	2,608	2,491
Net income after extraordinary items	917	2,608	2,987
Net cash from operations including	(3,888)	(3,138)	(1,629)
Net cash provided by operating activities	3,981	4,073	4,666
Net cash used in investing activities	(7,869)	(7,211)	(6,295)
Research and development expenses	9,088	8,132	7,296
Employees	416,000	386,000	379,000
Stock price range* (Oct. 1 – Sept. 30) (in DM)			
High	138.60	130.00	85.96
Low	90.30	70.80	71.90
Year-end (Sept. 30)	92.30	119.35	80.46
Number of shares (in millions)	595	571	560
Market capitalization (Sept. 30)	54,919	68,149	45,058
Shareholders' equity (Sept. 30)	30,292	28,407	25,198
Per-share data (in DM)			
Earnings according to DVFA**	4.39	4.65	4.48
Dividends	1.50	1.50	1.50
Net cash provided by operating activities	6.69	7.13	8.33

Amounts in millions of German marks (DM), unless stated otherwise

* XETRA or IBIS closing price, Frankfurt

** Deutsche Vereinigung für Finanzanalyse und Anlageberatung

KNOWLEDGE

The demand for knowledge-intensive services to support products and systems is growing by leaps and bounds. As a solutions house and systems integrator, Siemens draws on a vast range of experience and expertise in providing everything from project and sales financing to turnkey project management, from building management to IT services.

KNOWLEDGE CREATES VALUE FOR OUR CUSTOMERS

Knowledge management entails gathering in-depth information about customers' needs and immediately channeling this knowledge into development, production, logistics, and sales processes to maximize customer benefit.

KNOWLEDGE IS THE RAW MATERIAL FOR INNOVATION

Comprehensive, up-to-date knowledge of customer needs, markets, products, and processes has become a key strategic resource. Siemens gathers, distills and leverages this knowledge with the help of a broad-based innovation offensive, a systematic patent initiative, a responsive employee feedback program, and long-term, market-oriented technology planning.

KNOWLEDGE IS THE KEY TO GLOBAL MARKETS

Detailed knowledge of the diverse needs of our customers around the world is a must for a company that aims to provide tailor-made solutions. Reaping all the benefits offered by our global organization, we marshal our vast resources – from our production facilities to our accumulated know-how – to serve international markets.

KNOWLEDGE IS THE GOAL OF A LEARNING COMPANY

Knowledge is not a static entity that can be captured in databases. The global pool of knowledge at Siemens is a work in progress and an invaluable tool used to best advantage when people work together. We continually encourage our people to share their experience and knowledge with their colleagues – down the hall and around the world. Training programs, benchmarking initiatives, best practice sharing, quality management and continuous process improvement are emblematic of this company-wide learning process at Siemens.

LETTER TO OUR SHARE

Dear shareholders,

Measured on our overall results, fiscal 1998 did not meet our expectations. Excellent individual performances by most of our Groups were overshadowed by a number of disappointments. In response to this situation, we initiated a sweeping program designed to drive sustainable growth in the Company's profitability. We expect the positive impact of this program to be felt in the current fiscal year.

RESULTS FOR FISCAL 1998

- Automation and Drives, Osram, Passive Components and Electron Tubes, Public Communication Networks and Automotive Systems surpassed the solid to excellent performance levels they achieved last year, and Siemens Financial Services Group got off to a solid start. These operating units recorded a total pretax income of DM3.4 billion.
- A second group of businesses succeeded in overcoming earlier difficulties. They are now showing steady growth or have at least been stabilized. This group includes Medical Engineering, Industrial Projects and Technical Services, Power Transmission and Distribution, Electromechanical Components, Siemens Nixdorf, and Production and Logistics Systems, which was launched last fiscal year. Taken together, these units generated pretax income totaling DM0.7 billion.
- Four Groups experienced acute problems. Semiconductors, hit hard by plunging memory chip prices, posted a loss of DM1.2 billion. Transportation Systems racked up a loss of nearly DM760 million, primarily as a result of setting aside risk provisions for critical domestic and international projects. Power Generation (KWU), plagued by start-up problems with a new generation of gas turbines, showed a loss of DM65 million. Private Communication Systems suffered setbacks after misjudging the mobile phone market; nevertheless, the Group generated earnings of more than DM110 million, thanks to outstanding performances in its other divisions. In addition, overall Company results were depressed by an increase of roughly DM900 million in our risk provisions for Asia and other crisis-plagued regions.

THE TEN-POINT PROGRAM

In July 1998 we approved a Ten-Point Program to achieve a sustainable improvement in profitability. Concrete measures were announced early in November:

- Point 1 aims at cutting losses at Semiconductors. Measures include closing a chip plant in northeast England, accelerating the move from 16- to 64-megabit memory chips, and implementing productivity-boosting programs.
- Point 2 focuses on augmenting and accelerating the *top* management program. Under the motto "clear goals, concrete measures, rigorous consequences," the revamped *top*+ initiative defines a single yardstick for success: creating Economic Value Added. EVA is the difference between a unit's operating profit and the cost of capital invested in the business. We have introduced a value-based management system that rigorously sharpens the focus of all activities in the Company on pursuing sustained value creation. The associated best-practice campaign stresses learning from outstanding models of efficiency both within and beyond the Company. *top*+ is driven by the new corporate principles, which were formulated last year.
- Point 3 concerns the reorganization of our business segments. In the Industry segment, this process was completed with the formation of Industrial Projects and Technical Services, Production and Logistics Systems, Automation and Drives, and, on October 1, 1998, Siemens Building Technologies.

  Reflecting the worldwide trend toward the convergence of data and voice transmission technologies and the related terminals, systems and services, we have merged our Information and Communications segments. Soon it will make no difference whether voice is transmitted over data lines, as on the Internet, or data is sent over telephone lines: what matters is that

HOLDERS

we offer our customers the most economical solutions. To this end, we have restructured the activities of Public Communication Networks, Private Communication Systems and Siemens Nixdorf into three new Groups providing fully integrated information and communications solutions: Information and Communication Networks, Information and Communication Products, and Information and Communication Services. The latter operates as a legally independent company called Siemens Business Services.

- Points 4 and 5 relate to our business portfolio, which we have subjected to a critical, thorough process of assessment. Siemens will remain firmly anchored in many fields of electrical engineering and electronics. However, we must optimize our portfolio to better enable us to achieve a steady increase in Company value. We will focus exclusively on businesses that attain leading market positions and remain solidly profitable. Our goal is to shape a portfolio that incorporates enough commanding positions in mature markets to support entrepreneurial risks in rapidly growing but less predictable businesses. We are giving top priority to business fields that best utilize our tremendous innovative strength in electronics and the extensive resources of our global sales and marketing organization. In the past, Siemens had seven business segments: Energy, Industry, Information and Communications, Transportation, Health Care, Lighting, and Components. As part of our restructuring strategy, we have decided to withdraw from one of these segments: Components. The three Groups in this segment will initially be converted into independent legal entities. We are preparing to list both Semiconductors and Passive Components and Electron Tubes on the stock market, and are seeking a partner for Electromechanical Components.

  We are also considering a public offering of Siemens Nixdorf Retail and Banking Systems, our point-of-sales and self-service systems business. Having sold our power cable business to Pirelli, we now plan to divest our copper communications cables operations as well. Including a number of smaller divestments, we intend to shed a total sales volume of DM17 billion and some 60,000 employees.

  By contrast, we substantially strengthened the Industry segment by purchasing the industrial business of Switzerland's Elektrowatt, and expanded the Energy segment by acquiring the fossil-fuel power plant operations of Westinghouse. Other strategic investments are also being planned, particularly at Information and Communication Networks.
- Points 6 through 10 of the program involve financial and capital measures. At our Annual Shareholders' Meeting on February 18, 1999, we will propose a stock buy-back as well as a stock-option incentive plan for our managers. In addition, we are preparing to publish our consolidated financial statements according to U.S. GAAP by fiscal 2000 and subsequently intend to list the Company on a U.S. stock exchange. This move will better position us to push the Company's globalization and meet the demands of international financial markets.

The measures to revitalize struggling Groups, reorganize our business segments and optimize our portfolio led to extraordinary restructuring charges reflected in this year's results. These charges total DM4.0 billion before taxes. At the same time, we showed an extraordinary gain of DM1.6 billion, generated largely by the sale of activities such as our defense electronics, the dental business, our i-center wholesale installation organization, and our stake in Britain's GEC Plessey Telecommunications.

Despite the high extraordinary items for the year, we will propose an unchanged dividend of DM1.50 per five-mark share.

SHARE INFORMATION

Siemens aims to provide its customers with attractive solutions in the field of electrical engineering and electronics and offer its people interesting jobs with a future. Our overriding goal is to increase Company value and profitability to ensure that you, our investors, are rewarded for your trust. We are keenly aware that we have only partially succeeded in this endeavor in recent years.

The Siemens share started out the year as a true 'high flyer' that outperformed the market, but dropped sharply after our Annual Shareholders' Meeting in February 1998, when it became known that we couldn't reach our targeted profits. The announcement of our Ten-Point Program in July 1998 pushed up our share dramatically, confirming that we are on the right track. While the worldwide market slump did not leave us unscathed, our stock jumped again early in November, when we presented details of the Ten-Point Program.

Our planned financial and capital measures include the introduction of registered shares to give us more direct contact with shareholders as we continue to enhance our investor relations activities. In addition to regular Company presentations and individual conferences with leading analysts in North America and Europe, we plan to contact major investors at shorter intervals via conference calls to keep them informed about current developments and answer any questions they may have.

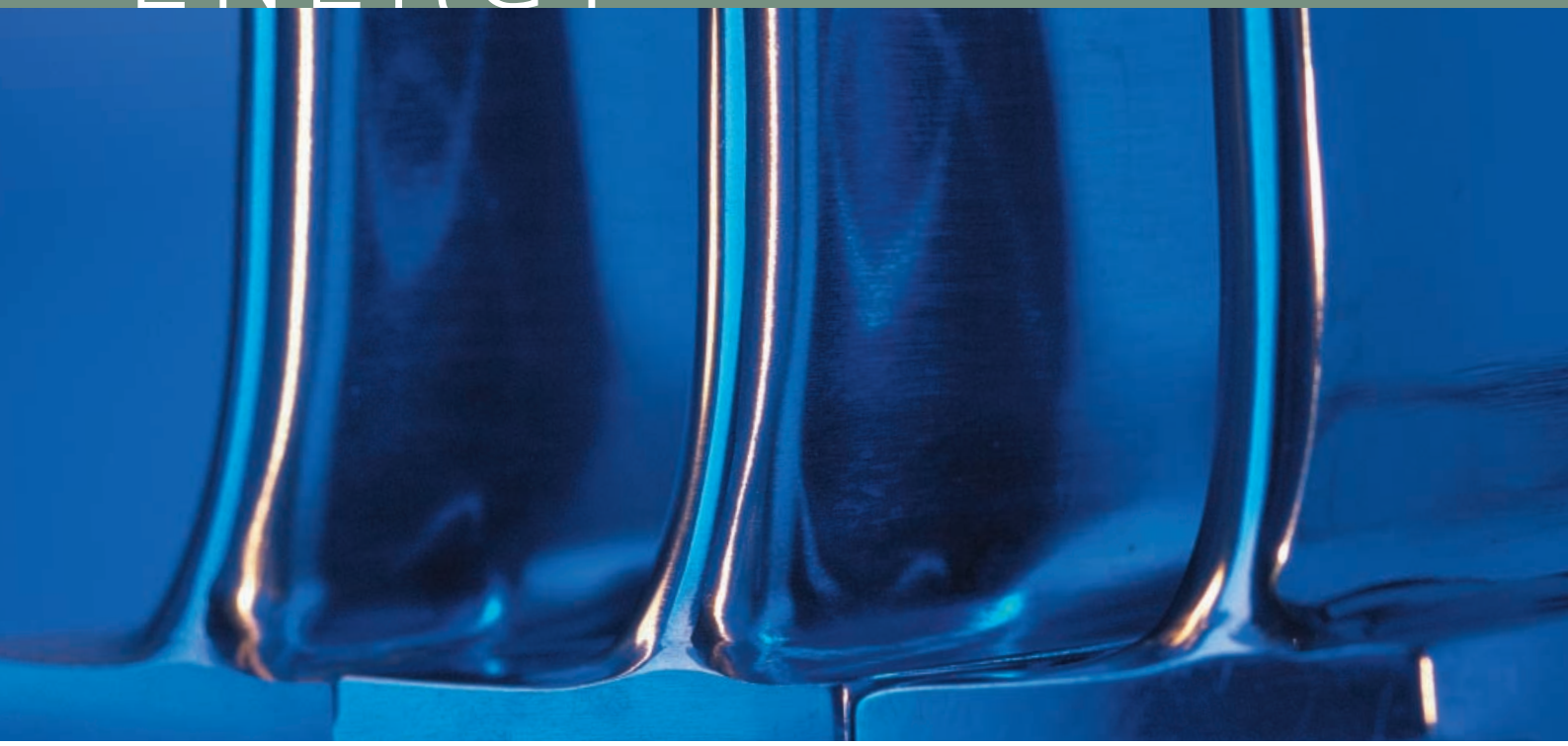
In today's business world, shares are increasingly assuming the role of an acquisition currency, with stock swaps being the basis of many major transatlantic mergers and partnerships in recent years. Once our share is listed on a New York market, we too will have this option as we move in new directions.

Dr. Heinrich v. Pierer
President and Chief Executive Officer
Siemens AG

BUSINESS SEGMENTS

Putting our know-how to work

ENERGY



Three-dimensionally profiled blades, numerically optimized for each blade row, increase steam turbine efficiency.

POWER GENERATION (KWU)

Our broad range of products and services, marketed under the slogan "Power for Generations," helps provide consumers worldwide with affordable electricity from environmentally compatible power plants.

Serving customers worldwide, we develop, engineer and build fossil-fueled, hydroelectric, nuclear and renewable-energy power plants that provide grid-linked and decentralized power as well as heat. Key components like turbines and generators are built at our production facilities throughout the world.

Putting our know-how and experience to work for our customers, we provide feasibility studies and complex financing solutions, participate as co-investors in development projects, and handle the turnkey construction of power plants as well as the operation, maintenance and complete retrofitting of such facilities. Our comprehensive, industry-leading solutions offer customers the broadest spectrum of choices for their projects.

With the acquisition of Westinghouse's fossil-fuel power plant operations, we have become a premier address in the field of non-nuclear power generation. The modular design of our steam and combined-cycle power plants enables us to deliver customized facilities while exploiting the cost benefits of standard solutions. We have now implemented solutions for technical problems encountered with our newest generation of gas turbines – problems attributable in part to the tremendous pressure to market innovations faster than ever.

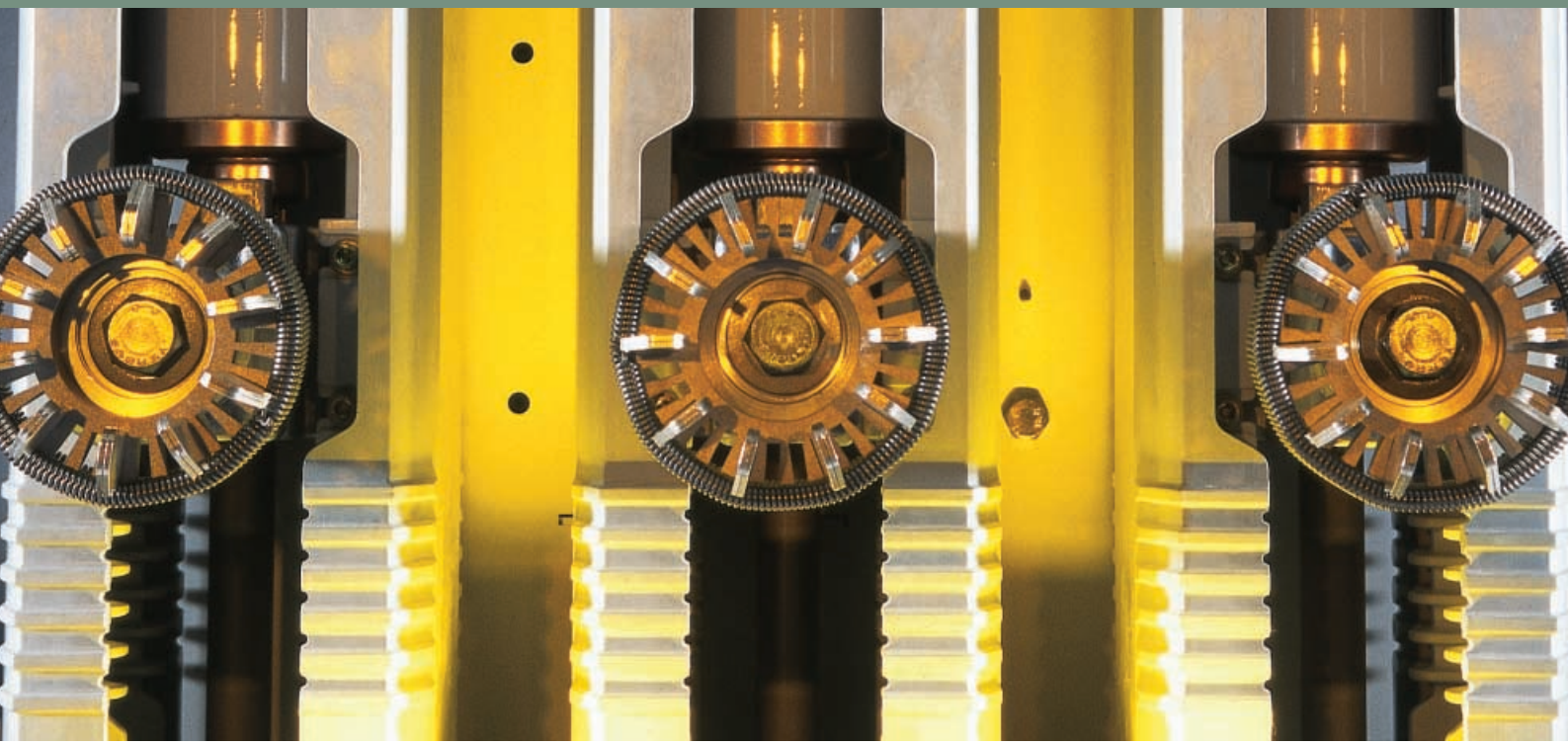
Our state-of-the-art instrumentation and controls, in which we are already world leader in the power plant sector, are increasingly being used in oil refineries. In the nuclear power sector, international business continues to grow, now accounting for half of our products, services and retrofitting business.

In the years ahead, we intend to further reinforce and expand our position as the industry pacesetter in power plant technology. Our acquisition of Westinghouse Power Generation, which rounds out our global presence, gives us decisive synergies in purchasing, product development, production, sales and service. By focusing on improving the cost-effectiveness, reliability and efficiency of our products, we will continue to increase customer benefit.

Products · Systems · Services

- Fossil power generation (fossil-fueled power plants, steam and gas turbine sets, catalytic converters)
- Hydroelectric power plants and generators
- Industrial power plants and turbines
- Nuclear power generation (nuclear power plants, nuclear power plant services, nuclear fuel cycle)
- Instrumentation and control equipment and systems
- Engineered ceramics
- Fuel cells, electrical equipment for wind power plants

http://www.siemens.de/kwu



NXACT, a vacuum power circuit-breaker module for medium-voltage systems, is easy to use, maintenance-free, environmentally compatible and universally applicable.

POWER TRANSMISSION AND DISTRIBUTION (EV)

We offer power producers worldwide intelligent solutions for transporting and distributing electricity from source to customer.

We market products, integrated systems and services around the globe. Our broad spectrum of offerings encompasses all aspects of transmitting and distributing electrical power. With products ranging from transformer substations to three-phase electricity meters, we make the transportation of energy economical and safe. As a systems house, we not only build complete turnkey projects, but handle the financial engineering as well. Customized information and communications technology for power producers comprises a growing share of our work.

Best-practice sharing with other Siemens Groups has helped make us number one in the secondary and grid power controls sector. Our acquisition of Landis & Gyr Utilities makes us the industry leader in the metering business, where we offer integrated solutions for metering, evaluating and billing electricity, gas, heat and water consumption.

Our innovations range from software solutions for optimizing processes and new designs for power electronics to superconductor applications for transformers. GIL, a gas-insulated high-voltage line, is a pioneering development in power transmission. SICAM™HV optimizes the operation of high-voltage switchgear. We offer a long-term online monitoring system for early detection and identification of faults in power transformers, and our SICAM RTU is an all-around system used in telecontrol systems.

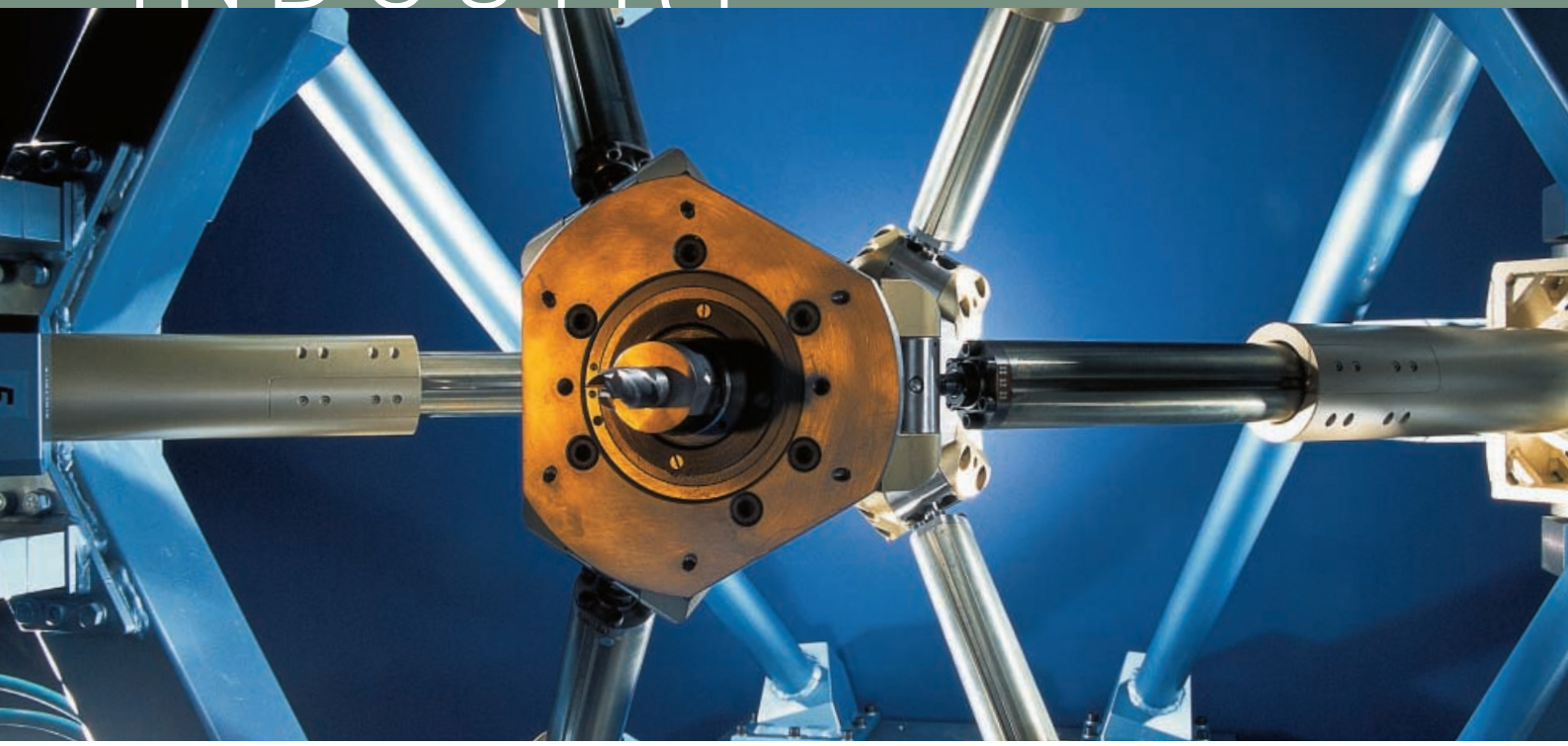
On October 1, 1998, we sold our power cable business to Pirelli S.p.A. and took over the Power Quality Business of Westinghouse. Keeping pace with deregulation in the energy market, we tailor solutions to our customers' changing needs. As an innovative full-service partner handling everything from integrated IT solutions for optimizing processes to outsourced customer functions, we are growing twice as fast as the market.

Products · Systems · Services

- High-voltage systems
- Medium-voltage systems
- Metering
- Secondary systems
- Power system controls
- Power transformers
- Distribution transformers
- System planning
- Decentralized power supply systems

http://www.siemens.de/ev

INDUSTRY



Intelligent control systems are the key component in state-of-the-art processing machines like this hexapod.

AUTOMATION AND DRIVES (A&D)

We provide customers in the manufacturing and process industries with totally integrated automation, drives and installation systems solutions from a single source.

From field installations and complete control and drive systems to industrial PCs for integrated process controlling, our product and systems solutions, which are based on standard components, are finding more and more application in a wide variety of industries. Sophisticated software plays a key role in our offerings: with standardized programs, application platforms and control systems like PCS 7, we slash our customers' engineering, commissioning and maintenance costs by as much as fifty percent.

We are a pacesetter in automation and drives technology with our Totally Integrated Automation (TIA) concept, Profibus and AS interface, and – in the field of building systems – the Instabus EIB (European Installation Bus).

Our TIA concept is used in all operations, from engineering and commissioning to production and maintenance. It is applied across the manufacturing industry and in all types of processing tasks, helping customers cut costs by enabling them to control all data flows at a single interface within the process.

We dominate the world market in programmable logic controllers and hold top positions in other sectors as well, including variable-speed drives and low-voltage switchgear and controls.

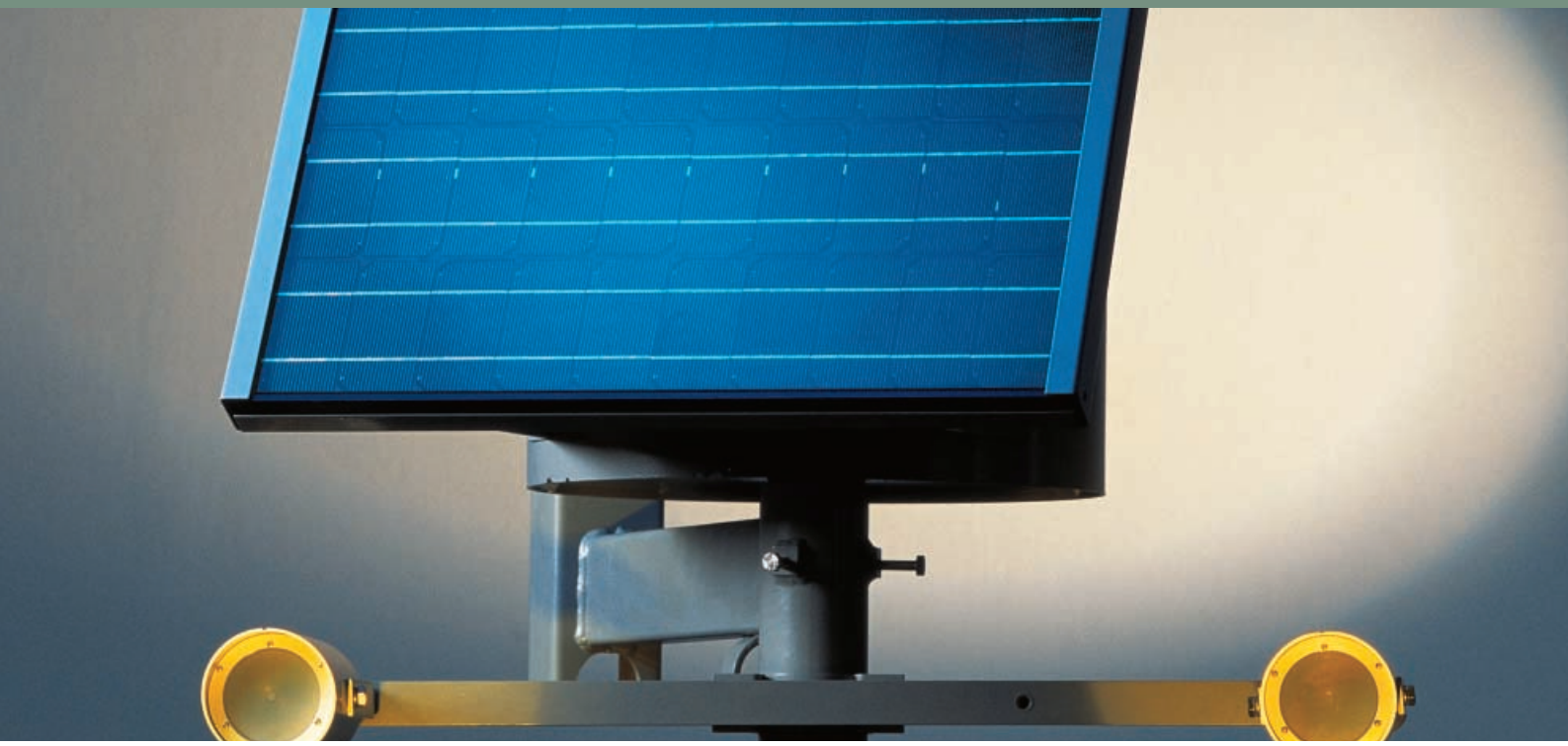
One of our many innovations, the Home Electronic System for the 'intelligent' house, has received the DigiGlobe prize, the multimedia Oscar award. Our Sinumerik 840 D is a world first: the control system enables a hexapod machine to move its six flexible legs in all directions to perform precision tasks like milling and boring.

By driving innovation and pooling our expertise, we intend to further improve our leading position. We are expanding our international presence through internal growth, strategic alliances and acquisitions. Growth will be pushed, particularly in the U.S. and Latin America, as well as in key countries in the European Union. Asia-Pacific remains a strategically vital region for us, where we will focus primarily on building up our position in Japan.

Products · Systems · Services

- Industrial automation systems
- Motion control systems
- Standard drives
- Large and medium-sized drives
- Industrial motors
- Low-voltage controls and distribution
- Electrical installation technology
- Process automation
- Pumps and apparatus
- Systems engineering
- Software and systems house
- Special products, training, automotive industry projects

http://www.siemens.de/ad/



The solar-powered Traffic Eye monitoring station uses infrared sensors to register traffic density and speed before transmitting the data by radio.

INDUSTRIAL PROJECTS AND TECHNICAL SERVICES (ATD)

Engineering, logistics, construction, commissioning, service and maintenance: we cover the entire life cycle of electrical equipment and control systems for complete projects and individual applications, from their design to their ultimate disposal.

In a wide variety of industries – from metal and mining to pulp and paper, from oil and gas to chemicals, petrochemicals and shipbuilding – we cover all project needs, including general contracting. In the road traffic technology sector, we develop and install traffic control and guidance systems for applications ranging from multistory garages to freeways.

While we provide a full spectrum of conventional technical services – engineering, plant construction, commissioning, servicing, plant dismantling and recycling – a growing share of our business is in new activities like plant maintenance and industrial information technology services.

We integrate intelligent components in process automation and traffic management systems. Our expertise in neural networks, fuzzy logic and process simulation reduces costs for plant operators and generates customer benefit.

Our unique new ship propulsion system, the Siemens-Schottel Propulsor, cuts fuel costs by ten percent and significantly improves maneuverability.

Our aim is to more than double sales in the next five years, in part by targeting expansion in the prime growth markets of Asia and the Americas. We will focus our projects business on industries in which we possess outstanding technological know-how while strengthening our regional service business through strategic acquisitions, partnerships and joint ventures.

Plants, Systems and Products

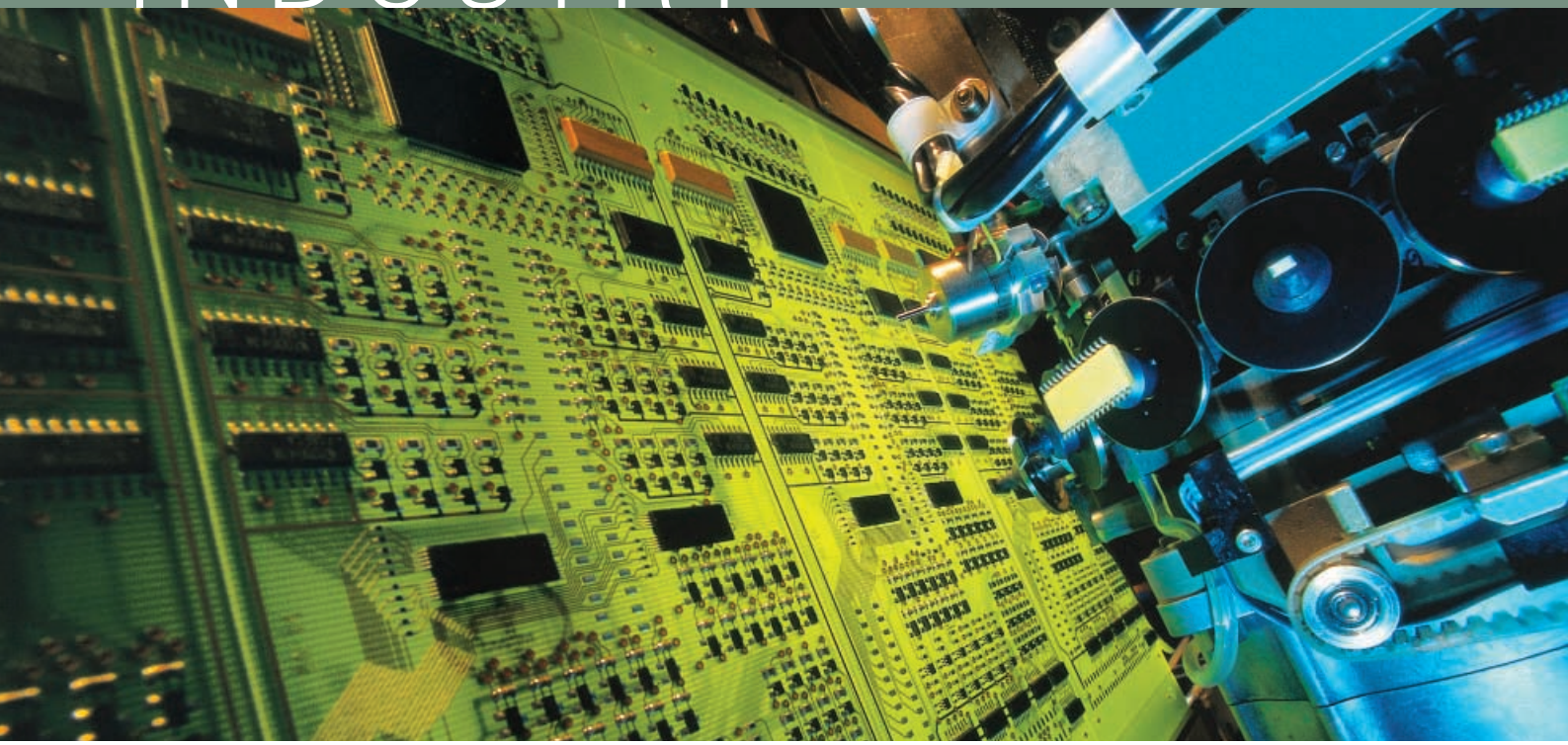
- Metal industry, open-cast and underground mining
- Pulp and paper industry
- Marine engineering
- Airports
- Diesel power plants
- Oil, gas and petrochemical industries
- Pipeline automation
- Cement industry
- Water treatment plants
- Food industries
- Traffic control systems
- Building management systems

Technical Services

- Plant construction and system integration
- Engineering and commissioning
- IT services for industrial plants
- Service and logistics for plants, including their systems and components
- Plant servicing and maintenance
- Training
- Facility management

http://www.siemens.de/atd

INDUSTRY



Our surface mount technology (SMT) placement systems attach up to 50,000 components an hour to circuit boards.

PRODUCTION AND LOGISTICS SYSTEMS (PL)

From surface mount technology (SMT) systems to letter and parcel sorting systems, we are the world's automation specialist when it comes to production and logistics.

We partner with our customers to develop tailored solutions for production and logistics automation, ranging from placement and production systems combining intelligent IT solutions with mechanical and electronic components, to airport, commercial and industrial logistics systems, postal automation systems, and in-house transport systems.

Years of project experience, comprehensive technical expertise, a global sales and service network, and unparalleled familiarity with the needs of each market benefit our customers, whether we are handling a single project or serving as general contractor.

Our total integration of production and logistics automation gives us a unique position in the market. With our subsidiary ElectroCom, we are world leader in the field of postal automation.

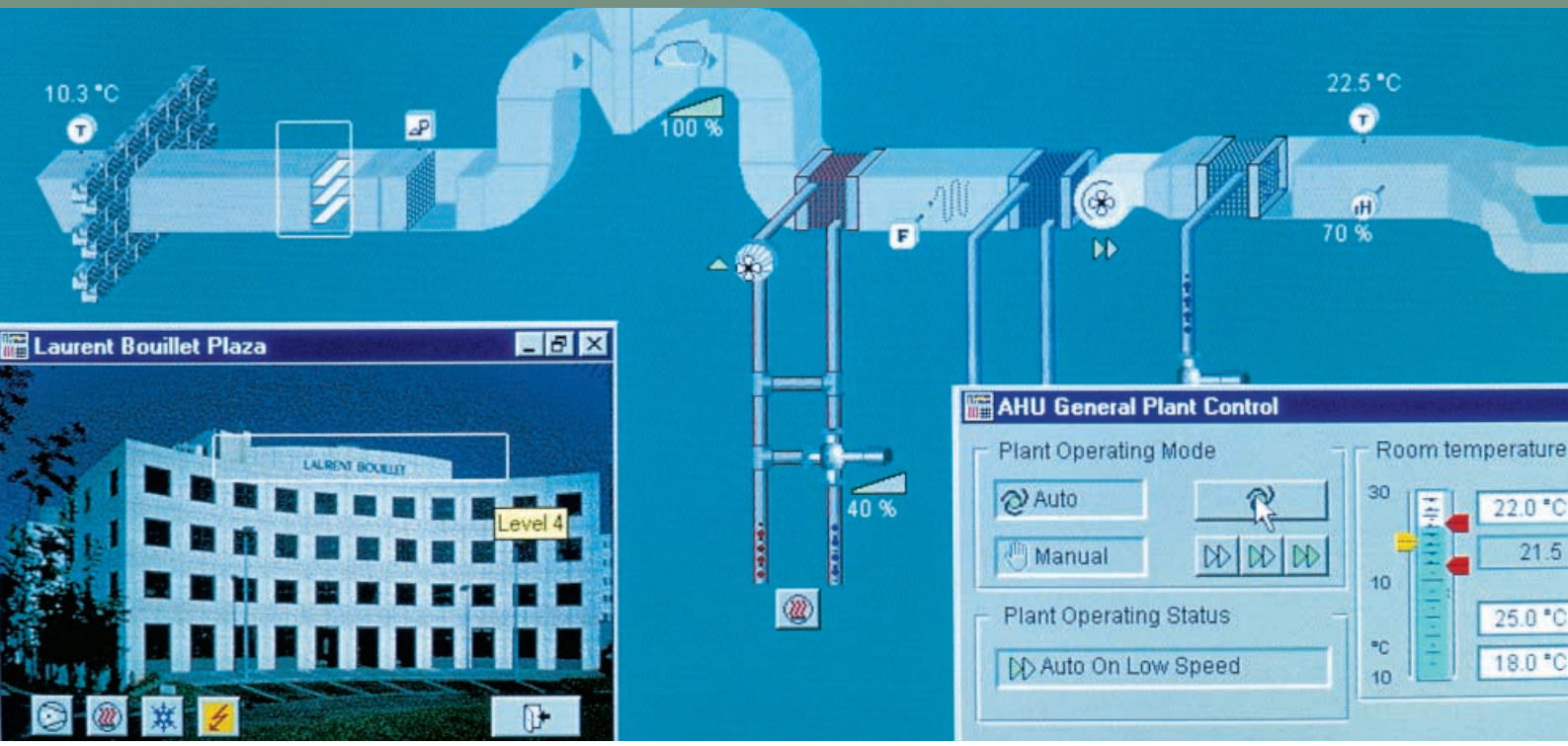
Our innovations include SIPLACE HS 50, an extremely precise and flexible surface mount placement system that attaches up to 50,000 components an hour to circuit boards. For Hong Kong's new airport, we designed and delivered the world's first high-speed X-ray screening system that is fully integrated into luggage conveyors; the system reduces the time required for baggage security checks. Our Tray Management System (TMS), a flexible, fully automatic conveyor system, is now operating at U.S. postal distribution centers in Seattle, Washington, and Charlotte, North Carolina, where it keeps letters and parcels flowing at a continuous rate along the entire process chain.

Formed at the beginning of the fiscal year, our Group is positioning itself as a provider of integrated solutions for the entire world of production and logistics automation. In pursuing this goal, we are strengthening our presence in key global markets and continuing to expand our business in Asia.

Products · Plants · Systems · Services

- SMT placement systems
- Production automation for the electrical industry
- Plants and systems for postal services automation
- Airport logistics
- Shipping and storage logistics
- In-house transport systems

http://www.siemens.de/pl



The DESIGO building management system monitors and operates all building functions using easy-to-read graphics.

SIEMENS BUILDING TECHNOLOGIES

Our comprehensive concepts, efficient systems, innovative products and customized services provide outstanding customer benefit by increasing the convenience, security and eco-efficiency of all kinds of buildings.

Our new Group was created by merging the industrial activities of the Elektrowatt Group – Landis & Staefa and Cerberus – with Siemens' Building Systems, formerly part of the Industrial Projects and Technical Services Group. Working hand-in-hand with our customers, we develop innovative technical solutions for all types of buildings, from offices to industrial plants. Our value-added lowers maintenance costs, increases security and safety, and enhances occupant comfort and convenience. We provide building automation systems and systems for regulating heating, ventilation and air conditioning.

Using integrated system technology and communication interfaces, customized sensory technology, and decision algorithms for danger management systems, our know-how increases the value of customer real estate and reduces overhead.

DESIGO, one of our key innovations, is a building control system with fully integrated control, evaluation and optimization functions. DESIGO provides a migration path for existing systems to ensure a uniform technology with no system incompatibilities. GUARTO, a multifunction security system, provides total security for small to medium-sized businesses. Our AlgoRex fire alarms, upgraded with new software and hardware components, ensure an unparalleled level of security in detecting and reporting fires; we guarantee they will put an end to false alarms.

Our success is driven by total customer orientation and optimized processes and productivity. We are steadily boosting productivity, increasing our sales and orders through an account management program in the Siemens organization, and building up our presence in Asia-Pacific and South America. Other strategic goals include expanding our range of OEM products and components as well as strengthening our performance contracting business throughout Europe.

Products · Systems · Services

- Building control systems and related devices for regulating heating, ventilation, and air conditioning systems
- Fire protection and gas alarms
- Intrusion protection
- Identification and access controls
- Facility management
- Performance contracting
- Electrical installations, power supplies and lighting

http://www.sibt.com

INFORMATION AND

OEN, PN AND SNI: LOOKING BACK

Until September 30, 1998, Information and Communications were separate business segments. Communications comprised the Public Communication Networks and Private Communication Systems Groups, while Information was the domain of Siemens Nixdorf Informationssysteme AG. The two segments were fully integrated on October 1, 1998, with their units reorganized to form three new Groups: Information and Communication Networks, Information and Communication Products, and Siemens Business Services. This move places Siemens in a unique position in a highly competitive arena characterized by converging markets. The reorganization of existing competencies is our response to the rapidly growing demand for complete solutions integrating both technologies.

PUBLIC COMMUNICATION NETWORKS (OEN)

Public Communication Networks was one of the leading vendors of systems and products for telecommunications infrastructures. Partnering with customers throughout the world, the Group developed state-of-the-art solutions in all telecommunications growth fields. Whether offering solutions for Internet providers or products for complete telecom networks, Public Communication Networks covered the end-to-end value-added chain for telecom operators with services, consulting, network design, commissioning and customer training. To date, Siemens has delivered 170 million digital EWSD switching system ports to more than 300 operators worldwide, making EWSD the most successful system of its kind. Siemens is also a world leader in GSM mobile phone networks. In fiscal 1998, business outside Germany accounted for over 80 percent of the former Group's sales.

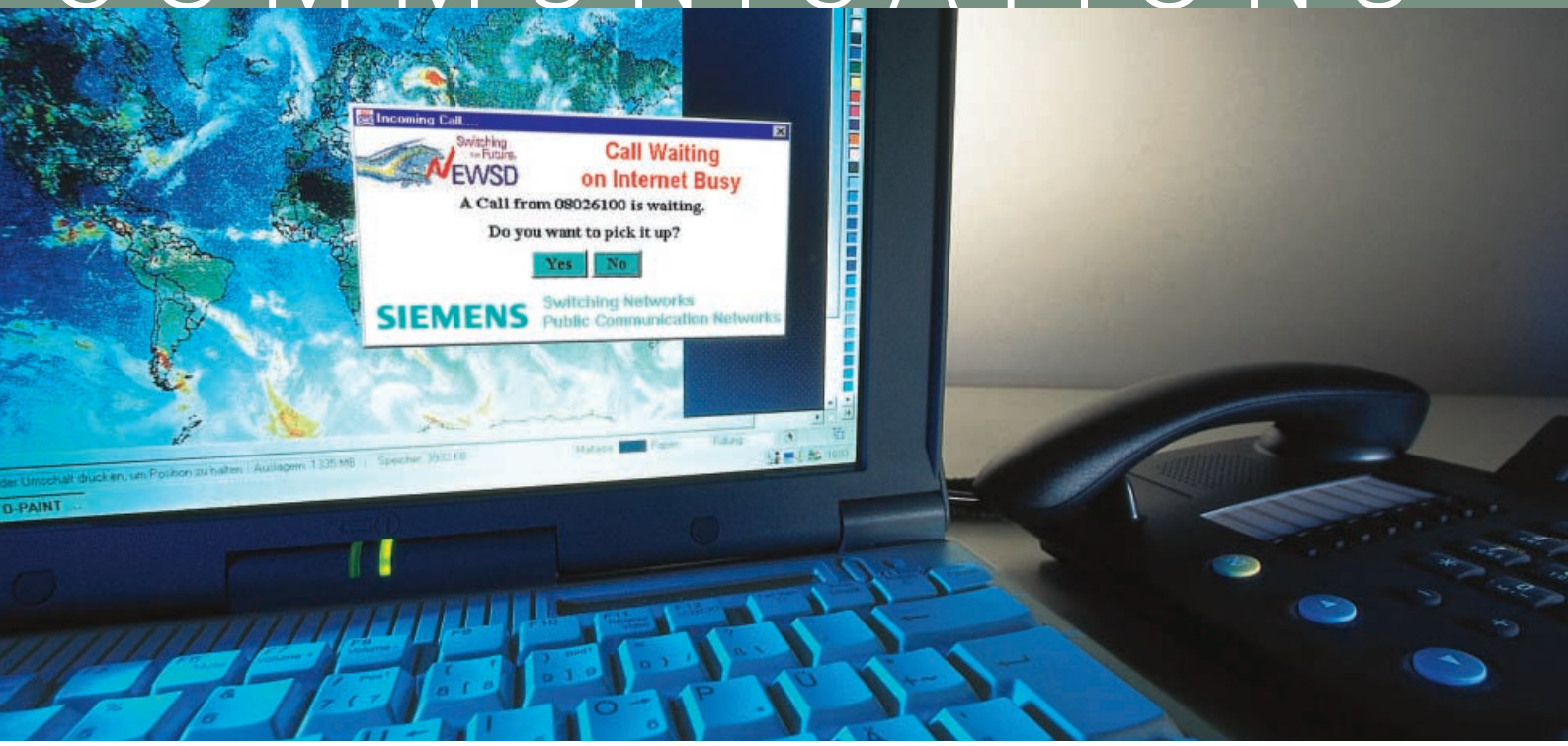
PRIVATE COMMUNICATION SYSTEMS (PN)

Private Communication Systems was a top global supplier of business and private communications systems. As an all-around provider, the Group handled complete phone system integration and all services related to telecommunications, from demand analysis to turnkey installations, and from operation and administration of customer systems to packaged financing. With a comprehensive spectrum of wired, cordless and mobile phones and PC cards, Private Communication Systems was an ideal terminals partner for network operators, with a sales and service organization in some 160 countries. Around 600,000 customers depend on Hicom communications systems, making it one of the world's most popular business communications systems. Over half of the old Group's sales were in markets outside Germany.

SIEMENS NIXDORF INFORMATIONSSYSTEME AG (SNI)

Siemens Nixdorf was Europe's largest information technology company, with activities in 58 countries. A total of 250 independently operating business units were bundled into 12 divisions. The company distinguished between the Products and Technology Services business, with its focus on information technologies, and Solutions and Business Services activities, which involved customer business processes. In the segment reorganization, SNI's product and product service operations were merged into the newly formed Information and Communication Products Group. Point-of-sales and self-service systems will continue to be marketed under the name Siemens Nixdorf, now an independent subsidiary of this new Group. The solutions and services sector, formerly Siemens Nixdorf Business Services, is now part of Siemens Business Services. SNI's point-of-sales systems are number one in Germany and number two in Europe, while the self-service systems are first in Germany, second in Europe, and third in Asia. Siemens Nixdorf sold more personal computers in Germany and Austria than any other producer. The company was market leader in Germany for mid-range UNIX systems and ranked second in Germany and Europe for mainframes.

COMMUNICATIONS



Innovative functions of the EWSD InterNode, which integrate the Internet and telephone networks, ensure that phone calls aren't missed while surfing the Net.

INFORMATION AND COMMUNICATION NETWORKS

Specializing in the design and installation of operator and business phone networks of all sizes, we are a systems house offering a complete portfolio of solutions and services for all areas of information and communications infrastructures.

We tailor end-to-end solutions in the converging worlds of voice, data and mobile communications for our customers in industry, business and public administration. With our know-how, we provide companies and network operators with telecommunications networks designed to meet their individual needs today and well into the future. Our broad spectrum of products and our comprehensive expertise make us one of the world's leading sources of integrated systems and solutions for all information and communications infrastructure networks.

By closely fitting these products and solutions to our customers' business processes, we ensure that the right information gets to the right spot at the right time. Multimedia messaging with the Hicom Messenger, or the highly flexible allocation of resources in call centers are examples of how we can optimize information flows for our customers.

We are one of the world's three top providers of carrier and enterprise networks. In the sector of digital switching and communication systems, our EWSD and Hicom products lead the market. We also number among the world's leading installers of mobile phone networks using the predominant GSM (Global System for Mobile Communications) standard.

Our EWSD InterNode fully integrates the Internet with telephone networks, making completely new services possible and boosting the efficiency of our customers, the network operators. HiNet RC3000 integrates real-time voice communication into existing LAN structures via Internet protocols, offering enormous savings potential. Other innovations include the TransWave WL8, a transmission system for boosting the capacity of existing fiber-optic cables eight-fold, and the Telephony Internet Server in the Hicom-Xpress family, which enables business telephone networks to access the Internet for transmitting voice, data and video.

We operate in over 160 countries and aim to reinforce and expand our leading market positions in the years ahead.

Products · Services · Solutions
- Broadband and IP networks
- Mobile phone networks
- Wired networks for operators and companies
- Call center solutions
- Transport networks

http://www.siemens.com/ic/networks

INFORMATION AND

The first DECT mobile videophone combines a digital cordless handset with a miniature video camera and a high-resolution color display.

INFORMATION AND COMMUNICATION PRODUCTS

We offer our customers a complete portfolio of wired and cordless phones, mobile phones, ISDN cards, notebooks, personal computers, servers and communications cables.

With over fifteen million terminals sold, our Gigaset cordless phone family is the world's most successful digital cordless system. Our range of mobile phones, based on the GSM (Global System for Mobile Communications) world standard, covers the full product spectrum – from low-end to luxury models. Our videophones, featuring state-of-the-art ISDN video technology, are being marketed by Deutsche Telekom.

We are the number one vendor of personal computers in Germany and rank fifth in Europe. Our SCENIC family PCs and notebooks are popular and powerful tools for both professional and recreational applications. Highly complex functions such as computer-aided design, simulation and animation are the strength of our SCENIC Celsius workstations. We also produce a wide spectrum of servers, ranging from workgroup systems to support project teams and entire departments to high-end systems used in computer centers.

Siemens Nixdorf Retail and Banking Systems GmbH, an independent subsidiary, is Germany's largest provider of point-of-sale and self-service systems and ranks second in the European market.

We are one of the largest producers of communications cables and cable accessories. Together with Siecor Corporation, a partnership between Siemens and Corning, the U.S. fiber-optic specialist, we are the leading global manufacturer of fiber-optic cables, turning out over seven million kilometers a year.

Our IT service business, a legally independent joint venture operated together with Siemens Business Services, is Germany's largest – and Europe's second largest – provider of information technology services. Its success is based on the close integration of product-related services and value-added services, such as roll-out projects, project implementation, and IT operations.

Our goal is to become the preferred provider of all products in the field of information and communications technology.

Products · Systems · Services

- Mobile, wired and cordless telephones, ISDN telephones, ISDN PC cards
- Server systems, including system software, peripheral equipment, personal computers, workstations, terminals
- Self-service and point-of-sales systems
- Communications cables
- IT service

http://www.siemens.com/ic/products/de

COMMUNICATIONS

The SBS Command and Control Center registers all incoming customer inquiries and forwards them to the appropriate support staff.

SIEMENS BUSINESS SERVICES GMBH & CO OHG

When it comes to consulting, systems integration, professional services and outsourcing, we are one of the leading comprehensive service providers in the design/build/operate value-added chain.

We offer single-source solutions to our customers in industry, banking and insurance, the public sector, telecommunications, power utilities, transportation, and at Siemens. We modernize information technology infrastructures and optimize business processes and knowledge management. Our consulting services include specialties like Management Consulting and Change Management. Using standard software programs like SAP R/3 and Siebel, we design customized business IT solutions. We develop intranet and Internet sites for major international customers and handle systems integration for complex international infrastructure projects in fields like communications, transportation and public administration. Our spectrum of services is rounded out with training and continuing education programs in standard IT fields and a comprehensive selection of business outsourcing.

With our help, customers can tailor their information systems to specific needs and speed their access to internal and external know-how. We are already one of the world's top integrators of information and communications technology. As part of the International Network Management System (INMS) project, for example, we are integrating the networks of twelve European communications service providers. Our leading market position is underscored by a wide variety of activities, including strategic partnerships with key international customers, a major project to modernize border control systems, the production and distribution of forgery-proof, machine-readable identification cards in Argentina, and global solutions for real-time trading in financial futures on the Internet.

Our goal is to be the partner of choice for international companies when it comes to providing integrated IT solutions and transforming and operating entire business processes. We also aim to strengthen lasting ties with our customers by expanding our outsourcing business.

Services

- Consulting in process reengineering, culture change and all areas of IT systems and IT management
- Design, implementation and handling of business IT solutions
- Development of Internet and intranet solutions
- Systems integration
- Training and continuing education programs in standard IT fields, with focus on business change management
- Outsourcing, such as managing existing IT structures, converting them to new architecture, or assuming operation of entire business processes

http://www.sbs.de

TRANSPORTATION

Thanks to its tilting system, the ICT trainset improves passenger comfort and reduces travel times.

TRANSPORTATION SYSTEMS (VT)

We offer rail rolling stock, infrastructure systems and services that can be readily integrated into complete systems solutions for both mass transit and main-line applications. Our systems expertise and broad range of products make us one of the leading international suppliers to the rail industry.

As a complete provider of high-speed trains and all-purpose locomotives, diesel and electric multiple units, metros and light rail systems and operations control systems, as well as complete signaling systems, power supplies, and solutions for cashless fare management, we deliver fully integrated solutions to help solve technical and organizational interface problems. We are the world market leader in turnkey rail systems.

We are maintaining our leading edge in the industry with innovative components and products. One example is our new EURO-Balise radio-based automatic train control system, which replaces conventional signal systems and allows closer train spacing. Now standardized for Europe, the system allows reliable data transmission for trains traveling at speeds of up to 500 km/h. We are increasing the operating efficiency of our mass-transit trains by using lightweight fiberglass-reinforced plastics in their construction. Our SmartInfo information system gives passengers a simpler, more convenient overview of rail services. Our state-of-the-art modular Combino and Desiro trainset families are notable for their high performance capacity and passenger comfort, as well as their low life-cycle costs.

Although industry demand for our solutions is steadily growing, Group earnings are currently in a slump.

To ensure our future success, we must further strengthen our systems competence, which is our unique competitive advantage. Our top priority is to improve the profitability and competitiveness of our customers. We are optimizing the architecture of our turnkey systems and rigorously pushing modularization and standardization in our components sector. We will also continue to enhance key competencies like project and financing management to set ourselves apart from our competitors.

Projects · Systems
- Operations control systems
- Rail electrification
- Turnkey rail systems
- Heavy rail
- Locomotives
- Light rail
- Multiple units

http://www.siemens.de/vt

The key component in high-pressure diesel injection systems is Siemens' piezo-hydraulic valve, with a record switching time of 0.1 milliseconds.

AUTOMOTIVE SYSTEMS (AT)

Our global customers in the automotive industry are enjoying improved ride and engine performance, as well as greater comfort, safety, security and environmental compatibility than ever before. With some seventy locations throughout the world, we offer customized product and systems solutions with a growing share of engineering value added.

Our innovations play a major role in the industry's drive to reduce fuel consumption and engine emissions. We specialize in electronics, electrical systems, and combined mechanical and electronic components, and our efforts are yielding a growing spectrum of complete automotive modules and systems. Working both on our own and together with our partners, we integrate our products in the platform strategies of the world's leading vehicle producers. We have formed strategic alliances in the areas of emissions technology, vehicle locking systems, passenger protection systems and cockpit modules.

Harnessing internal synergies and know-how, we generate cutting-edge ideas. For example, the data-capable telephone module already incorporated in both our Integrated Driver Information System (IDIS) and the Porsche Communication Management (PCM) system promises to be a key component of future teleservices.

We are one of the world's first-tier producers of air-bag electronics, supplying five million sensor units a year. And we are a world leader in vehicle immobilization systems, delivering seven million a year. Our engine management systems as well as our world-class fuel injector technology continue to gain market share.

Our innovations aim to improve vehicle safety, comfort and environmental compatibility. We are focusing on future-oriented technologies like common-rail diesel systems and direct-injection gasoline engines, components and systems for cam-less engines, ever more advanced engine management systems, information and navigation systems, and multimedia solutions for vehicles.

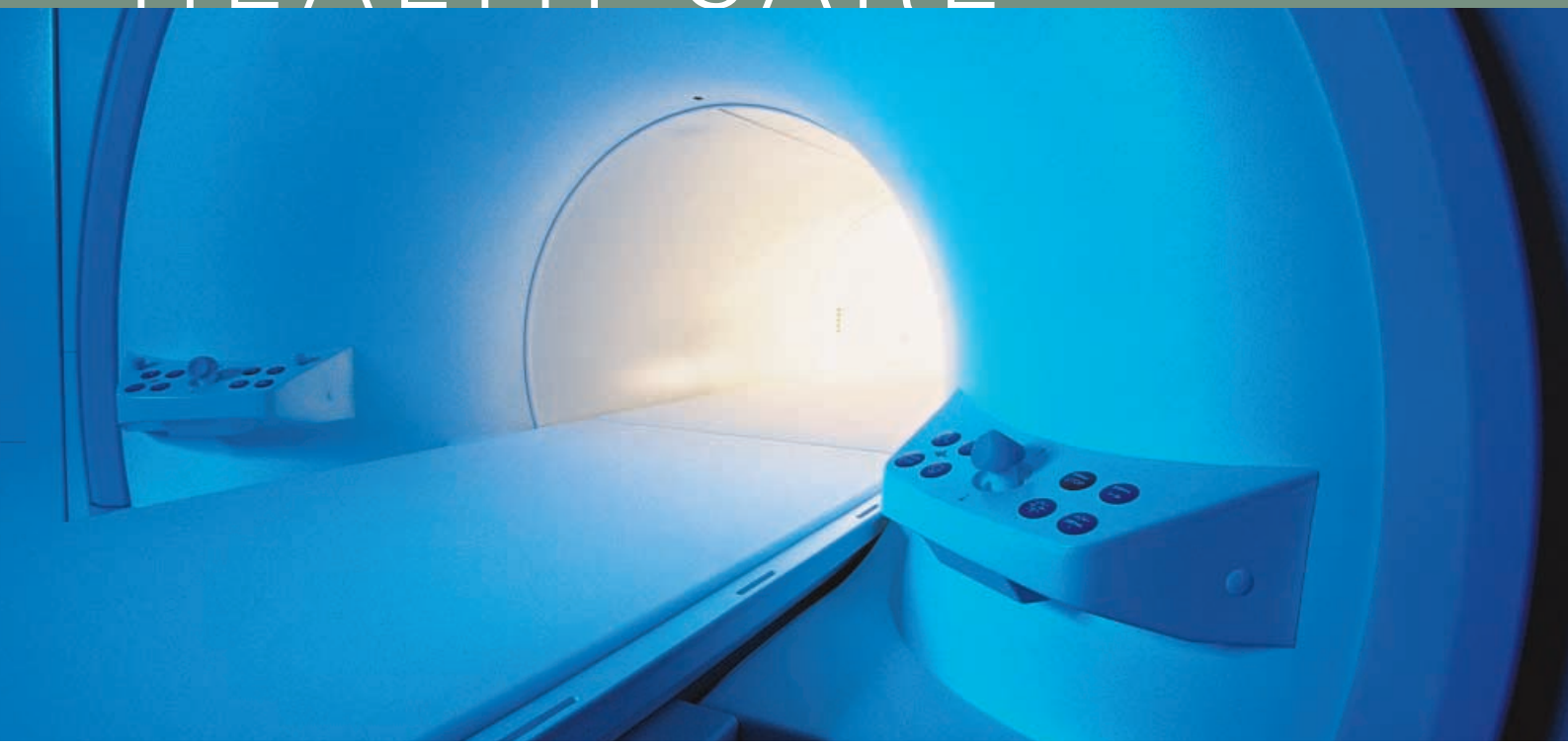
Over the next five years, we intend to double our volume of sales and orders by concentrating on expansion in Western Europe and North America. We see particularly promising opportunities in high-tech applications, where we will be pushing systems integration, coordinating our efforts even more closely with the development and production strategies of leading vehicle manufacturers.

Modules · Systems · Components

- Engine and drive management systems
- Induction, fuel and emission components
- Sensors
- Safety and chassis controls
- Car body electronic systems
- Electric motor drives
- Driver information systems
- Diesel systems

http://www.siemens.de/at

HEALTH CARE



The Harmony and Symphony magnetic resonance imaging systems combine excellent image quality, high cost-efficiency and ease of operation with greater patient comfort.

MEDICAL ENGINEERING (MED)

In a significant contribution to more efficient healthcare services, our products, systems and solutions optimize processes in doctor's offices and hospitals, helping make fast, accurate diagnosis and patient-friendly therapy a reality.

With our strong focus on imaging and electromedical systems and audiological devices, we are a leading supplier of high-tech medical electronics for diagnostics and therapy. Our Siemens Health Services unit provides specialized information technology and services.

We made crucial long-term investment decisions to ensure steady improvements in the cost positions and competitiveness of our imaging systems, especially in the areas of magnetic resonance imaging and specialized workstations.

Ongoing process optimization has accelerated time-to-market, with the result that two-thirds of our products are less than three years old.

As a complete solutions provider, we are the market leader in angiography and imaging systems, magnetic resonance imaging, audiology, digital image storage systems and communications systems.

A surge in orders for our most successful innovations, the magnetic resonance scanner models Harmony and Symphony, has firmly anchored us as number one in the global market. Primus, our high-end linear accelerator system, allows more precise therapy and shortens treatment times. The Sonoline Elegra ultrasound platform is the only system on the market to feature extended-field-of-view imaging for entire organs. The new aSi-Detector from our Trixell joint venture makes digital X-ray imaging simpler and faster.

Our goal for the years ahead is to become the most successful complete solutions provider in the healthcare sector. By expanding activities at Siemens Health Services and forging new partnerships with operators of administrative and clinical IT systems, we will garner an even greater share of the growth in information and communications technologies for the healthcare sector.

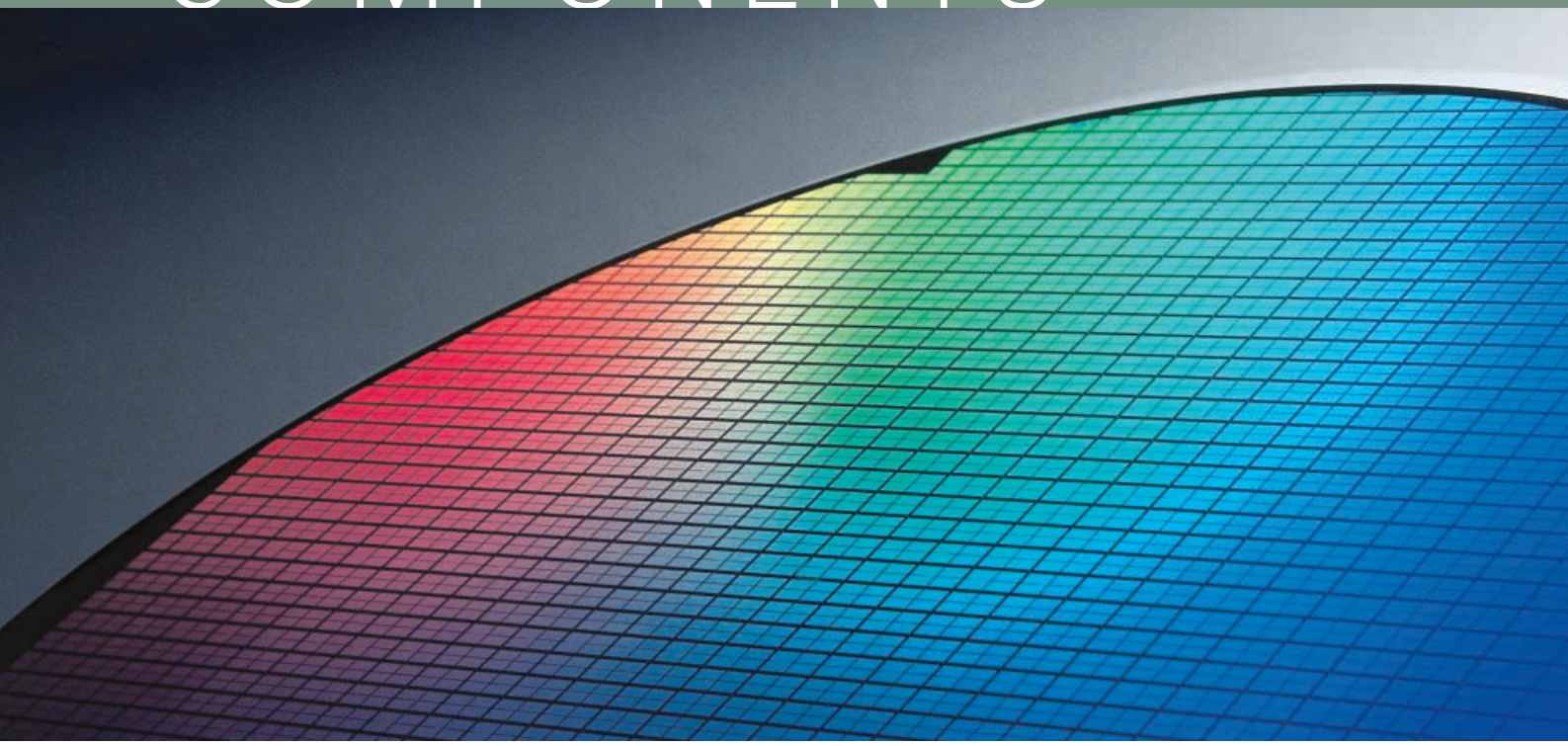
Some of the products offered by Medical Engineering may not be commercially available in the U.S., and their future availability cannot be ensured.

Products · Systems · Services

- Roentgen systems and components
- Angiography systems
- Specialized workstations
- Computed tomography
- Magnetic resonance tomography
- Nuclear medicine systems
- Ultrasound systems
- Image processing and networking
- Health services
- Electromedical systems
- Radiation therapy systems
- Audiological systems

http://www.siemens.de/med

COMPONENTS



Compared with its 200-mm counterpart, the 300-mm silicon wafer has space for two-and-a-half times the number of chips.

SEMICONDUCTORS (HL)

Providing IC solutions, memory, high-frequency, power and optoelectronic components, and ICs for security systems and smartcards, we are the world's leading provider of semiconductor components with a focus on communications technology and automotive electronics.

Drawing on our unique mix of products and applications know-how, we provide highly integrated semiconductor systems solutions developed in close cooperation with our customers. We also offer applications – like customized systems solutions for hard-drive controls – in the consumer and computer peripherals markets. Our new Sales and Solutions Centers direct our applications know-how to our customers while conveying industry feedback and expertise to our product specialists. By stepping up our logic IC initiative, we are building strategic partnerships with customers and helping to cushion the effects of sharp cyclical fluctuations in the memory chip market. We are pushing the development of innovative products like Carmel, a digital signal processor for the power IC sector, licensed to LSI Logic, as well as enhancing our logic products portfolio by expanding our global development center network.

A forty-percent surge this year in patent registrations documents our growing know-how and underscores the increasingly important contribution of intellectual property to sales in the form of licensing fees.

Our goal is to work with the world's largest semiconductor manufacturers to set new trends in microelectronics. Partnerships with IBM in developing future DRAM and logic technologies and with Motorola in a joint development of 300-mm wafer technology in Dresden are major steps in this direction.

Our business has been severely impacted by the collapse of memory chip prices. In response, we closed our chip plant in North Tyneside, England, and are converting our worldwide production from 16-megabit DRAMs to 64-megabit DRAMs. By switching from 0.35µm to 0.25µm chip structures, we anticipate productivity gains of one hundred percent.

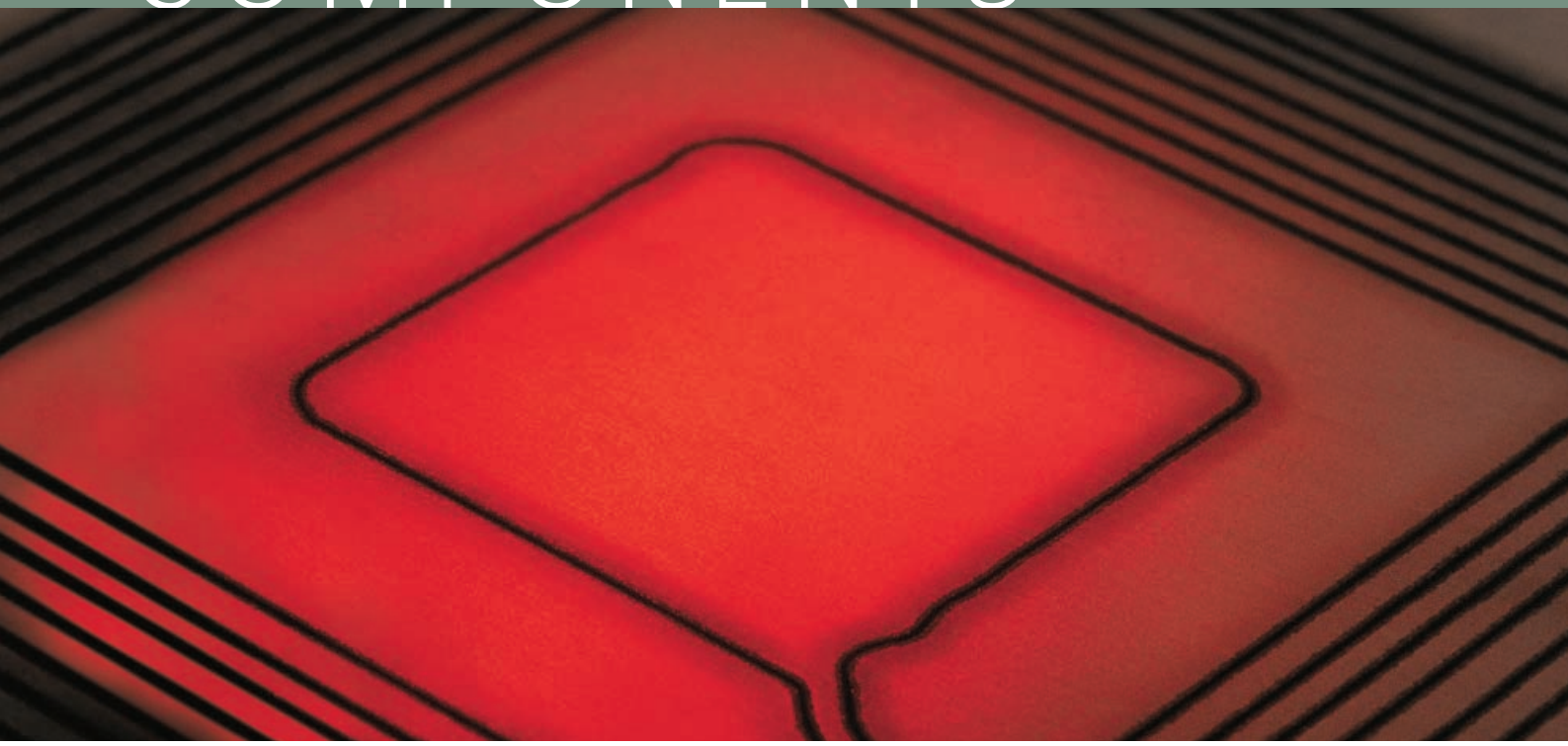
We aim to become one of the world's top ten semiconductor producers by boosting our market share. We are moving toward this goal with sales growth rates that substantially outpace market expansion.

Products

- Memory ICs and modules
- Complex application-specific logic ICs
- Microcontrollers and signal processors
- Smartcard and security ICs, modules
- High-frequency ICs
- Sensors
- Optoelectronic components
- Power semiconductors and modules
- Transistors, diodes and microwave semiconductors

http://www.siemens.de/semiconductor

COMPONENTS



A new ferrite polymer composite can be processed into a thin, flexible film ideal for numerous applications, such as in merchandise security tags.

PASSIVE COMPONENTS AND ELECTRON TUBES (PR)

Passive components, electron tubes and magnetic materials are inconspicuous but indispensable products found in equipment and systems marketed by all sectors of the electrical and electronics industry.

Power capacitors in high-tech trains like Germany's ICE express, ferrite transformers in compact power supply systems, miniature surface acoustic-wave filters in state-of-the-art mobile phones and pagers, and interference suppression devices in industrial electronics bear witness to the unusual versatility of our components.

With a spectrum of over 50,000 different products, we are one of the few broadliners operating successfully on a global basis. We rank third in the world in passive components. Many of our business fields, such as surface acoustic-wave components, are market leaders.

Siemens Matsushita Components, a ten-year-old Siemens-Matsushita joint venture, has been a major factor in our success, generating approximately two-thirds of our sales.

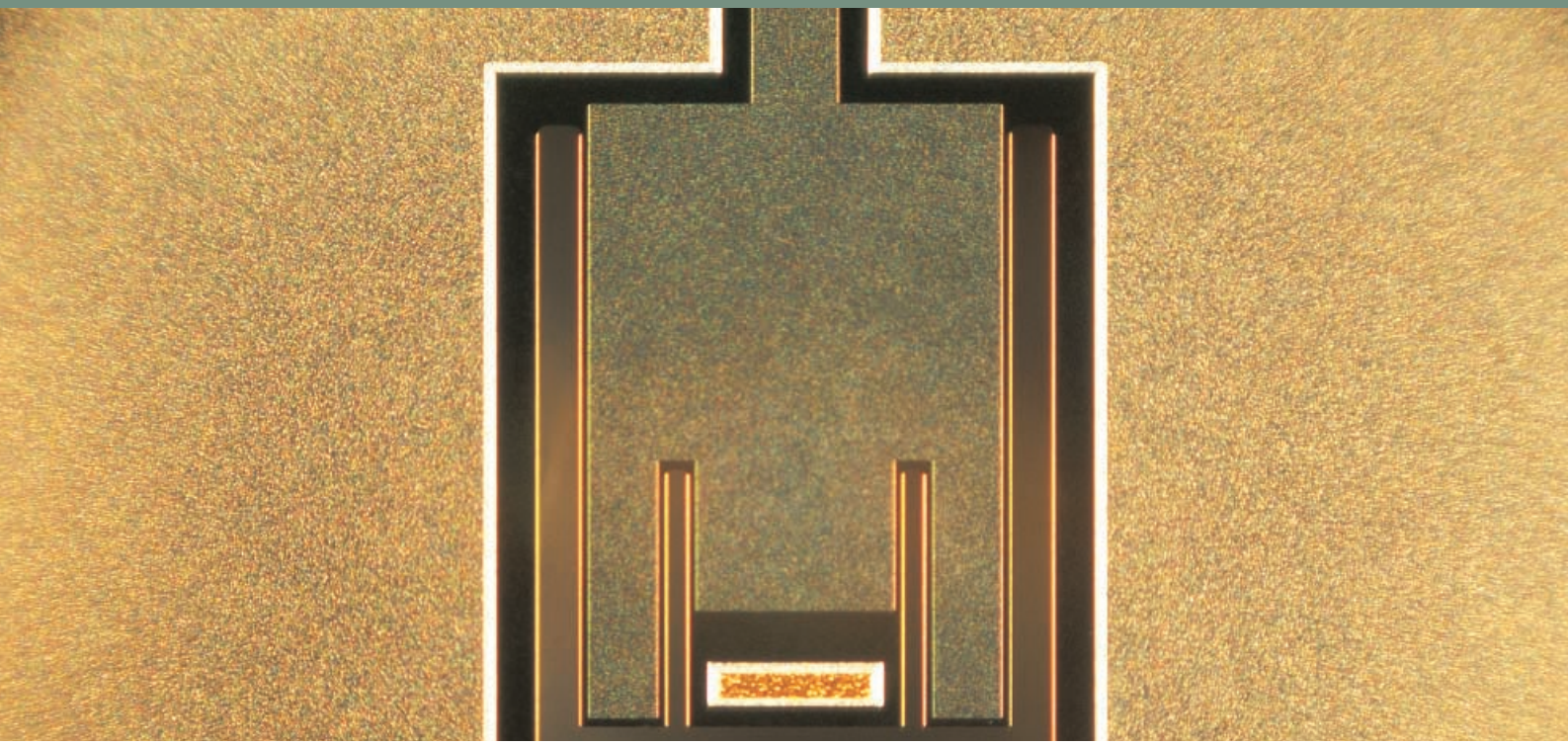
Constant innovation is a must for lasting success in our business. Thanks to our innovative strength, more than seventy percent of our sales come from products developed within the past five years. Typical examples of outstanding new products include a flexible ferrite film that can be used to block electromagnetic waves, a powerful yet compact patch antenna made of microwave ceramics for GPS receivers, and the world's strongest permanent magnets.

In the coming years, we plan to continue expanding our global development and production capacity and to add a steady stream of innovations to our product range. Our goal is to generate above-average growth rates and further improve our commanding position in the global market, particularly in the NAFTA countries and the Asia-Pacific region.

Products · Systems · Services

- Aluminum and tantalum electrolytic capacitors
- Capacitors for power electronics
- Film capacitors
- Multi-layer ceramic capacitors
- EMC components
- EMC systems and services
- Ferrites
- Inductive components
- Surface acoustic-wave components
- Microwave ceramics
- Thermistors
- Varistors
- Grid-controlled tubes
- Surge arrestors
- Vacuum interrupters
- Semifinished products and parts
- Cores and components
- Permanent magnets

http://www.siemens.de/pr



New highly miniaturized silicon microrelays are shock-resistant and require only minimal voltage for switching.

ELECTROMECHANICAL COMPONENTS (EC)

Relays, sensors, connectors and hybrids are just the tip of the iceberg. We are one of the world's leading suppliers of switches, contacts, and assembly and connection technologies. Our activities also include developing and manufacturing electronic modules.

Our broad spectrum of offerings ranges from individual components to entire subsystems, including co-development projects with customers, engineering, and other services. We serve customers in the automobile, telecommunications, manufacturing, and consumer industries as a components manufacturer, mechatronics specialist and systems provider. Working with key customers and coordinating our efforts closely with technology roadmaps, we find solutions in the areas of miniaturization, high-speed features, intelligent systems, and production and automation concepts. By developing a strong global account management system and cross-industry project management, we promote the transfer of vital know-how among partners.

We are aggressively expanding sales to maintain our market leadership in automotive relays and our number-two position in general-purpose and telecommunication relays. Our other strengths include connector systems and hybrids, both markets with healthy growth potential.

Our business is driven by fast-paced innovation. We have just delivered the first samples of a highly sensitive, yet shock-resistant silicon microrelay; the extremely small device is ideally suited for low-power and standby applications. Our multichip module (MCM) with high-density interconnect substrata (HDI) is an attractive solution for applications in which space is limited.

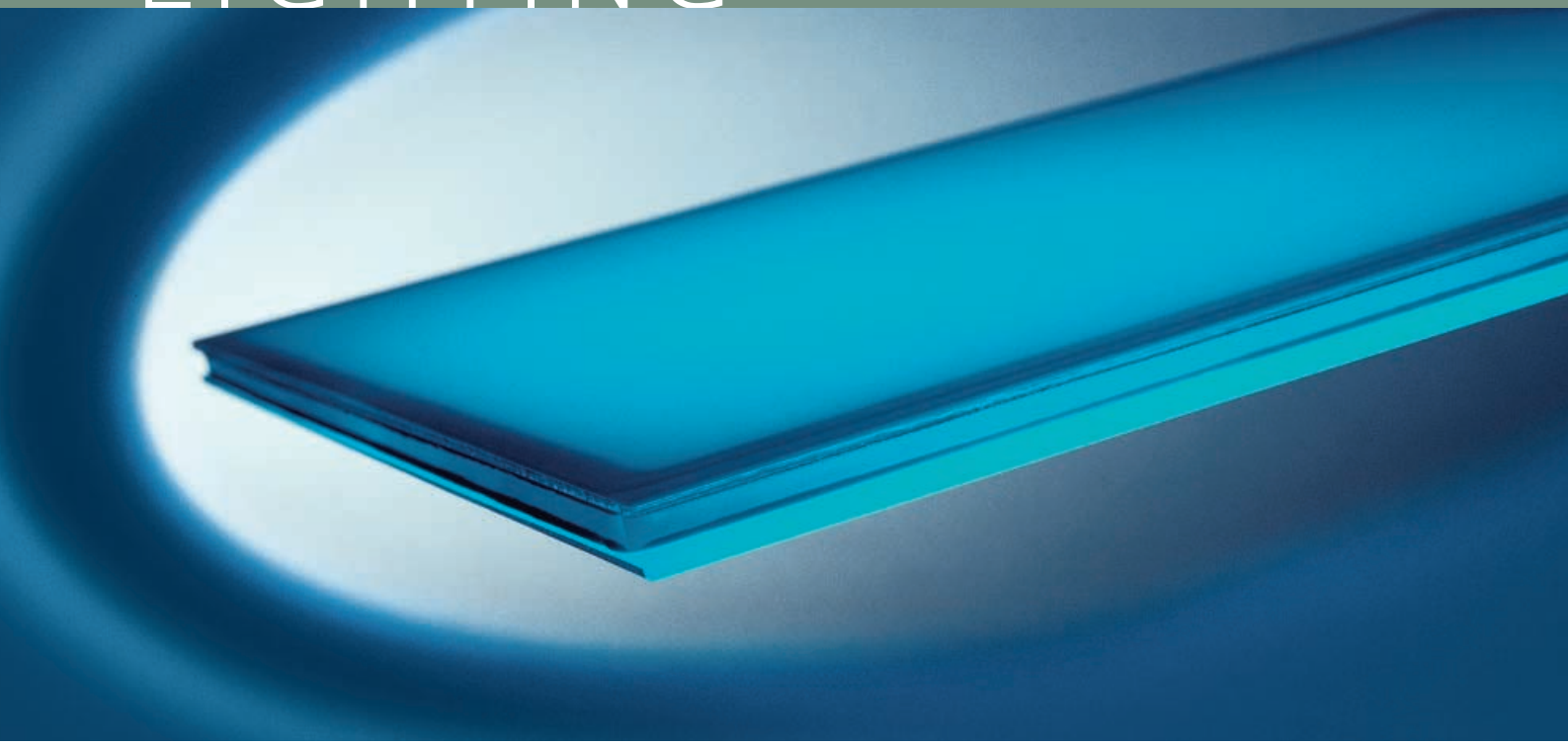
Within the next five years, we aim to achieve a balanced distribution of our business among Germany, Europe, North and South America, and Asia. As part of this strategy, we completed the full acquisition of Asia's relay producer Original Electromechanical Group (OEG) in July 1998. We intend to maintain our competitive market advantage by ensuring that our products and systems are always at the industry cutting edge. Our worldwide learning network, with its high-speed information and communications platforms, promotes our innovation drive by facilitating knowledge transfer.

Products · Systems

- Relays
- Relay modules
- Sensors
- Inductive systems
- Connectors
- Switches and push buttons
- Hybrids and micromodules
- Power modules

http://www.siemens.de/ec

LIGHTING



Planon, the world's first mercury-free flat lamp, is as thin as a tile, marking a radical departure from conventional lamp forms.

OSRAM GMBH

As a specialist for lighting and related electronic gear, we provide economical, long-life lamps for every kind of application.

Our product spectrum encompasses general-purpose lighting, automotive lighting systems, photo-optical lighting and electronic control gear. We provide lighting for a wide variety of locations: from private households to sports stadiums, from shopping centers to factory floors. Our xenon headlights offer innovative design solutions to the automotive industry. Spectacular lighting effects like those produced at rock concerts are made possible by our special photo-optical lamps. We quickly recognized the enormous potential of integrating lamps and electronic gear; this technology is now virtually indispensable for new developments in the industry.

The know-how we have accumulated over the years is our most valuable research and development resource. It enables us to spot potential improvements, reduce error rates, and find new ways of increasing our products' energy efficiency.

With customers in over 140 countries, we are a true global player. As one of the three largest lamp producers, we are market leader in Germany, and rank second in Europe and the U.S. We are also the global front-runner in automotive lamps.

Our innovative growth drivers are halogen lamps, energy-efficient compact fluorescent lamps, halogen vapor lamps, and electronic control gear. Planon, the world's first mercury-free flat lamp, is a technological breakthrough: it provides instant optimal light at any temperature, doubles the light density of LCD screens, and boasts an operating life of 50,000 hours, twice as long as conventional fluorescent lamps. Our Dulux EL Classic 3-watt lamp is the first energy-efficient lamp manufactured with a flame shape; it can replace standard 15-watt flame-shaped lamps and has a service life of some 12,000 hours.

Over the next five years, we will continue to expand our world market share, focusing on growth in Eastern Europe and the Asia-Pacific region. We also aim to fortify our strong position in North America, where we currently generate half of our sales.

Products · Systems

- Lamps
- Halogen lamps
- Fluorescent lamps
- Compact fluorescent lamps
- Halogen vapor lamps
- Sodium lamps
- Signal lamps
- Vehicle lamps
- Lamps for photography, film, TV, stage and optics
- Electronic control gear

http://www.siemens.osram.de

FINANCIAL SERVICES

One of Siemens Financial Services' recent projects involved the financing of trains for the metro system in Munich, Germany.

SIEMENS FINANCIAL SERVICES (SFS)

As a provider of international financial services, we offer our customers tailor-made solutions for their risk management and financing needs.

Drawing on the strength and prominence of Siemens, we are a service partner in many areas of financing. By pooling internal financing competencies, optimizing the Company's capital costs, and expanding business with external customers, we are contributing to Siemens' earnings. In the sector of project and trade financing, we advise our customers on how to structure complex financial transactions and help them access venture capital. We assist the Siemens Groups in managing their credit portfolios and placing their consolidated risk positions on the capital market. Our services also include equipment leasing and management, the structuring of tax-optimized leasing concepts, the handling of countertrade financing, the development of and participation in infrastructure projects, and the administration of pension funds for institutional investors.

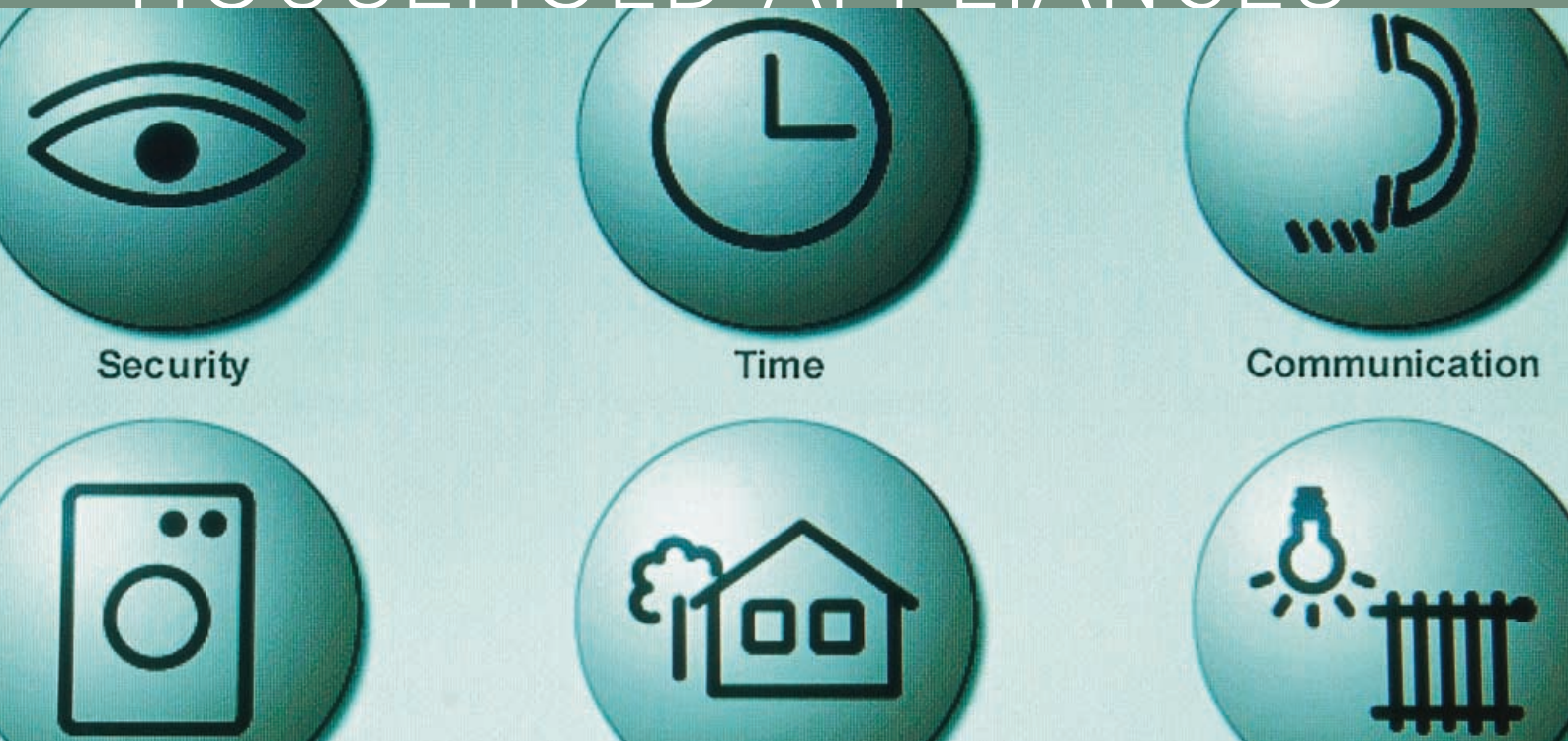
In our capacity as Siemens' treasury, we are responsible for hedging interest and currency risks. Our cash management services include handling the Company's worldwide bank accounts as well as consolidating and investing liquidity in virtually every currency on a daily basis. In conducting payment transactions, we adhere to international standards and employ state-of-the-art technologies.

Our international presence and close partnerships with all Siemens Groups and regional units have given us comprehensive know-how in financial transactions. We are now developing a Knowledge Management System as a means of exploiting and enhancing this excellent base. Both the quality of our consulting services and our fee system are oriented to standard market criteria. We are continually improving the quality of our services and the efficiency of our processes to give us a strong platform from which we can move into new business fields and regions, enhancing our role as a leading financial services provider.

Services
- Consulting for project and export financing
- Credit portfolio management
- Administration of pension funds
- Company refinancing
- Equipment leasing
- Capital participation in infrastructure projects
- Development of tax-optimized leasing concepts
- Securing company liquidity
- Interest and currency risk management
- Cash management
- Company-wide monetary transactions
- Countertrade financing

http://www.siemens.de

HOUSEHOLD APPLIANCES



Our Home Electronic System and its linked appliances already go a long way toward making the fully automated home a reality.

BSH BOSCH UND SIEMENS HAUSGERÄTE GMBH

Dishwashers, washing machines, dryers, stoves, refrigerators, freezers, air conditioners and small appliances: our full range of products meets the highest standards of quality and innovation.

We are a leading producer of electrical consumer goods. Together with Siemens AG, we are the first company to market a complete home automation system – the Home Electronic System – and the appliances to go with it. Operating instructions can be called up on a personal computer, which also controls and monitors all appliance functions. In addition to automatically detecting and reporting problems, the Home Assistant even provides a selection of recipes.

As one of the industry's leading innovators, we continue to set standards for quality, user convenience, design and minimized energy and water consumption. Our success is based on decades of experience and intensive R&D. By introducing ever more sophisticated electronic controls, we are steadily reducing our products' consumption of electricity and water. For example, the Aqua-Sensor in dishwashers and washing machines reduces water consumption by automatically varying cycles to fit actual needs. Our Premium series of small appliances, created by F.A. Porsche, has been an especially successful design innovation.

Our brands are market leaders in Europe and hold a commanding 35 percent market share in Germany. Worldwide, BSH is the fifth largest manufacturer of household appliances.

We are working to secure our position as the industry's top innovator and trendsetter for household appliances. We plan to rigorously expand our market position in the U.S. – the world's largest single market for appliances – by drawing on our cutting-edge technological competence. While sustaining efforts to grow in our crucial German home market, we will also focus on expanding our production and sales organization in Latin America and Asia.

Products · Systems

- Dishwashers
- Stoves and ovens
- Ceramic glass stove-tops
- Stove-tops
- Ventilation hoods
- Microwaves
- Refrigerators
- Refrigerator-freezer combinations
- Upright and chest freezers
- Washing machines
- Dryers
- Air conditioners
- Water heaters
- Household automation systems
- Floor care appliances
- Small appliances

http://www.siemens.de/hausgeraete

PANORAMA

Networking knowledge

Sometimes his schedule looks like an airline pilot's: Hanover, Nuremberg, Amsterdam, Singapore, Kuala Lumpur – and that's just this week. Then a few days in Indonesia and Papua New Guinea, followed by two weeks in Africa, where stops include the Congo, Nigeria, Ghana, the Ivory Coast, and Morocco. But Herman J. Bos doesn't pilot jumbo jets. He just travels wherever his customers need him – "and that often means flying to the ends of the earth."

Trained as an engineer, Bos became Siemens' first Corporate Account Manager in 1996 and has since been responsible for one of the world's largest beverage companies. Now Siemens has central contacts like Bos for a number of major corporations in the food and beverage industry, including Anheuser-Busch, Heineken, Unilever, Nestlé, Procter & Gamble and Coca-Cola. Long-term partnerships have also been created in the chemicals sector. As part of an Account Plan Process conducted in Germany last year, Siemens Account Teams analyzed their relationships to 900 large companies. The customer firms also took part, presenting their needs and wishes in a series of workshops. The process generated a number of ideas about the products and services Siemens can provide to increase customer benefit.

"For our customers, I am Mr. Siemens," Bos says. Everywhere he goes, he acts as a scout and broker for Siemens' businesses. "I initiate activities, act as a go-between, and help when there are problems." The projects are then carried out and invoiced by the Siemens Regional Companies. As a Corporate Account Manager, Bos heads up an international team that operates around the world. His main assets – for both Siemens and his customers – are the knowledge he has accumulated and the network he has built up over the years. He can quickly apply the experience gained in one country to another setting if, say, a customer wants a new factory in China to run like the one operating successfully in Southeast Asia.

"For our customers, I am Mr. Siemens."

This approach yields a constant improvement in customer relations – the primary reason for introducing Account Management. Surveys conducted in the industry sector show that two-thirds of all customers lost by a company decide to turn to a competitor because of poor customer support. In contrast, very few customers complain about problems with products. Herman Bos, who has worked for 22 years in a wide variety of capacities for Siemens, knows how important long-term relationships are. "More and more companies are focusing on their core businesses, which means that they expect intelligent systems solutions from their vendors." This includes services such as maintenance, engineering and training throughout the life of the

CUSTOMER FOCUS

Government agencies and other administrative offices all over the world are facing new challenges. In times of tightened budgets and demands for increased customer orientation, such organizations have to take a particularly close look at issues like knowledge management and the fundamentals of efficient operation.

However, the enormous effort and expenditures required to gather and apply specialized IT knowledge has very little to do with the normal work of government agencies and offices. That is why Siemens, working in close partnership with these bodies, offers sector-specific operator models. The innovative solution created for the British Passport Office is one example of how outsourcing can be tailored to the needs of a government agency. This solution enables the yearly volume of 3.5 million passport applications to be processed considerably faster than in the past, while also increasing data security throughout the process.

Naturally, all challenges entail risks, and Siemens had sole responsibility for the success of this outsourcing project. By providing a highly efficient solution, we ultimately contributed to our customer's success.

products. The result is a strategic partnership – one that brings benefits to both parties.

"Siemens has a number of aces in its hand when compared to the competition," Bos says. "We are present in virtually every country on earth, and we can provide an enormous range of products and services." For the food and beverage industry, for example, the spectrum includes everything from electric motors and relays to complete automation solutions, planning and assembly, and the power supply system. Occasionally customers are surprised to hear that Siemens can also provide the necessary computer hardware and software as well as the telecommunications network. Herman Bos regards that as further proof of just how important it was to initiate a cross-sector and cross-regional Account Management program.

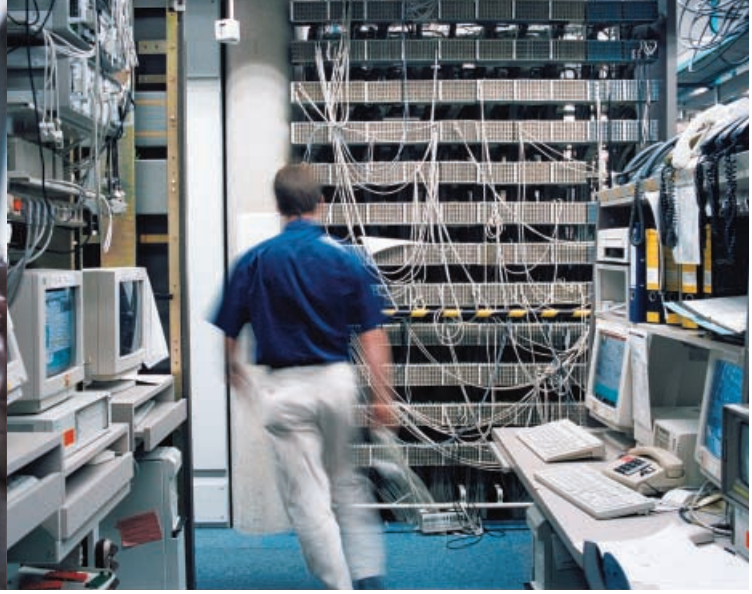
As a Corporate Account Manager, Bos sees his primary task as forging a close, long-term partnership that will improve the customer's competitive advantage. This means he must act as a knowledge manager, a virtually all-knowing interface between the customer's needs and the array of solutions Siemens offers. Just how well Bos does his job is reflected in the name he was given on one of his trips to Asia: "Thinking Ocean" is inscribed on his Chinese business card.

Harnessing knowledge around the globe

Geetha Ramachandran is working on a truly global product. "What we are developing here in India will soon be in use all around the world," says this department head at Siemens Communication Software (SCS) in Bangalore. Ms. Ramachandran writes programs for network management and for operating digital communications networks – rate and billing programs for Siemens EWSD switching systems, to be exact.

With 170 million lines in operation, EWSD is the world's most successful switching system. To date, it has been installed by some 300 network operators in over 100 countries on every continent of the globe. The software for this product is so complex that it could not possibly be developed at a single location; development work extends from Germany to India, and from Taiwan to Florida. The core software alone for the next EWSD version will contain some 45 million lines of code, making it as extensive as the programs used for the flight of a Space Shuttle. Despite this incredible complexity, the system's downtime must stay below three minutes per year, a requirement that the Siemens system easily meets.

This core software is written by several thousand specialists in Germany and Austria. At the main site in Munich, a workforce of more than 1,600 has handled the primary



development of EWSD and its annual update releases since 1978. It is here that the hardware, the system software and much of the applications software are developed. The EWSD version made specifically for the U.S. is produced by another 800 experts in Boca Raton, Florida.

Every country that buys an EWSD system has its own special requirements, making it necessary to adapt everything from the dial tone to charge calculation and data storage. These country-specific changes are handled by several hundred experts in Austria, Switzerland, Slovenia, Portugal and Belgium, as well as by their colleagues in South Africa, Argentina, Brazil and Taiwan.

The Indian software engineers work in the area of management and operation programs. Between 50% and 100% of these software solutions come from Bangalore. "The most important element in software development is the developers' knowledge," says Franz Beinvogl, head of SCS. He points out that a great deal of experience and telecommunications expertise is needed to develop the EWSD core software. "That's why such programs are still created in the countries which lead the world in this technology." The other software modules, Beinvogl says, are increasingly being written in locations "where the necessary expertise is available in sufficient measure and at an attractive price," such as in India.

In the global cooperation that this extensive distribution of work requires, software engineers are breaking new ground. Using a communications line with a transmission speed of 128 kilobits per second, SCS developers are in contact with Munich, Vienna and Brussels 24 hours a day, anytime they need to coordinate their work with their colleagues. A synchronization program works overnight to ensure that program modules stored in Europe and in India are automatically updated. That way, engineers on both continents are kept informed of any changes made the previous day by their distant colleagues.

Of course, this electronic bridge cannot replace personal contact. It's just a necessary component in the network of expertise comprising Siemens software experts around the globe. Several times each year, Geetha Ramachandran and her colleagues get together for EWSD workshops in Munich, Brussels or Bangalore. The process then comes full circle, and knowledge truly comes alive as people work together side by side.

GLOBALIZATION

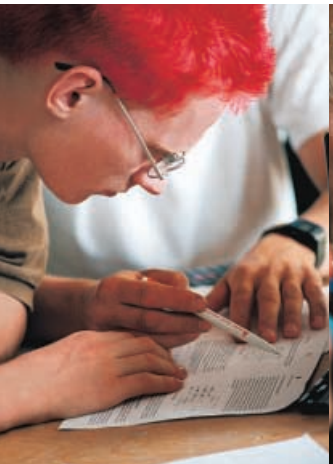
Global communications, flexible international teams, end-to-end business processes. Without the appropriate information and communications infrastructure, a complex project such as the development of the EWSD software would be unthinkable. For nearly a year now, it has been the task of the Chief Information Officer, head of the new corporate department Information and Communication Structures, to lead Siemens further down the road to becoming a knowledge company. The challenge is an enormous one. In more than 190 countries, some 400,000 employees work at well over 200,000 computers. These workers and their computers must be networked in such a way that the know-how of each employee is available to every colleague around the world. Processes which cross organizational and regional boundaries must run as smoothly as possible – even when they extend to external partners such as vendors and customers.

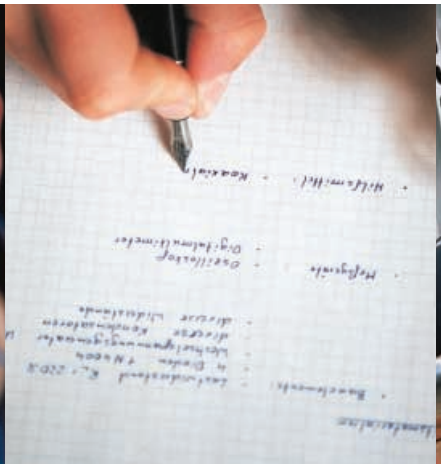
The success achieved so far is dramatic. Practically everyone in the Company who uses a computer can now be reached by e-mail and has access to the Internet and the Company intranet. At the same time, the Company has electronic connections to more than 2,000 business partners, and is upgrading its local networks to bandwidths of 10 to 100 Mbps. In addition, a crucial security system has been implemented, and the first applications allowing telecooperation and electronic commerce are being deployed.

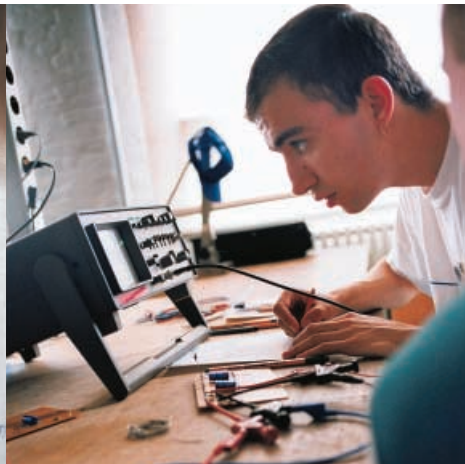
The long room is packed with the latest in computer-controlled machine tools. But it's not a high-tech manufacturing site, as is clear from the carefree laughter of the teenagers eagerly operating the machines. This is a Siemens vocational training facility in Berlin. Here, as in other locations around the world, young people are being trained for the careers of tomorrow. Siemens has 9,500 industrial and commercial trainees in Germany alone, and another 2,200 in 24 countries around the world – from South Africa to Indonesia, from Brazil to China. In the U.S., a Siemens program based on the German apprentice training system has enjoyed a great deal of attention from the business community and politicians alike.

If workers are to have the qualifications needed in years to come, far-sighted planning is required to ensure that the right knowledge and know-how are conveyed. For the past two years, the Future through Training project has worked to define new subject matter, goals and methods that are much more closely aligned to Siemens' business processes. One result of the project is that Siemens managers are now surveyed regularly to determine what products and work processes they expect five years down the road. Training programs can then be adapted accordingly far enough in advance. Technical and business knowledge are

New careers for the workers of tomorrow







meshed more closely, customer focus is strengthened, and the ability to think in terms of processes, projects and teamwork is nurtured.

In keeping with Siemens' ongoing transformation into a knowledge-based enterprise, new vocational profiles have emerged in the past year, profiles for which 400 young people are already in training today. These new fields primarily involve systems integration and applications development, the growing importance of software, the convergence of mechanics and electronics, and new careers at the customer interface, such as project planning, sales, logistics and support. At the same time, cooperation with institutions of higher learning – both in Germany and abroad – is being intensified to allow trainees to earn internationally recognized bachelor's and master's degrees.

At the Siemens Technical Academies in Munich, Erlangen and Berlin, programs focus more strongly on engineering tasks. Training highly qualified engineers is a top priority in view of the scarcity of engineers expected soon all over Europe; in 2001 only half as many engineers will graduate from German secondary institutions as in 1993.

Käthe Binschedler is a 25-year-old industrial technologist and a recent graduate of the Technical Academy. Käthe, whose training concentrated on data technology, found the mix of theoretical schooling and practical application to be "just what I needed to prepare for my career." The knowledge she acquired about operating systems, databases and telecommunications, combined with her keen interest in other countries and cultures, made her the perfect choice for a position in the international service unit of the Public Communication Networks Group, now Information and Communication Networks.

"The past few months, I've been working on mobile communication systems in southern Poland, bringing them online and keeping them running," she says. She tells about working in all kinds of weather on transmission towers, high-rise roofs and power-plant cooling towers, and about her most recent assignment at the Technical Assistance Center in Warsaw. She is clearly anything but bored by her work, especially since she will soon be moving on to new responsibilities in other countries. "The best thing about it," she says, "is when – some day, somewhere – I run into colleagues I met now in Poland – colleagues from the Philippines, India, Norway, Austria or Germany."

WORKERS AND LEARNERS

Training programs are being adapted to evolving needs – for veteran managers as well as for young trainees. In the new Siemens Management Learning Program, which is being offered all over the world, managers work together in teams that cross national and business borders. Using concrete tasks and real business case studies, participants learn to confront problems together and find solutions as a team.

Intranet-supported learning methods demonstrate the importance of telelearning while also underscoring the implications of growing global networks. Project results are documented in the intranet, creating a knowledge pool which can be used Siemens-wide as a fundamental tool of a true learning company.

Security at your fingertips

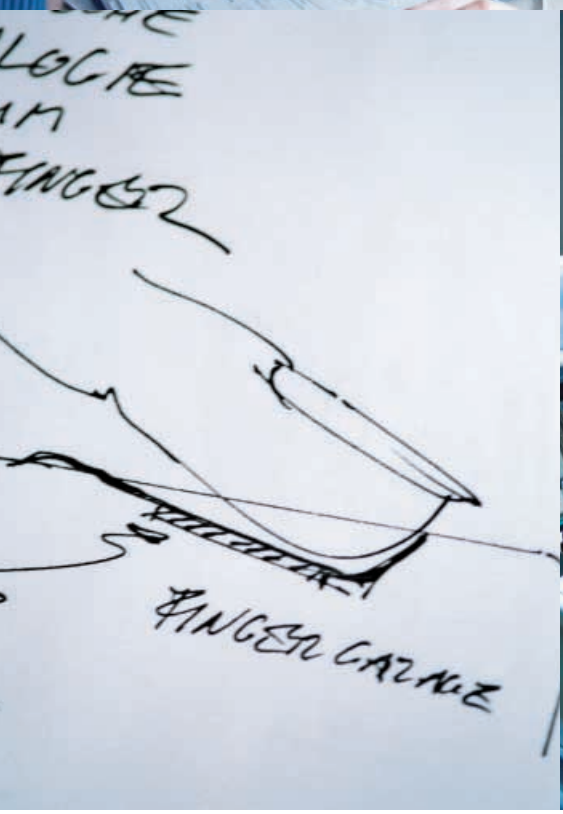
Cryptic combinations of numbers and letters are playing an increasingly important role in all our lives. There are PIN numbers for credit and cash cards, cellphones, answering machines and modems, transaction numbers for home banking, and passwords for computers and online purchases. While these secret codes are a necessity in a world in which more and more people have to communicate with machines, they are also an undeniable nuisance. Moreover, the danger always exists that these codes will fall into the wrong hands, or that their rightful users will forget them. In the first case, security is breached; in the second, the authorized person is denied access. The solution to both problems is another kind of key, one we always carry with us, one that is much simpler, more convenient, and far more secure: our fingerprints.

Last year a Siemens team succeeded in developing a low-cost microchip for fingerprint recognition. From the project's inception to the finished prototype, they needed just seven months. "That was possible only because our interdisciplinary, cross-Group network enabled us to draw on the knowledge and know-how of everyone involved," says Dr. Thomas Scheiter, who has headed up the development of the sensor – initially in a research group at Corporate Technology, and now in his capacity as an engineer at the Semiconductors Group.

The various experts who designed the prototype work within a stone's throw of one another at the research center in Munich: circuit and microsystems technicians, materials scientists, assembly and connection specialists, as well as biometrics experts. Cross-Group cooperation was the order of the day, promoted in particular by the "White Space" program, which supports business ideas that don't fit into a single corporate Group. In addition to the Semiconductors Group, Private Communication Systems (now Information and Communication Products) and Automotive Systems were also interested in the biometric Sensor Fingertip™, and they paid half the cost of the initial project phase. Finally, software specialists from the Program and System Development (PSE) unit in Graz, Austria, also contributed their expertise. Experts there have been working on fingerprint image processing for years, and they focused on making the software so compact and powerful that memory requirements could be met by off-the-shelf processors.

This company-wide knowledge network quickly hit pay dirt: the "first microchip without a housing that can and should be touched directly," says Scheiter. Over 65,000 tiny sensor elements measure the exact distance from the skin to the surface of the chip. The chip passes this fingerprint image as a digital data record to a processor, which then extracts between one and two dozen characteristic points – ending ridges, for example – and compares them with the original stored data.

This sensor has two special advantages. First, it is very highly integrated. The data is digitized on the chip itself before being passed to a computer across a standard interface. Second, it is manufactured using the same conventional technology used for memory chips (CMOS). This

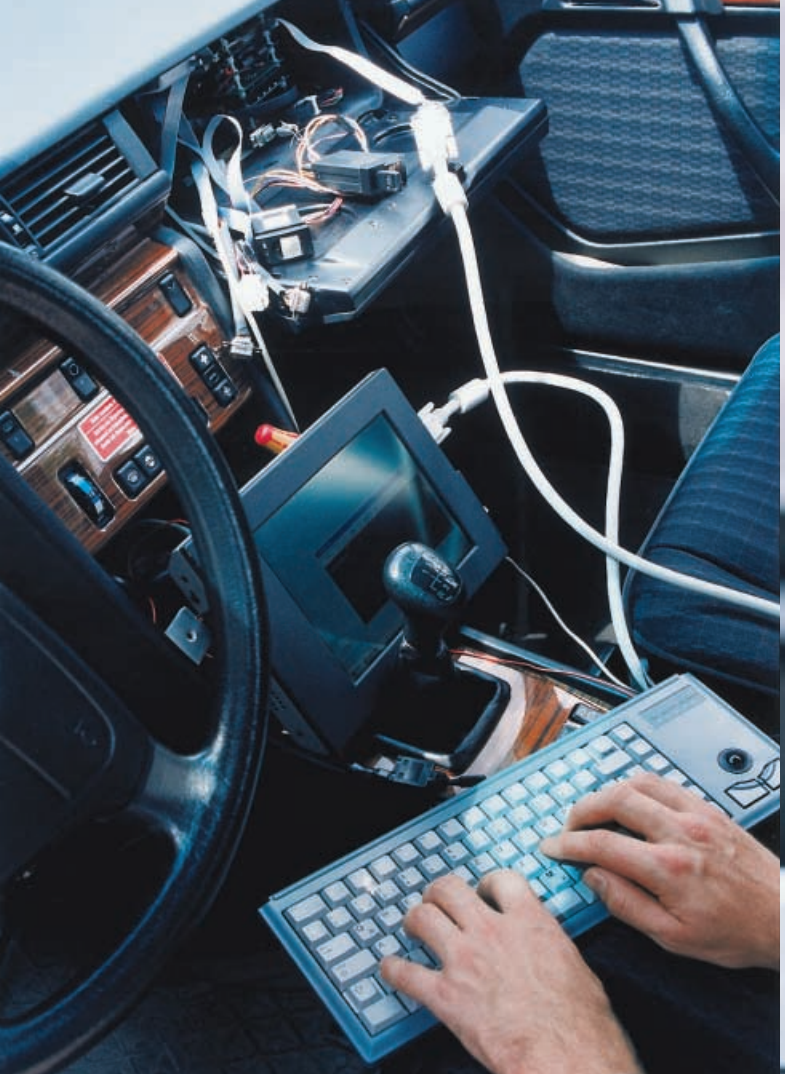


keeps the price low, making the sensor attractive for mass markets.

At a company like Siemens, the application possibilities for a chip with such widespread appeal are almost endless. It can be used in cellphones, for example. "Instead of having to enter a PIN when activating the phone, the customer simply places a finger on a recessed spot on the unit," explains Dr. Manfred Bromba, head of the cellphone project. "Even if the phone is left turned on and unattended, no one else can use it."

This security aspect can also be applied to weapons. Integrated in handguns, for example, the Siemens sensor would help prevent misuse – by children, criminals or anyone other than the authorized owner.

The fingertip sensor is also ideal for use in computers. Built into the keyboard or the power switch, it can replace password checks, which – with users' selection of passwords often all too obvious – may only give the appearance of providing security. Its usefulness in automotive applications, where fin-



gerprints could someday replace ignition keys, is apparent.

In a few years, this chip will also be a part of the smartcards that provide access to ATMs and data networks. Developers are looking for a solution that can handle both image processing and data comparison in a signal processor located on the card. "This would mean that all sensitive data could be stored on the card itself, which would then transmit only confirmation of the user's identity to external devices," notes Scheiter.

A variety of Siemens units are already working on commercial applications for the fingertip sensor, even as the researchers and developers focus on further reducing production costs and increasing performance and security. The chip and its image processing must function perfectly even when identifying moist or dirty fingers, and the whole system must be tamper-proof. Or, as Manfred Bromba puts it, "The cost and effort of deceiving the chip must be greater than what stands to be gained."

INNOVATIONS

If innovations and new businesses are to make a long-term contribution to Company value, their economic significance and potential profitability must be correctly assessed. Siemens has developed a number of procedures for this purpose. A company-wide survey aimed at identifying new business ideas yielded over 100 promising suggestions.

The procedures used include business plan competitions, technology benchmarking, and best-practice studies. The Groups stay in close touch with the Company's researchers through the Committee for Innovation and Technology, but also through ongoing efforts to match the Groups' own specific needs with the technological advances spawned at Corporate Technology. In addition, experts working in five innovation areas create end-to-end scenarios of future developments, deriving from them concepts and strategies for innovative products and solutions.

New businesses that involve the expertise of more than one Group are put together as "White Space" projects. Fourteen such projects – including one on data transmission using existing power grids – are currently in progress. The responsibility for nine other projects, including the fingertip sensor, has already been assumed by individual Groups.

INFORMATION FOR SHAREHOLDERS

Creating value

REPORT OF THE SUPER

Dear Shareholders,

Your Company is undergoing profound change, driven primarily by fast-paced advances in electronics and their growing application in countless technologies, particularly in the fields of information and communications. Moreover, developments in world markets, notably the crises in Asia, Russia and other regions, demand decisive action. We had the Managing Board present us with details about how the Company plans to master these challenges.

INDUSTRY, INFORMATION AND COMMUNICATIONS SEGMENTS REORGANIZED

Following the restructuring of the Industry segment in fiscal 1997, we discussed the progress being made in the new constellation at our meetings in December 1997 and April 1998. At our July meeting, the Managing Board described the upcoming reorganization of the Information and Communications segments. We are convinced that this move, which took effect on October 1, 1998, will give the Company a pacesetting role in the convergence of these two technologies.

The Board also heard special status reports on Automotive Systems, Power Transmission and Distribution, and two components Groups, Semiconductors and Passive Components and Electron Tubes, where attention focused on the difficult market situation for memory chips.

REGIONAL CRISES

At our July 1998 meeting, we dealt with developments in Eastern Europe, the Middle East and Africa. The situation in Asia-Pacific and perspectives for this region were a focal point of discussion at our November meeting.

At our request, the Managing Board reported on how the Company was limiting its risk exposure in these regions while at the same time ensuring that it would be capable of seizing opportunities to build up Siemens' regional presence here over the longer term.

HUMAN RESOURCES AND MANAGEMENT

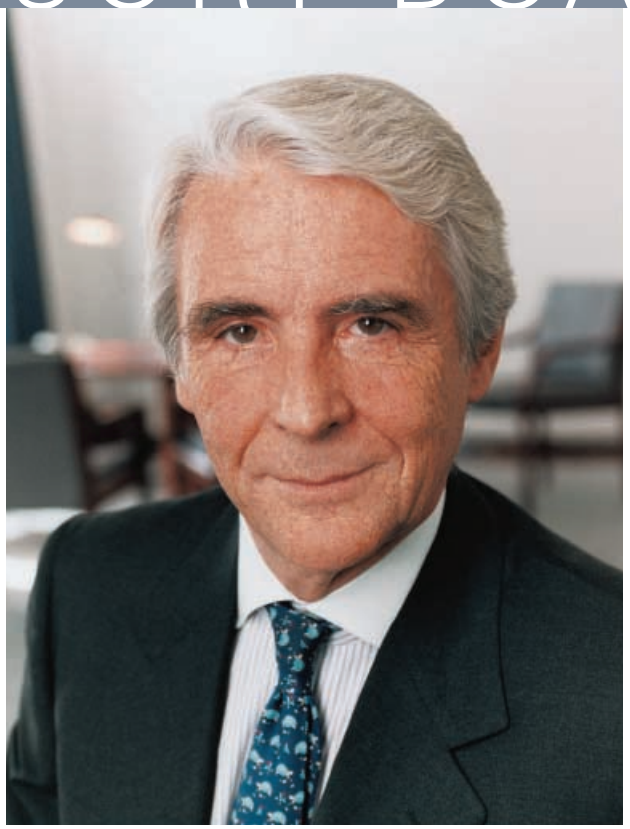
The role of human resources policy in reshaping the Company was on the agenda at our December 1997 meeting. We focused on the new directions being taken by human resources programs and on the introduction of new management instruments. These include annual performance assessment talks ('Leadership Framework'), more effective dialogues between managers and employees ('Management Dialogue'), salaries based on performance and market criteria, a stronger emphasis on personal development, and programs to intensify the business skills and know-how of managers ('Management Learning').

At our November 1998 meeting, we discussed plans to introduce a new system for regulating Managing Board remuneration and to offer stock options to managers. We will propose these changes at the Annual Shareholders' Meeting in February 1999.

SUSTAINED GROWTH IN PROFITABILITY

We expect the Managing Board to take all measures necessary to ensure sustained growth in the Company's profitability. Everyone agrees that this goal has absolute top priority. The Managing Board presented its Ten-Point Program to us in July 1998 and explained specific details of the program at our November meeting. We support the Board's efforts and receive frequent reports on the progress being made.

VISORY BOARD



SUPERVISORY BOARD MEETINGS AND COMMITTEES

Five regular Board meetings were held during the fiscal year. Between these meetings, the Presidency of the Supervisory Board maintained close contact with the Managing Board. As one of three constituted committees on our Board, the Presidency met four times during the year, primarily to handle matters involving Managing Board personnel and issues concerning the Company's organization. The so-called mediation committee, formed pursuant to Article 27, Paragraph 3 of the German Codetermination Act, had no occasion to meet during the year. The committee responsible for exercising participation rights, defined in Article 32 of the German Codetermination Act, voted on resolutions circulated to each member and notified the Board of the outcome at subsequent meetings.

FINANCIAL STATEMENTS

The Company's accounting principles, the annual financial statements of Siemens AG and the consolidated financial statements as of September 30, 1998, as well as the combined Management's discussion and analysis of Siemens AG and Siemens worldwide consolidated, have been audited and approved without qualification by KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt on Main. We also examined the Company's records ourselves.

The KPMG audit reports were presented to all members of the Supervisory Board and were thoroughly discussed, together with the auditors, at our balance sheet meeting. At this meeting, the Managing Board presented a comprehensive report on the scope and cost of the audit. In view of our approval, the financial statements are accepted as submitted.

We endorse the Managing Board's proposal that the net income available for distribution be used to pay a dividend of DM1.50 per five-mark share based on capital stock of DM2.97 billion. We also approve the proposal that the amount attributable to treasury stock be carried forward.

APPOINTMENTS TO THE SUPERVISORY AND MANAGING BOARDS

At the Annual Shareholders' Meeting on February 19, 1998, the shareholders' representatives on the Supervisory Board were elected for a five-year term. Employee representatives were elected to the Board on October 15, 1997, for the same term. Bettina Haller, Dr. Ulrich Cartellieri, Dr. Hermann Franz, Detlef Kreyenberg, Dr. Wolfgang Röller, Dr. Nikolaus Senn, Hermann J. Strenger and Horst Wagner retired from the Board on the occasion of the elections. We thanked them for their valuable contributions, paying particular tribute to the work of Dr. Franz in his many years of dedicated service to the Company – as member of the Managing Board and head of Corporate Planning and Development until 1993 and thereafter as Chairman of the Supervisory Board.

This year also brought changes to the Managing Board of Siemens AG. Dr. Werner Maly retired from the Company on December 31, 1997. During the course of his 37-year career at Siemens, he served the Company in many capacities, including President of the Medical Engineering Group. Most recently, Dr. Maly served as director of labor relations and head of Corporate Human Resources. The latter position was taken over by Prof. Peter Pribilla on January 1, 1998. On September 30, 1998, Dr. Horst Langer retired after 36 years at Siemens. Dr. Langer concluded his career as a member of the Corporate Executive Committee with special responsibility for the Americas, Medical Engineering, Osram and Transportation Systems. His tasks were assumed by other members of the Corporate Executive Committee. We thanked both men for their service to the Company. At our December 1997 meeting, we appointed Roland Koch and Dr. Ulrich Schumacher to the Managing Board. In February 1998, Heinz-Joachim Neubürger, member of the Managing Board since November 1997, was named Chief Financial Officer and joined the Corporate Executive Committee in February 1998. Effective September 30, 1998, Dr. Wolfram O. Martinsen, who had served as President of the rapidly expanding Transportation Systems Group since 1989, resigned from his position on the Managing Board.

Berlin and Munich, December 2, 1998

For the Supervisory Board

Dr. Karl-Hermann Baumann
Chairman

THE SUPERVISORY BOARD

Karl-Hermann Baumann, Dr. rer. oec.
Chairman

Alfons Graf
First Deputy Chairman
Chairman of the
Central Works Council

Rolf-E. Breuer, Dr.
Second Deputy Chairman
Spokesman of the Board
of Managing Directors,
Deutsche Bank AG

Helmut Cors
Member of the Federal Executive Committee,
Deutsche Angestellte Gewerkschaft

Bertin Eichler
Executive Member
of the Board of Management,
IG Metall

Jean Gandois
President,
Cockerill Sambre S.A.

Birgit Grube
Office clerk

Heinz Hawreliuk
Head of the Company
Codetermination Department,
IG Metall

Ralf Heckmann
Chairman of the
Combined Works Council,
Siemens AG

Robert M. Kimmitt
Senior partner,
Wilmer, Cutier & Pickering

Heinz Kriwet, Dr.
Chairman of the Supervisory Board,
Thyssen AG

Hubert Markl, Prof. Dr.
President,
Max-Planck-Gesellschaft zur
Förderung der Wissenschaften e.V.

Georg Nassauer
Steel casting constructor

Albrecht Schmidt, Dr.
Spokesman for the
Managing Directors,
Bayerische Hypo-
und Vereinsbank AG

Henning Schulte-Noelle, Dr.
Chairman of the Board
of Management,
Allianz AG

Georg Seubert
Fitter

Peter von Siemens
Industrial manager

Daniel L. Vasella, Dr.
President,
Novartis International AG

Klaus Wigand
Industrial clerk

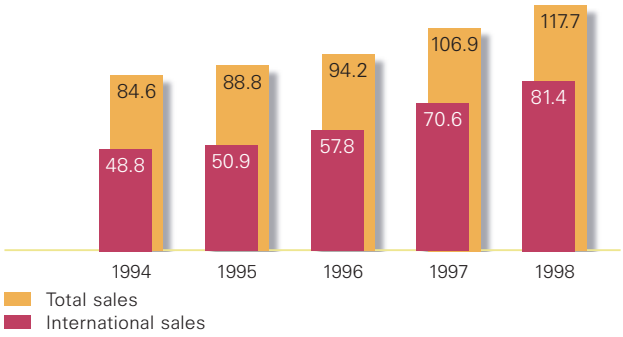
Erwin Zahl
Telecommunications installer

MANAGEMENT'S DISCUSSION AND ANALYSIS

Thanks to innovative products and customer solutions, sales and orders again showed strong growth. Most of the operating units also reached or exceeded their earnings targets for the year. However, the price-induced slump in profits at Semiconductors, together with provisions for critical projects at Transportation Systems and for the crisis-plagued regions of Asia and Russia, overshadowed these positive developments. Higher financial results could only partially compensate for these factors. As a result, Siemens failed to meet the overall earnings target set at the beginning of the fiscal year. Income before extraordinary items increased only slightly. Net income after extraordinary items showed a sharp decline due to extraordinary charges for restructuring and closure measures.

On July 16, 1998, the Managing Board announced a Ten-Point Program for achieving sustainable growth in profitability, and presented details of the program on November 4, 1998. Efforts are focusing on pruning the business portfolio (a step-by-step withdrawal from the Components segment, the sale of the power and communications cable businesses, the divestment of Siemens Nixdorf Retail and Banking Systems) and implementing restructuring measures primarily related to Semiconductors, the newly merged Information and Communications segments, and the integration of Westinghouse and Elektrowatt. All of these steps are designed to bolster the Company's competitive position and substantially improve profits.

Sales
(in billions of DM)



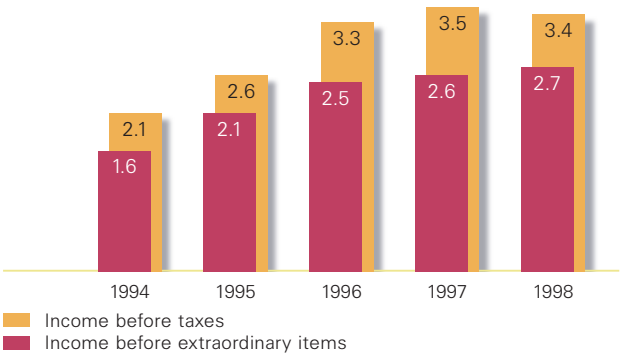
GLOBAL ELECTRICAL MARKET COOLS

The global electrical market lost much of its dynamic pace in 1998. In particular, Southeast Asia's economic turbulence blunted growth in those markets. Japan's economy slumped as well. Taiwan and China alone remained relatively stable. Growth in Latin America and Eastern Europe also eased off. In Western Europe's industrial economies and the U.S., however, domestic demand remained buoyant. As a result of continually falling prices, nominal growth was again well below real growth.

PACE OF GLOBAL BUSINESS SLOWS

Despite the slackening global electrical market and accelerating price erosion, Siemens boosted sales 10% to DM117.7 billion. New orders climbed only 6% to DM119.6 billion, affected primarily by slowing demand in Asia. Although sales in Asia rose 8% and accounted for 11% of the Company's total volume, orders in the region declined 25%. The volume of sales and orders was not significantly affected by changes in the group of consolidated companies. Major consolidation changes in 1998 included the sale of the i-center wholesale organization, defense electronics and the dental business, and the acquisitions – consolidated for only part of the fiscal year – of Elektrowatt's Landis & Gyr, Zug, metering business and the fossil-fuel power plant operations (formerly known as Westinghouse Power Generation, Orlando) of CBS Corporation, New York.

Earnings
before extraordinary items (in billions of DM)



DIVERGING EARNINGS TRENDS

Aftertax income before extraordinary items increased 2% to DM2.658 billion, helped by the lower 23% (1997: 26%) tax rate attributable to higher deferred tax receivables. Income from continuing operations (before income taxes) edged off 3% to DM3.438 (1997: DM3.535) billion. Net income was reduced DM1.741 billion by extraordinary items to DM917 (1997: DM2,608) million.

PERFORMANCE OF INDIVIDUAL UNITS OVERSHADOWS PROGRESS

While earnings trends at ten operating units ranged from stable to quite positive, problems at five units resulted in overall weaker operational income.

Gross profit on sales declined to 27.5% from 28.3%. Accelerated erosion of market prices, particularly for components and information technology, could not be completely offset by the high productivity gains. In addition, income was reduced by warranty obligations and project risks. Approximately DM0.9 billion in provisions for country risks, primarily for Southeast Asia and Eastern Europe, resulted in a disproportionate increase in marketing and selling expenses. On balance, operational income declined sharply to DM1.574 (1997: DM2.421) billion.

STRONGER FINANCIAL RESULTS

As part of the Company's asset management strategy, capital tied up in current marketable securities was reduced. Financial results increased to DM1.864 (1997: DM1.114) billion. Other financial gains grew to a record high of DM1,451 (1997: DM441) million through the sale of stock certificates.

Other financial gains included a higher gain from domestic pension assets, achieved by reapportioning specialized investment funds as part of the asset management strategy. Distributions from the specialized funds declined accordingly. Together with higher interest expenses due to increased financial liabilities, this led to a negative interest income of DM61 million, compared with a gain of DM249 million for fiscal 1997.

The slight increase in income from associated companies to DM474 (1997: DM424) million is primarily attributable to higher income from the Company's investment in BSH Bosch und Siemens Hausgeräte GmbH, Munich.

EXTRAORDINARY CHARGES AND GAINS

The Managing Board of Siemens AG instituted a Ten-Point Program designed to achieve a sustainable improvement in the Company's competitiveness and profitability. The high restructuring expenses related to this program could not be offset by profits generated by the sale of a number of business activities, resulting in an extraordinary loss of DM2.422 billion before taxes, or DM1.741 billion after taxes.

The DM4.011 billion extraordinary charge (before taxes) for restructuring measures includes DM1.6 billion for closing the memory chip plant in North Tyneside, England, announced in July 1998 as part of production capacity adjustments at Semiconductors. The restructuring of the Company's information and communications activities resulted in extraordinary expenditures of DM1.1 billion, and the integration and restructuring costs related to the acquisition of the fossil-fuel power plant operations of Westinghouse and Elektrowatt's industrial activities totaled DM0.7 billion.

The Company made a net gain of DM1.589 billion from the sale of major business activities. By selling the defense electronics business to Daimler-Benz Aerospace AG, Munich, and British Aerospace plc., Farnborough, Siemens pulled out of the defense industry, which is currently undergoing a process of massive consolidation. The dental business, the i-center wholesale installation organization, and the Company's 40% stake in GPT Holdings Ltd., London, were also sold.

UNCHANGED DIVIDEND

Siemens AG showed a net loss of DM190 million for fiscal 1998, compared with net income of DM1.466 billion the previous year. Siemens AG transferred DM1.082 billion from its retained earnings to cover the year's dividend distribution.

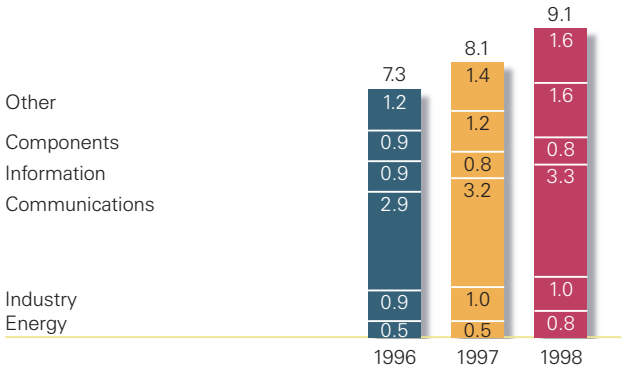
At the Annual Shareholders' Meeting scheduled for February 18, 1999, the Managing Board will submit a proposal to use the DM892 million net income of Siemens AG available for distribution to pay an unchanged dividend of DM1.50 on each five-mark share, and carry forward the amount attributable to treasury stock.

EXPANDED RESEARCH AND DEVELOPMENT ACTIVITIES

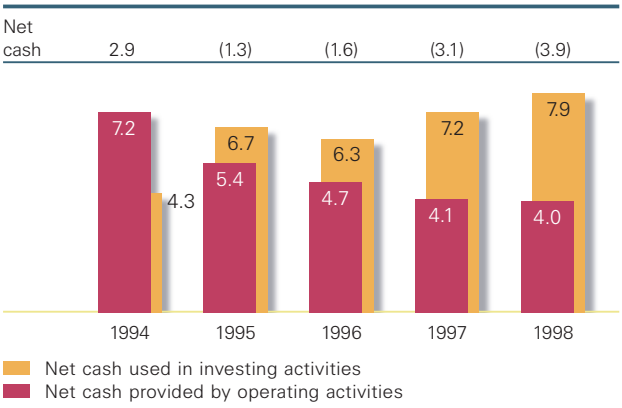
The Company further intensified its research and development activities during the year. Growth in R&D expenditures outpaced sales, rising 12% to DM9.1 (1997: DM8.1) billion, or 7.7% of sales. This figure includes a DM175 million amortization for know-how acquired in the Westinghouse purchase.

Communications remained the Company's most research-intensive business segment. Increased outlays at Public Communication Networks and Private Communication Systems were primarily channeled into the mobile radio network and mobile phone sectors. In the Components segment and at the Semiconductors Group, the high pace of innovation, particularly in logic components and memory chips, meant that R&D investments again grew faster than sales.

Research and development
(in billions of DM)



Net cash from operations
(in billions of DM)



SUBSTANTIAL CASH OUTLAYS

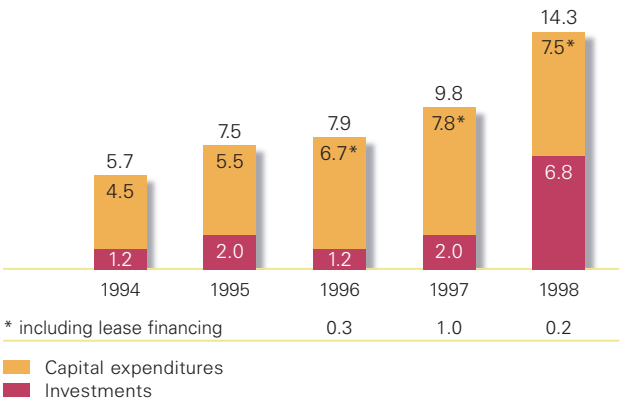
High capital spending for acquisitions and capital expenditures on property, plant and equipment as well as a significant increase in working capital resulted in high cash needs in the fiscal year just ended. A major portion of the cash outlays for acquisitions was funded by cash inflows from the sale of business units. Liquid assets declined to DM5.6 (1997: DM6.4) billion.

SOLID INCREASE IN WORKING CAPITAL

Net cash provided by operating activities in 1998 came to DM4.0 billion, down from DM4.1 billion a year earlier. Funds tied up in working capital increased by DM5.6 (1997: DM3.6) billion. The effect of the extraordinary restructuring charge of DM3,327 million (after taxes) on net cash flows was not significant, because the charge was largely offset by higher depreciation and amortization and changes in accrued liabilities.

The buildup in working capital is a clear indication of a shift in the terms of payment, primarily with regard to infrastructure projects. More and more customers expect extensive financing by their suppliers, reflecting a change in market structures and customer profiles. As a result, advances from customers decrease, pushing up net inventories, while accounts receivable increase due to higher financing volumes. The Company has responded to this market challenge by enhancing the competitiveness of its financial services business. The increase in trade accounts payable is largely due to business expansion and longer carrying periods for customer accounts.

Capital spending
(in billions of DM)



SIGNIFICANT NEW INVESTMENTS

Net cash used in investing activities reached a record level at DM7.9 billion. While capital expenditures, at DM7.5 billion, were roughly flat with the prior year's figure of DM7.8 billion, long-term investments recorded a substantial increase to DM6.8 (1997: DM2.0) billion.

Whereas Semiconductors reduced capital expenditures by approximately DM1.0 billion, settling down again at a more market-oriented level, several other operational units, particularly Siemens Financial Services (SFS) with its expanding leasing business, recorded strong increases.

Major acquisitions made during the year under review included Westinghouse's fossil-fuel power plant business for DM2.0 billion and the industry business of Elektrowatt AG, Zurich, for DM3.0 billion. A large portion of these acquisitions was funded by the sale of several activities for DM4.5 billion. The largest divestiture was the sale of the Company's 40% interest in GPT Holdings Ltd. for DM2.1 billion.

The balance of net cash provided by operating activities and net cash used in investing activities resulted in net cash outlays of DM3.9 (1997: DM3.1) billion.

BALANCED FUNDING

These cash outlays were financed in large part by cash inflows of DM1.5 billion resulting from the capital increase in connection with the exercise of option rights under the warrants attached to the U.S. dollar bonds issued in 1992. Other funding sources included medium term notes and several commercial paper programs with proceeds of DM4.1 billion. Net cash provided by financing activities totaled DM3.3 (1997: DM1.9) billion.

FINANCIAL STRUCTURE OPTIMIZED

Following the consolidation of the Elektrowatt and Westinghouse businesses, the Company recorded a marked increase of 14% in total assets. Accordingly, the capital structure has been optimized to conform with new financing requirements.

ASSETS RISE DUE TO ACQUISITIONS

Total assets increased to DM112.0 (1997: DM98.1) billion. DM5.7 billion, or 6%, of this rise was accounted for by newly consolidated companies.

Noncurrent assets were up DM5.6 billion to DM52.0 (1997: DM46.4) billion, due to high capital expenditures and investments. The strongest growth was recorded in intangible assets which rose DM3.3 billion, due mainly to additions in goodwill resulting from the acquisitions of Elektrowatt and Westinghouse. Property, plant and equipment increased DM1.7 billion to DM24.8 (1997: DM23.1) billion, partially offset by depreciation charges on the factory assets in North Tyneside, England. Long-term investments rose to DM21.8 (1997: DM21.1) billion, reflecting primarily the increase in noncurrent marketable securities designed to fund domestic retirement benefit obligations.

Above-average growth was recorded in current assets. Although growth in inventory levels was restricted, which improved inventory turnover to 3.6 turns, compared to 3.5 turns a year earlier, advances received from customers declined, partially as a result of changes in progress collection. As a result, net inventories increased significantly by DM3.3 billion to DM13.6 (1997: DM10.3) billion.

Substantial growth was also recorded in accounts receivable and miscellaneous assets, which totaled DM40.6 (1997: DM34.8) billion, reflecting increased funding needs primarily for infrastructure projects. In addition to financing projects in progress, generally entailing lower customer advances, there was increasing demand by customers for longer collection periods. Accordingly, trade accounts receivable rose DM3.7 billion to DM25.8 (1997: DM22.1) billion. The increase in miscellaneous assets is primarily a result of higher deferred taxes.

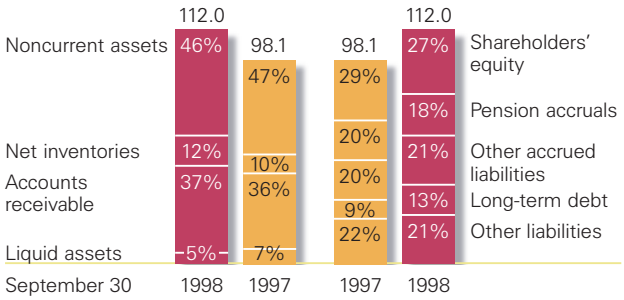
EQUITY RATIO DOWN

Shareholders' equity was DM30.3 billion, up from DM28.4 billion a year earlier. The increase was caused by several factors, including capital additions of DM1.7 billion resulting from the exercise of option rights under the warrants attached to the U.S. dollar bonds issued in 1992, the issuance of shares to employees and the addition of DM1.2 billion to retained earnings. The latter reflects the writeback of goodwill written off in 1990 in connection with the acquisition of Plessey Company Ltd., Ilford, England, which was offset against the proceeds from the sale of GPT Holdings Ltd. and the defense electronics business. The increase in the negative translation adjustment due to the relative weakness of the U.S. dollar and the Asian currencies caused shareholders' equity to decline DM1.0 billion. The equity ratio (shareholders' equity divided by total assets) decreased to 27% (1997: 29%).

Despite substantial additions made in Germany, pension accruals increased only DM0.2 billion to DM19.8 (1997: DM19.6) billion, due to the transfer of DM0.6 billion to a new pension fund in Austria. Pension accruals decreased to 18% (1997: 20%) of total assets, partly because the major new acquisitions have off-balance-sheet pension funds.

Other accrued liabilities recorded above-average growth of DM3.5 billion to DM23.6 (1997: DM20.1) billion, reflecting the addition of DM1.6 billion resulting from first-time consolidations and, in particular, the extraordinary restructuring accruals. Other accrued liabilities accounted for 21% (1997: 20%) of total assets.

Balance sheet structure
(in billions of DM)



HIGHER LEVEL OF DEBT FINANCING

As a result of massive capital spending and a buildup in working capital, long-term debt increased to DM14.5 (1997: DM9.2) billion, or 13% (1997: 9%) of total assets, including DM1.5 billion in financial liabilities of the newly consolidated Elektrowatt. The existing financing programs enable to Company to effect the required borrowings in line with the growth in related assets. The debt-equity ratio deteriorated to 0.48 to 1, compared with 0.32 to 1 a year earlier.

Siemens' long-term debt is currently rated AA and Aa1 by Standard & Poor's and Moody's Investors Service, respectively. The continued high debt rating of the Company's bonds provides direct access to the capital markets. In addition to an adequate debt-equity ratio, agency ratings are determined by several other criteria, such as satisfactory earning power and financial strength. The current Siemens rating corresponds to the Company's long-term rating target.

Other liabilities rose DM2.6 billion to DM22.7 (1997: DM20.1) billion. Trade accounts receivable increased to DM12.1 (1997: DM10.1) billion, reflecting primarily expansion-related volume.

ECONOMIC VALUE ADDED (EVA)

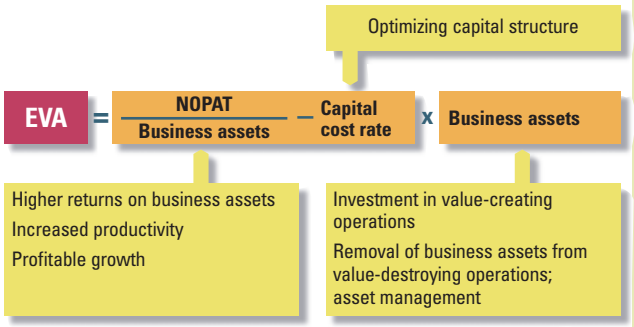
On October 1, 1997, the Company introduced a new value-based measure of performance called Economic Value Added (EVA), which became the obligatory performance measure within the entire Siemens organization on October 1, 1998.

EVA is defined as the net operating profit after taxes (before financing cost) minus an appropriate capital charge for the opportunity cost of all business assets employed to produce that profit.

Capital cost is the minimum return required to compensate equity and debt investors for bearing risk. Among other things, capital cost is determined on the basis of the interest rates on long-term debt securities and the risk premium on investments in equity securities. Siemens uses a capital cost rate of 8.5% after taxes. The operational units use specific capital cost rates depending on the risk profiles involved.

Net operating profit after taxes (NOPAT) is determined from net income before financing cost, while business assets are derived from the balance sheet, after making certain adjustments to the financial statement accounts. The mathematical EVA formulation below shows the key aspects of value creation.

The three key EVA drivers



VALUE CREATION

In the fiscal year just ended, the Company again recorded a negative EVA value. This development was caused by an unsatisfactory earnings quality and an increase in business assets, primarily in working capital.

Nevertheless: The Company's focus on EVA and value creation has already shown positive effect. By divesting assets no longer needed, introducing stern measures to streamline the business portfolio and corporate-wide restructuring, the Company laid the foundation for a sustainable EVA improvement.

TRENDS IN THE OPERATING UNITS

Trends in operations varied widely for the year. Substantially improved earnings, particularly in Industry, Health Care and Lighting, were tempered by sharp declines at Semiconductors and Transportation Systems.

CHALLENGES AND OPPORTUNITIES AT ENERGY

With only moderate growth in the industrial countries and a difficult market environment in developing economies, the **Energy** segment again faced major challenges during the year.

New orders at **Power Generation (KWU)** climbed to DM11.9 (1997: DM9.3) billion and sales rose to DM10.6 (1997: DM9.5) billion. This growth was driven by major projects in Western Europe, the Americas and Asia-Pacific, as well as by the consolidation of the Westinghouse fossil-fuel power plant business, acquired on August 1, 1998 to augment the Group's global market position. As is customary in the power plant business, Group operations are largely financed by advances from customers and accounts payable to suppliers. As a result of the Westinghouse acquisition and higher inventories, assets employed climbed to DM4.2 billion, from a negative DM0.3 billion for fiscal 1997. The Group posted a loss of DM65 million, compared with a profit of DM255 million for fiscal 1997. Earnings were depressed by start-up problems – now virtually eliminated – with a new generation of gas turbines, the amortization of know-how acquired from Westinghouse, and continued pressure on prices. The billing of a number of major projects partially compensated for these negative effects. A Group-wide quality offensive and the efficient integration of Westinghouse are expected to have a decisive impact on earnings in the current fiscal year.

Key Group figures

	New orders DM billion		Sales DM billion		Pretax income DM million	
	1998	1997	1998	1997	1998	1997
Power Generation (KWU)	11.9	9.3	10.6	9.5	(65)	255
Power Transmission and Distribution (EV)	7.3	6.7	6.9	6.5	80	(149)
Automation and Drives (A&D)	13.8	12.9	13.7	12.7	1,190	923
Industrial Projects and Technical Services (ATD)	9.6	9.7	10.3	9.7	234	7
Production and Logistics Systems (PL)	2.7	1.7	2.6	2.3	87	(13)
Public Communication Networks (OEN)	16.0	16.4	17.1	14.5	843	797
Private Communication Systems (PN)	12.6	11.3	12.8	11.1	112	460
Siemens Nixdorf Informationssysteme (SNI)	17.7	15.9	17.0	15.4	68	105
Transportation Systems (VT)	5.1	7.1	5.0	4.1	(759)	(177)
Automotive Systems (AT)	5.6	4.5	5.6	4.5	171	153
Medical Engineering (Med)	8.0	8.0	7.5	7.6	167	(170)
Semiconductors (HL)	7.2	6.3	6.7	5.9	(1,198)	109
Passive Components and Electron Tubes (PR)	2.7	2.5	2.6	2.3	290	216
Electromechanical Components (EC)	1.7	1.3	1.5	1.2	45	15
Osram	6.6	6.3	6.6	6.3	584	468

* Assets employed include property, plant and equipment, acquisitions, and working capital (inventories, customer advances, operational receivables and payables). Domestic immovable property, foreign infrastructure assets as well as liquid assets and financing assets of Siemens Financial Services are generally not included in assets employed by operational units.

** including acquisitions

There were also portfolio changes at **PowerTransmission and Distribution (EV)**. By purchasing the metering business of Landis & Gyr, Zug, a subsidiary of Elektrowatt, Zurich, the Group attained world market leadership in this business sector. The consolidation of this business on April 1, 1998, was also the key factor responsible for boosting orders and sales. If this effect is excluded, business volume would have shown only minimal growth. Demand was greatest in Western Europe and Latin America. The DM0.1 billion increase in assets is also attributable to the new consolidation. The Group moved back into the black with a profit of DM80 million, compared with a loss of DM149 million for fiscal 1997. The turnaround was largely due to process improvements and effective restructuring measures.

Assets employed* DM billion		Capital spending** DM million		Depreciation DM million	
1998	1997	1998	1997	1998	1997
4.2	(0.3)	2,217	361	433	218
1.7	1.6	368	167	179	156
3.9	3.8	446	430	405	377
0.7	0.7	234	119	105	99
1.0	1.1	50	611	113	86
7.1	7.0	746	577	414	377
3.5	3.2	1,114	952	628	579
3.8	4.4	674	724	583	601
0.1	0.5	158	151	99	100
2.0	2.0	571	479	276	221
2.2	2.6	136	160	163	170
6.2	7.0	1,907	3,022	2,526	904
1.4	1.2	395	247	185	155
0.8	0.6	195	164	131	112
3.9	3.6	476	501	375	372

INDUSTRY IS FRONT-RUNNER IN EARNINGS

An improving economic climate and rising demand for capital goods stimulated brisk growth in the **Industry** segment in Western Europe and the U.S., although this trend was diminished somewhat by economic problems in Southeast Asia. Overall, the segment further enhanced its competitive position through targeted productivity measures, and succeeded in increasing orders, sales and earnings.

Automation and Drives (A&D) had a highly successful initial year, with a 7% rise in orders and an 8% increase in sales. Its innovative products and systems met with flourishing demand in western industrial countries, further improving the Group's market position. Earnings outpaced sales, jumping 29% to DM1,190 (1997: DM923) million. Stringently applied productivity programs and growth initiatives strengthened the Group's profitability. Industrial automation systems, low-voltage controls and distribution technology, and motion control systems were growth leaders. Higher working capital, reflecting growth, caused assets to increase slightly to DM3.9 (1997: DM3.8) billion.

Industrial Projects and Technical Services (ATD) concluded its restructuring phase with a solid financial turnaround. By focusing on attractive market segments and rigorously implementing productivity measures, the Group boosted earnings to DM234 (1997: DM7) million. Robust growth in its international subsidiaries helped push up sales 6%. Orders dipped 1%, largely due to the turbulence in Asia and economic developments in the C.I.S. countries. The building management systems business, merged with the newly formed Siemens Building Technologies Group (SBT) on October 1, 1998, was among the Group's improved performers. Assets employed remained at last year's level of DM0.7 billion.

Production and Logistics Systems (PL) experienced normal project-related fluctuations in its business. Orders soared 62% and sales rose 10%, triggered primarily by strong demand in Western Europe and the Americas, and the first full-year consolidation of ElectroCom L.P., Arlington. The electronic assembly systems business, in particular, enlarged its market share. The Group moved back into the black with earnings of DM87 million, compared with a loss of DM13 million last year, when results were depressed by project risks. Tied-up assets declined to DM1.0 (1997: DM1.1) billion.

MIXED PERFORMANCE AT COMMUNICATIONS

The telecommunications industry continued to boom in spite of Asia's economic woes. Developments were shaped by ever shorter innovation cycles, increasing deregulation and changing customer structures. The two Groups comprising the **Communications** segment showed divergent performances in this dynamic arena.

Public Communication Networks (OEN) again expanded its market position in the fiscal year. Despite fallout from the troubled economies of Asia and Russia, sales jumped 18% to DM17.1 billion. International customers accounted for 81% of the Group's total business volume. While strong growth was recorded in Western Europe, the Americas and China, both sales and orders declined in Southeast Asia. The narrowband networks business again led sales, while network engineering and mobile radio and intelligent networks showed the highest growth. Changing financial needs of customers led to a slight increase in assets employed to DM7.1 (1997: DM7.0) billion. Earnings rose 6% to DM843 (1997: DM797) million, despite risk provisions for projects in Southeast Asia. Vigorously applied productivity programs and growth-related economies of scale were major factors in the Group's improved performance. The sale of the stake in GPT Holdings Ltd. is a logical step in the new strategy of focusing not on voice technology, but on converging data and communications technologies with an emphasis on mobile radio and broadband networks.

Private Communication Systems (PN) had to cope with a sharp decline in earnings. Difficulties in marketing the generation of mobile phones launched early in the fiscal year, growing pricing pressure, and cost-intensive development projects depressed earnings, which dropped to DM112 (1997: DM460) million. However, sales climbed to DM12.8 (1997: DM11.1) billion, stimulated by strong growth in Germany, the European Union and the NAFTA countries. Large and small communications systems and terminals paced growth for the year. Tied-up assets increased to DM3.5 (1997: DM3.2) billion due to the higher working capital needed for growth. In response to changed market demand, a new generation of mobile phones was successfully launched in the last quarter and promises to generate substantial growth in the current fiscal year.

INFORMATION SUSTAINS GROWTH

The information technology market sustained its fast-paced growth in the past year, with demand highest in Western Europe and the Americas. The boom in software and services remained unbroken, stimulated largely by Europe's upcoming conversion to the euro and preparations to make IT systems Year 2000-compliant.

Outperforming the general market with 10% growth in orders and sales, the **Information** segment slightly improved its market position. **Siemens Nixdorf Informationssysteme (SNI)** showed its strongest growth in Europe and maintained its market leadership in Germany. Point-of-sales and self-service systems as well as personal computers did particularly well for the year, as did Siemens Business Services (SBS). Earnings dropped to DM68 (1997: DM105) million when major productivity gains were unable to completely compensate for falling prices, particularly in the hardware sector. SNI's rigorous management efforts reduced assets employed to DM3.8 (1997: DM4.4) billion despite the company's high growth.

MIXED TRENDS IN TRANSPORTATION

While the rail sector faced a difficult global market, the boom in the automotive industry continued undiminished.

Transportation Systems (VT) reported a much higher loss of DM759 million, compared with last year's loss of DM177 million. This development is attributable to enormous pressure on prices and difficulties with individual projects. Having carried out a comprehensive reevaluation of all order- and business-related risks in the course of a general audit, the Group increased its provisions for risks, which in turn affected earnings. Sales climbed 23%, with most growth being generated in Western Europe – where major projects were billed in Portugal and Britain – the U.S. and Taiwan. The volume of orders, down 29%, could not match last year's high level, which was boosted by major projects. Mainline operations control systems showed the strongest improvement. An increase in advances received from customers reduced assets employed to DM0.1 (1997: DM0.5) billion. In view of the risk provisions set aside in the year under review, the Group expects to reduce its losses substantially in fiscal 1999.

Automotive Systems (AT), continuing to profit from favorable conditions in the automobile industry, increased both orders and sales 24%. Growth was strongest in Western Europe and North America, and air induction modules and automotive electronics generated the highest sales. New technologies such as innovative diesel injection systems and onboard navigation systems again required substantially higher R&D outlays and a further expansion of production capacity. Nonetheless, tied-up capital was kept stable at last year's level of DM2.0 billion. In spite of high preoperating costs due to growth and nonrecurring charges for business in Asia, earnings rose to DM171 (1997: DM153) million.

HEALTH CARE BACK IN THE BLACK

Competitive pressure in the medical engineering market continued unabated, driven primarily by ongoing demand to improve efficiency in the healthcare industry, particularly in western industrial countries. Effects of the crisis in Southeast Asia are also beginning to be felt.

In spite of these factors, **Medical Engineering (Med)** achieved double-digit growth in sales and orders, calculated on a year-to-year comparable basis, enabling it to match last year's levels, which included the dental business. Growth was especially strong in Western Europe and the Americas. Product innovations continued to drive demand for magnetic resonance imaging (MRI) systems and hearing instruments. The U.S.-based nuclear medicine and radiation therapy equipment businesses made a notable turnaround. Productivity gains and lower restructuring costs helped push up earnings to DM167 million, compared with a loss of DM170 million last year. The decline in assets to DM2.2 (1997: DM2.6) billion is largely attributable to the sale of the dental business.

COMPONENTS REMAIN UNDER PRESSURE

Although the components business gained momentum during the year, the substantial growth in volume had only a marginal effect on sales results due to sharply eroding prices. Growth was spurred primarily by strong demand in the fields of information technology, automotive systems and communications technology. Earnings varied considerably in the three Groups comprising the **Components** segment.

In a market where nominal growth was slowed by dropping prices, **Semiconductors (HL)** again achieved double-digit increases in sales and orders. Global production overcapacity and the currency crisis in Asia intensified pressure on DRAM prices. The memory chip sector nonetheless sustained last year's nominal levels by expanding its unit volume. High-frequency products and power semiconductors led growth. Demand was especially strong in Western Europe as well as in Asia-Pacific, but declined in this region during the year. Affected by plummeting DRAM prices, the Group posted a loss of DM1.198 billion, compared with last year's profit of DM109 million. This loss also included preoperating costs for the accelerated conversion from 16- to 64-megabit memory chips, which will further bolster the Group's technological position. The memory chip plant in North Tyneside, England, was closed to cut costs, reducing assets DM0.8 billion to DM6.2 (1997: DM7.0) billion in a highly investment-intensive business. As a result of restructuring measures and an anticipated turn in memory prices, particularly for the 64-megabit generation, the Group expects to cut its loss substantially in the current fiscal year.

Drawing on its strength as a technology leader, **Passive Components and Electron Tubes (PR)** continued to augment its market positions in many sectors. Orders climbed 11% and sales rose 14%, outpacing the general market. Once again, ceramic components and surface acoustic-wave components were the strongest sales performers. Demand in the U.S. and Western Europe was especially robust. The Group pushed the globalization of its value-added chain by investing in new production facilities throughout the world. This increased tied-up assets to DM1.4 (1997: DM1.2) billion. Economies of scale and rigorously applied productivity and quality programs helped boost earnings to DM290 (1997: DM216) million, despite accelerating price deterioration.

Electromechanical Components (EC) also improved its performance, increasing both orders and sales roughly 20% in a favorable market environment. Part of this growth is attributable to the first-time consolidation of Asia's Original Electromechanical Group (OEG). Western Europe and the NAFTA countries accounted for the heaviest demand. Relays for general applications and for automotive systems showed the greatest growth in market share. Earnings rose to DM45 (1997: DM15) million, helped in large part by successful cost-cutting and productivity-enhancing measures across all divisions as well as lower restructuring costs. The increase in assets to DM0.8 (1997: DM0.6) billion is primarily due to the consolidation of OEG.

LIGHTING MAINTAINS SUCCESS

Although growth in the global lamp market subsided during the year, **Osram** recorded sharply improved earnings from a 4% increase in sales.

While markets in Latin America and Europe generated the highest growth, unit growth in most European countries was achieved only by making price concessions. The company enhanced its position in Eastern Europe and Germany. A weaker North American lamp market and Asia's turbulent markets adversely affected business in the latter half of the year. Electronic control gear and automotive lighting, which profited from the booming automobile industry, showed the strongest growth. Considering overall market conditions, the general lighting sector also performed well. Despite unrelenting pressure on prices, Osram raised its earnings 25% to DM584 (1997: DM468) million. Major productivity gains and optimized purchasing management played a decisive role in this improvement. Growth and structural changes increased assets employed to DM3.9 (1997: DM3.6) billion.

RISK MANAGEMENT

The Company operates in a business environment that is characterized by increasing globalization of markets, intensifying competition and ever more complex technologies. As an international participant in many sectors of electrical engineering and electronics, Siemens is exposed to a number of risks that arise in the ordinary course of its business and may also affect its shareholders. It is the Company's policy, however, to take on exposures only if a corresponding value added can be created. Similarly, shareholders want their companies to take on only those risks that can be successfully managed to achieve a competitive advantage and earn reasonable returns.

The Company views efficient and forward-looking risk management as an important and value-creating objective. The primary aim is not avoidance of all risks, but risk identification and, in a second step, active risk management based on an established risk management process.

To measure, monitor and manage its exposure to risk, the Company uses a variety of instruments and systems which are continually being improved. The various tools used differ from one another, depending on the underlying risk profile. Financial market models are used to measure financial risks, while strategic analysis tools are employed to quantify business risks. The instruments used to manage risk are equally differentiated. While financial risks, such as currency exposures, are managed primarily by derivative financial instruments, business risks are primarily controlled by regular benchmarking of major processes or by strengthening and enhancing the Company's innovative potential. In addition, the internal audit function as an independent unit regularly reviews the instruments and systems used as to their adequacy and efficiency.

Against this backdrop, the requirement of the German Act on Corporate Control and Transparency for a risk management system only consolidates what the Company has considered an essential prerequisite for successful and responsible business practice for years. The Company continually seeks to fine-tune its risk management system and actively supports appropriate projects.

CURRENCY AND INTEREST RATE RISK MANAGEMENT

In the course of its international business activities, the Company is exposed to currency risks which cannot be fully offset by cash flows from local production, local suppliers and local investments. Risks remaining after netting exposures within Siemens' organization are hedged by on-balance-sheet transactions such as cash investments or borrowings, as well as off-balance-sheet (derivative) financial instruments such as forward contracts, swap agreements and options. The Company's currency hedges at September 30, 1998 related primarily to major currencies such as the U.S. dollar and the British pound.

The Company also uses derivative financial instruments to manage the interest repricing dates of its investments and long-term debt. At September 30, 1998, exposure to interest rate risks related primarily to contracts denominated in German marks and U.S. dollars.

At September 30, 1998, the aggregate notional amount of outstanding derivative financial instruments was DM66.4 billion, up from DM61.5 billion a year earlier. Due to the weakness of the U.S. dollar and the British pound relative to the German mark, which started in August, the Company recorded positive fair values totaling DM397 million, which offset the negative effects from the underlying principal transactions being hedged.

Derivative financial instruments utilized by operational units are monitored and controlled centrally by Siemens Financial Services (SFS). All transactions are immediately recorded in a central Treasury Management System that provides ongoing assessments of current market valuations. Risk management employs the value-at-risk method. There is a clear separation of authority between functional and organizational matters.

TRENDS IN FINANCIAL SERVICES

Siemens reorganized its financing business last year to optimize all business- and risk-related operations. In addition, changes were made in the management of Company real estate with the aim of improving asset utilization.

FINANCING OFF TO A SOLID START

Concentrating its initial efforts on selected high-priority markets, **Siemens Financial Services (SFS)** established itself in its first year as a successful financial services provider with earnings totaling DM280 million. This included one-time gains from the sale of marketable securities.

Launched on October 1, 1997, SFS focuses on financing Siemens' operating units, handling internal transfer operations, and monitoring and controlling liquidity not tied up in noncurrent assets. Responding to the growing financing needs of Siemens' customers, SFS also handles project and customer financing, including worldwide leasing and rental activities.

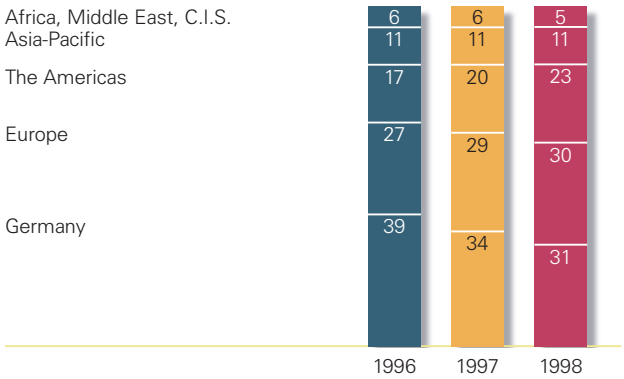
REAL ESTATE MANAGEMENT IN GERMANY FURTHER OPTIMIZED

Siemens' infrastructure services and the management of its real estate assets were combined two years ago to form a new organization, **Siemens Real Estate Management (SIM)**. Having assumed an ownership function in the fiscal year just ended, SIM is now responsible for all aspects of Siemens' domestic real estate and for developing a value-generating real estate management strategy. This includes optimizing space utilization, reducing space allocation costs and maximizing return on property no longer needed for Company use. SIM is also expanding its real estate management activities in the U.S. and in selected Western European countries.

SIM manages real estate assets with a book value of DM4.4 billion. These assets, comprising 8.5 million square meters of floor space and 15.6 million square meters of land, are primarily located in Germany. Sales from real estate rentals and services totaled DM2.2 billion, of which approximately 90% was generated within the Company.

SIM invested DM301 million in real estate in the year under review, primarily for a new Medical Engineering plant in Erlangen, a telecommunications systems facility in Leipzig, and a new office building in Munich.

Sales by region
(in %)



GLOBALIZATION OF BUSINESS

By intensifying the globalization of its business with growth and acquisitions outside Germany, Siemens is shaping a more balanced international value-added structure.

International business continues to fuel growth at Siemens. Whereas domestic business stagnated, demand in the Company's international markets remained buoyant. As defined by customer location, international orders rose 10% to DM84.9 (1997: DM77.5) billion, representing 71% (1997: 69%) of the total volume. This growth is attributable only to a minor degree to the consolidation of new companies. International sales climbed 15% to DM81.4 (1997: DM70.6) billion.

DOMESTIC BUSINESS REMAINS SUBDUED

Although demand for capital goods and components began to recover, the Company's business in Germany did not keep pace with overall growth. Domestic sales remained at the previous year's level of DM36.3 billion.

However, when three strong domestic sales performers – the i-center organization, the dental business and defense electronics – that were sold during the year are excluded, sales on a comparable basis rose 5%.

STRONG GROWTH SUSTAINED IN EUROPE

Western Europe's healthy economy helped generate double-digit growth in the region, with orders climbing to DM32.5 (1997: DM29.3) billion and sales rising to DM32.1 (1997: DM28.6) billion. Especially brisk growth was recorded in France, Britain and Spain, as well as in Scandinavia and Greece. The Company also showed high growth rates in Poland and the Czech Republic, and orders in Eastern Europe climbed to DM4.6 (1997: DM4.0) billion.

AMERICAS CONTRIBUTE GROWING SHARE OF BUSINESS

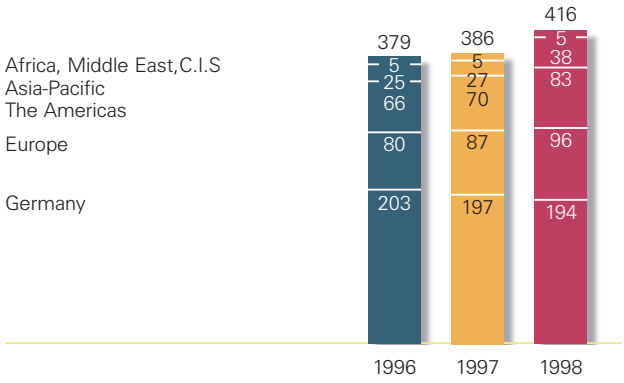
While North America's economies continued to thrive, there were signs of a slowdown in South America. Nonetheless, orders in the Americas surged 29% and sales jumped 26% to DM27.1 (1997: DM21.6) billion. The Americas now contribute 25% of worldwide orders, up from 20% last year.

Growth in the U.S. remained dynamic, with sales climbing 16% and orders rising 28%. This expansion was spurred by major projects at Siemens Power Corporation, Richland, and thriving business at both Siemens Medical Systems Inc., Iselin, and Siemens Automotive Corporation, Auburn Hills. Favorable currency exchange rates and the consolidation of Westinghouse Power Generation in August of the year under review also contributed to the strong performance. High growth rates were recorded in Latin America as well, although business improved only modestly in Brazil.

BUSINESS IN ASIA-PACIFIC SHARPLY MUTED

While orders and sales in the Asia-Pacific region always fluctuate considerably due to the billing practices for major projects, this year's sharp decline in growth is attributable to the region's widespread economic and currency crises. Although sales rose again 8% thanks to the billing of major projects, orders fell 25% to DM12.3 (1997: DM16.4) billion. Business remained stable in China, but was severely impacted in other countries, especially Indonesia and Thailand.

Employees by region
(in thousands, September 30)



GLOBALIZATION OF THE WORKFORCE

At September 30, 1998, Siemens employed 416,000 people worldwide, some 30,000 more than the previous year. The largest share of this growth, roughly 21,000, is attributable to the consolidation of new companies. Major acquisitions included parts of Westinghouse Corporation and additional activities in China, both with 8,000 employees, and Landis & Gyr, with 4,000 employees. The Company's international workforce grew to 222,000 from 189,000, including 6,000 new jobs. On a comparable basis – excluding the sale of the i-center wholesale organization, defense electronics and the dental business – some 3,000 new employees were hired in Germany, marking a positive upturn. While hiring continued in growth businesses like Private Communication Systems and Semiconductors, the workforce at Industrial Projects and Technical Services was trimmed as part of the Group's restructuring measures.

COMPANY-WIDE TOPICS

INTRODUCTION OF THE EURO

The official introduction of the European Monetary Union and the euro on January 1, 1999, promises to be a great milestone in the creation of the single European market.

Siemens views the arrival of the euro as a major development offering both excellent business opportunities as well as enormous challenges that must be mastered as quickly as possible.

Starting January 1, 1999, Siemens will be able to conduct all of its transactions with business partners on a euro basis. In the fiscal year beginning October 1, 1999, the euro will be the functional currency of the Siemens organization.

The Company is acting on two fronts in preparation for this move:

- coordinating responses to changes in the market and competitive environment; and
- initiating technical measures required to convert to the new currency.

Preparations for changing the Company's organizational processes and adapting IT systems are on schedule. Although the euro will be the preferred currency at Siemens as of October 1, 1999, customers and suppliers will be able to conduct business with Siemens either in euros or national currencies during an interim period. The Company has made agreements with all business partners to ensure a smooth transition.

THE YEAR 2000 TRANSITION

Siemens recognized the importance and complexity of the so-called "millennium bug" problem early on and is giving top priority to meeting this challenge. The matter is being approached openly and in close cooperation with all customers and suppliers associated with the Company. Nearly five years ago, Siemens conducted comprehensive analyses and took the first concrete steps toward dealing with the Year 2000 issue. To ensure that its business activities are not interrupted during the critical millennium transition, the Company undertook a thorough survey of all its business processes, operations and infrastructures.

The Managing Board set a timetable for all processes and designated responsibilities relating to the Year 2000 matter at its meeting in November 1997. Details are being handled by the operating units and Regional Companies, which have set up competence centers and are taking appropriate action with the help of teams of experts. In addition, an Action 2000 task force has been established to coordinate activities from the corporate offices.

Siemens is undertaking comprehensive measures and projects to achieve Year 2000 compliance – according to the British Standards Institute (BSI) DISC PD 2000-1 standard – for all of its products, systems, plants and services, as well as for its internal processes and networking with business partners. The Company aims to achieve full Year 2000 compliance by mid-1999 and has installed extensive project controlling and monitoring systems to guarantee that all measures worldwide are implemented in time. The current status of Year 2000 compliance for Siemens product offerings can be checked on the Internet or will be provided by the Company upon request.

Siemens takes its responsibility to customers, business partners, shareholders and employees seriously, and is convinced that the measures and projects now under way will ensure the seamless functioning of all its activities and business processes, as well as the functionality of its products, systems, plants and services across the threshold of the new millennium.

SUBSEQUENT EVENTS

A number of important organizational changes went into effect on October 1, 1998. In addition, various projects focused on optimizing the Company's business portfolio were launched or completed in October and November:

Siemens Building Technologies (SBT) was formed on October 1, 1998. Following the acquisition of the building systems activities of Elektrowatt AG, Switzerland, the division handling similar business at Industrial Projects and Technical Services was integrated with the former Elektrowatt operations. This move substantially bolstered Siemens' position in this field, giving the Company market leadership in important sectors. The new Group, headquartered in Zurich, has a business volume of more than DM8 billion and operates as a separate legal unit.

Also effective October 1, 1998, the Public Communication Networks Group, Private Communication Systems Group and Siemens Nixdorf Informationssysteme AG were restructured as Information and Communications (I&C) businesses. This step will enable the Company to integrate converging voice and data technologies, offering uniform products and systems as well as complete end-to-end solutions. IC Networks provides solutions such as data transmission via mobile radio networks, and IC Products supplies a spectrum of fully integrated terminals for this segment. Siemens Business Services, the third new business, provides customers with integrated, business-specific applications solutions in the form of cost-efficient turnkey systems. This new constellation of businesses will focus and strengthen Siemens' customer orientation in the highly dynamic I&C market.

On July 16, 1998, Siemens signed a master agreement to sell Power Transmission and Distribution's power cable business to Pirelli S.p.A, Milan. The first stage of this contract, involving activities located in Germany, Hungary and South Africa, was signed on October 30, 1998.

In an agreement signed on November 3, 1998, Siemens Schienenfahrzeugtechnik GmbH (SFT), a locomotive manufacturer headquartered in Kiel, was sold to Voss-loh AG, Werdohl, retroactive to October 1, 1998.

On November 4, 1998, the Company announced the following details regarding its Ten-Point Program, which had been presented on July 16, 1998:

In the course of reorienting the focus of its activities, Siemens will withdraw step-by-step from the Components segment.

- The Company will initially convert Semiconductors, the largest of the three Groups in the segment, into a separate legal entity. It is preparing to list Semiconductors on the stock market. The semiconductors business is highly capital-intensive and is marked by enormous fluctuations in earnings. Operating as a separate company listed on the stock market, Semiconductors – a technology leader in many areas – will have new perspectives for financing and partnerships. It will also be an interesting high-tech stock for investors.
- Talks are being held with Siemens' partner Matsushita Electric Industries Co. Ltd, Osaka, regarding the highly profitable Passive Components and Electron Tubes Group. These talks are aimed at integrating all previous activities of the Group into the joint venture Siemens Matsushita Components GmbH & Co. KG, Munich. An initial public offering is also being considered.
- The Company will seek a suitable partner for the profitable Electromechanical Components Group, once it has been converted into a separate legal entity.

The copper communications cable business in the IC Products Group will be sold. Various options, including an initial public offering, are being considered for Siemens Nixdorf Retail and Banking Systems GmbH, Paderborn, the business that handles point-of-sales and self-service systems.

This package of measures will remove around 50 of the over 200 Siemens business fields from the Company organization. This represents sales of approximately DM17 billion, or one-seventh of Siemens' worldwide total, and some 60,000 employees.

OUTLOOK

In view of the lagging pace of orders and sales over the last two quarters of fiscal 1998, the Company anticipates a further weakening of its business volume. Economic growth in western industrial countries is slowing down due to the reduced volume of exports to the world's troubled regions. Although Siemens sees indications that the economic situation in Southeast Asia may stabilize, the Company does not expect the region to stimulate additional growth during the current year. Growth will also be weakened by investor caution in the crisis regions.

The first full-year consolidation of the Elektrowatt and Westinghouse activities, however, will expand the Company's business volume for the year. The Information and Communications segment will profit from healthy growth in the telecommunications and information industries. This momentum will also spur growth in the Components segment.

As a result of current restructuring measures, the Company expects to improve earnings, particularly in the three loss-producing Groups. With the closing of the chip factory in northeast England, Semiconductors – depending on pricing trends for memory chips – plans to reduce its high losses. Provisions taken in the prior year will help Transportation Systems cut its losses substantially. The current quality offensive at Power Generation (KWU) should enable the Group to make a turnaround, despite the amortization of goodwill acquired in the Westinghouse purchase.

Earnings trends, however, will be dampened somewhat by a number of potentially negative factors. The German government's tax reforms, for example, are expected to generate additional burdens. The 1999 round of collective bargaining in Germany, for which the unions have formulated their initial demands, must also be considered. The introduction of the euro on January 1, 1999 could affect exchange rates for vital business currencies like the U.S. dollar and British pound, and have a major impact on the earnings of some Groups. Finally, the Company will take an additional charge resulting from a new formula for calculating domestic pension obligations.

Despite these generally difficult conditions, the Company expects its income before extraordinary items to moderately outpace the growth in sales.

The Management's discussion and analysis covers both Siemens AG and Siemens worldwide consolidated.

STATEMENT OF INCOME

Siemens worldwide *(in millions of DM)*

Years ended September 30

	Note	1998	1997
Net sales	**1**	**117,696**	**106,930**
Cost of sales		(85,301)	(76,630)
Gross profit on sales		**32,395**	**30,300**
Research and development expenses	**2**	(9,088)	(8,132)
Marketing and selling expenses		(17,382)	(15,699)
General administration expenses		(3,495)	(2,988)
Other operating income	**3**	951	1,043
Other operating expenses	**4**	(841)	(961)
Restructuring charges	**5**	(966)	(1,142)
		1,574	**2,421**
Net income from investment in other companies	**6**	474	424
Net interest income (expense)	**7**	(61)	249
Other financial gains	**8**	1,451	441
		1,864	**1,114**
Income from continuing operations before income taxes		**3,438**	**3,535**
Taxes on income from continuing operations	**9**	(780)	(927)
Income before extraordinary items		**2,658**	**2,608**
Extraordinary items (after taxes)	**11**	(1,741)	
Net income		**917**	**2,608**

Appropriation of net income	1998	1997
Net income	917	2,608
Minority interest in net income of consolidated subsidiaries	(312)	(272)
Minority interest in net loss of consolidated subsidiaries	55	58
Balance brought forward from prior year		1
Transfers to retained earnings		(1,538)
Transfers from retained earnings	232	
Unappropriated consolidated net income (dividend of Siemens AG)	**892**	**857**

BALANCE SHEET

Siemens worldwide *(in millions of DM)*

At September 30

Assets	Note	1998	1997
Noncurrent assets			
Intangible assets	**12**	5,418	2,160
Property, plant and equipment	**12**		
At cost		64,677	59,234
Less accumulated depreciation		(39,883)	(36,093)
		24,794	23,141
Investments	**13**	21,777	21,071
[including pension plan assets]		[16,614]	[15,802]
		51,989	**46,372**
Current assets			
Inventories	**14**	32,695	30,619
Less advances received from customers		(19,110)	(20,292)
		13,585	10,327
Accounts receivable and miscellaneous assets	**15**		
Trade accounts receivable		25,773	22,048
Other accounts receivable and miscellaneous assets		14,801	12,734
		40,574	34,782
Liquid assets	**16**	5,615	6,429
		59,774	**51,538**
Prepaid expenses		**261**	**193**
Total assets		**112,024**	**98,103**

Shareholders' equity and liabilities	Note	1998	1997
Shareholders' equity	**17**		
Capital stock of Siemens AG	**18**		
Common stock (total number of votes 585,543,800)		2,928	2,810
Preferred shares (total number of votes 9,236,340)		46	46
		2,974	**2,856**
Additional paid-in capital	**18**	10,963	9,355
Retained earnings	**19**	14,927	13,765
Unappropriated concolidated net income		892	857
Minority interest	**20**	1,709	1,723
Translation adjustment		(1,173)	(149)
		30,292	**28,407**
Accrued liabilities			
Pension plans and similar commitments	**21**	19,801	19,612
Other accrued liabilities	**22**	23,550	20,080
		43,351	**39,692**
Debt	**23**	**14,484**	**9,204**
Other liabilities	**24**		
Trade accounts payable		12,085	10,113
Additional liabilities		10,658	9,976
		22,743	**20,089**
Deferred income		1,154	711
Total shareholders' equity and liabilities		**112,024**	**98,103**

STATEMENT OF CASH FLOWS

Siemens worldwide *(in millions of DM)*

Years ended September 30

	Note	1998	1997
Income before extraordinary items		2,658	2,608
Extraordinary restructuring charges		(3,327)	
Depreciation and amortization		7,588	5,259
Increase in accrued liabilities		2,983	145
Gain on disposal of noncurrent assets		(342)	(231)
Equity in losses (income) of companies consolidated under the equity method, net of distributions		31	(113)
Other noncash charges		36	10
Change in current assets and other liabilities			
Increase in inventories		(573)	(1,296)
Decrease in advances received from customers		(2,431)	(135)
Increase in accounts receivable		(4,787)	(2,990)
Increase in liabilities		2,145	816
Net cash provided by operating activities	**25**	**3,981**	**4,073**
Additions to property, plant and equipment	**25**	(7,263)	(6,733)
Payments for acquisition of investments		(6,787)	(2,030)
Proceeds from sale of noncurrent assets		6,181	1,552
Net cash used in investing activities		**(7,869)**	**(7,211)**
Proceeds from issuance of common stock		1,725	794
Proceeds from issuance of debt		3,274	1,942
Repayment of debt		(18)	
Other changes in debt		810	(592)
Increase in noncurrent securities		(810)	(943)
Other financing activities		(551)	1,629
Prior year's dividends paid		(857)	(840)
Dividends paid to minority shareholders		(191)	(224)
Effect of changes in number of consolidated companies on liquid assets		(56)	95
Net cash provided by financing activities		**3,326**	**1,861**
Effect of exchange rate and other changes on liquid assets		(252)	58
Net decrease in liquid assets		**(814)**	**(1,219)**
Liquid assets, end of year		**5,615**	**6,429**

NOTES

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

As in prior years, the consolidated financial statements have been prepared in accordance with the German Commercial Code (HGB) and the German Corporation Act (AktG). With regard to presentation and consolidation options, international rules have been followed whenever this is permitted under the German Commercial Code. Moreover, additional information is presented in the notes to consolidated financial statements ("Notes") in accordance with prevailing international practice.

COMPANIES INCLUDED IN CONSOLIDATION

The worldwide consolidated financial statements include the accounts of Siemens AG ("the Company") and all subsidiaries which are directly or indirectly controlled (collectively, "Siemens"). Subsidiaries that are not significant in terms of external sales, operating results and total assets are not included in the consolidated financial statements on the basis of immateriality. In addition, retirement benefit corporations and housing companies whose assets Siemens is not permitted to use because they are assigned for a specific purpose, as well as those companies whose shares were acquired exclusively as temporary financial investments, are not included in the consolidated financial statements.

Results of associated companies – companies in which Siemens, directly or indirectly, has 20% to 50% of the voting rights and the ability to exercise significant influence over operating and financial policies – are generally recorded in the consolidated financial statements using the equity method of accounting. An ownership interest in associated companies that is not material in terms of carrying amount and projected medium-term results is carried at cost in miscellaneous investments.

In addition to Siemens AG, the consolidated financial statements at September 30, 1998 include the accounts of 104 (1997: 67) subsidiaries in Germany and 554 (1997: 298) subsidiaries in foreign countries. 383 (1997: 394) companies that are either inactive or have a low business volume are not included in the consolidated financial statements because their effect was not material. Full consolidation of these companies would have increased consolidated sales by approximately 1%.

Compared with September 30, 1997, a total of 46 domestic subsidiaries and 282 foreign subsidiaries have been consolidated for the first time, while 9 domestic companies and 26 foreign companies are no longer included in the consolidated financial statements. Ten of these companies were merged with and into Siemens AG and other consolidated companies.

Major changes in consolidation resulted from the following events:

In December 1996 and May 1997, the Company entered into purchase contracts with Credit Suisse Group, Zurich, to acquire interests in Elektrowatt AG, Zurich ("Elektrowatt"), corresponding in value to Elektrowatt's industry business segment. The transaction was closed on September 23, 1998 upon completion of the spin-off of Elektrowatt's energy business segment. On the same day, the Company acquired a 100% interest in Elektrowatt, which has been operating under the name of Siemens Building Technologies AG, Zurich, since September 24, 1998. Due to the short time of affiliation with the Siemens organization, only the assets and liabilities of Elektrowatt and 168 of its subsidiaries have been included in the consolidated financial statements at September 30, 1998. The purchase price was DM3,048 million. As a result of the transaction, goodwill of DM2,150 million was added to intangible assets.

On August 19, 1998, the Company acquired Westinghouse's fossil power plant business from CBS Corporation, New York, for DM2,036 million, effective August 1, 1998. Following the integration of the acquired business into Siemens Power Generation Corporation, Wilmington, the company was renamed Siemens Westinghouse Power Corporation, Orlando, on August 19, 1998. This company and 29 of its subsidiaries have been included in the consolidated financial statements since August 1, 1998. DM842 million of the difference resulting from consolidation relating to acquired patents, licenses and similar rights was allocated to intangible assets, while DM175 million associated with purchased in-process R&D was expensed as research and development. The remaining difference of DM650 million was capitalized as goodwill.

Following the formation of Siemens Financial Services on October 1, 1997, 12 other foreign subsidiaries which manage the Company's increasingly important leasing activities have been consolidated. In addition, Private Communication Systems and Siemens Nixdorf Informationssysteme AG (SNI) are also operating as lessors under operating leases.

On October 1, 1997, the Company divested its defense electronics business to Daimler-Benz Aerospace AG, Munich, and British Aerospace plc, Farnborough.

Effective October 1, 1997, the Company sold the dental systems business of its Medical Systems Group to an international investor group.

On October 1, 1997, the Company sold i-center Elektrogrosshandel GmbH & Co. KG, Nuremberg, to PVG Erste Vermögensverwaltungs AG, Wiesbaden.

Due to the changes in the number of consolidated companies, net sales and total assets increased DM1.1 billion and DM5.7 billion, respectively. Net income decreased by DM66 million.

Investments in 33 (1997: 30) associated companies and in seven (1997: two) subsidiaries have been accounted for under the equity method. An additional 125 (1997: 129) associated companies were not accounted for in this manner due to their relative immateriality.

A major divestiture among the associated companies was the sale of the 40% interest in GPT Holdings Ltd. (GPT), London, which in July 1998 was divested for DM2,056 million to General Electric Company plc (GEC), London, as part of the Company's restructuring plan. The Company's proportionate share of DM143 million in GPT's net earnings for the fiscal year ended March 31, 1998 is included in net income from investment in other companies.

In addition, effective December 19, 1997, the Company sold its 21% interest in Valeo Climatisation S.A., La Verrière, to Valeo Thermique Habitacle S.A., La Verrière.

The gain of DM1.6 billion realized by the Company on divested activities related to subsidiaries and associated companies has been included in extraordinary items, net of applicable losses on certain transactions (including provisions for guarantees of purchasers' debt).

The principal subsidiaries and associated companies are listed on pages 86 and 87. A complete list of Siemens' holdings is filed with the Commercial Registries of the Berlin-Charlottenburg and Munich District Courts.

PRINCIPLES OF CONSOLIDATION

The annual financial statements of the companies included in the consolidated financial statements are prepared according to uniform principles of accounting and valuation. For this purpose, the separate financial statements prepared in accordance with local or international regulations have been restated to conform with the uniform principles of accounting and valuation of the Siemens organization, whenever such regulations deviate from the principles of the German Commercial Code and the valuation differences are material. Interim statements are used for consolidated subsidiaries whose fiscal year differs from that of Siemens AG. Valuations in the annual statements of associated companies accounted for under the equity method that deviate from these uniform principles have not been adjusted on the basis of immateriality.

In consolidating the investment in subsidiaries, the purchase price is offset against the value of the interest held in the shareholders' equity of the consolidated subsidiaries at the time of acquisition. Any remaining excess of cost over net assets acquired is capitalized as goodwill in intangible assets and amortized over the estimated useful life.

The same principles are applied in consolidating companies using the equity method. Any resulting goodwill is reflected in the purchase price of the investment in the associated companies and amortized by appropriate charges to the equity in earnings resulting from consolidation.

The effects of intercompany transactions between consolidated companies have been eliminated in consolidation.

FOREIGN CURRENCY TRANSLATION

The financial statements of the Company's foreign subsidiaries are translated into German marks using the year-end current rate method, whereby assets, accruals and liabilities are translated at the average exchange rates on the balance sheet date. Revenues and expenses as well as net income are translated at the average rate of exchange for the year. Equity accounts are translated at historical rates that were in effect in the year of addition. Gains or losses resulting from differences between historical and year-end exchange rates are recorded as translation adjustments in a separate component of shareholders' equity and accordingly have no effect on net income.

Noncurrent assets and nonmonetary assets and liabilities as well as revenues and expenses of foreign subsidiaries in countries treated as highly inflationary are restated at their current value or replacement cost and translated at the year-end average rate of exchange.

Primarily as a result of the Asian crisis, the effect of exchange rate changes upon translation of foreign currency accounts was to reduce net sales by DM0.4 billion. Total assets were down DM2.9 billion due to the additional impact of the lower year-end current rate in the U.S. dollar area. Consequently, the negative translation adjustment in shareholders' equity increased again.

The fluctuations in exchange rates of major currencies reflected in the consolidated financial statements follow.

Currency	ISO code	Year-end average rate (DM)		Average rate for fiscal year (DM)	
		9/30/98	9/30/97	1998	1997
100 Austrian schillings	ATS	14.21	14.21	14.21	14.21
100 Belgian francs	BEF	4.85	4.85	4.85	4.85
100 Swiss francs	CHF	120.84	121.62	121.60	118.36
100 French francs	FRF	29.82	29.77	29.84	29.64
1 British pound	GBP	2.84	2.85	2.96	2.75
1000 Italian lire	ITL	1.01	1.02	1.02	1.01
1 U.S. dollar	USD	1.68	1.77	1.78	1.68

ACCOUNTING AND VALUATION

Noncurrent assets

Acquired intangible assets are recorded at acquisition cost and amortized on a straight-line basis over periods not exceeding five years, or over the contractual useful lives of the respective assets, if longer. Goodwill is amortized over periods ranging up to 15 years. Goodwill is written down whenever recovery of the recorded costs is permanently impaired due to product innovations or changes in market conditions.

Property, plant and equipment is carried at acquisition or production cost less scheduled depreciation. A definition of production cost is provided under inventories. Acquisition or production cost is recorded net of applicable grants from third parties. Maintenance and repairs as well as interest costs are not capitalized but expensed when incurred. Domestic companies generally use the declining balance method of depreciation, switching to the straight-line method as soon as the latter results in higher depreciation. Depreciation of foreign companies' property, plant and equipment is provided using primarily the straight-line method. Low value assets are fully expensed in the year of acquisition.

Estimated useful lives of depreciable assets	
Factory and office buildings	20 to 50 years
Other buildings	5 to 10 years
Technical equipment and machinery	5 to 10 years
Other equipment, plant and office equipment	generally 5 years
Equipment leased to customers	generally 3 to 5 years

Exceptional depreciation is charged where a decline in value other than temporary is anticipated.

Long-term investments are stated at cost. The carrying amount is reduced to recognize a decline other than temporary in the value of the investments at the balance sheet date. Long-term interest-free loans or loans at interest rates which are below market rates are stated at their discounted cash value.

Current assets
Inventories are carried at the lower of average acquisition or production cost or current value. In addition to direct materials and direct labor, production cost includes an appropriate proportion of material and production overheads as well as production-related depreciation charges. Interest on borrowings is not capitalized within production cost. Inventories include reasonable and sufficient allowance for risks relating to slow-moving items and technical obsolescence and for the net realizable values associated with long-term contracts.

Accounts receivable and miscellaneous assets are stated at their nominal amounts or cost, or at their market values. Write-downs on accounts receivable are provided according to the probability of counterparty default and for discernible country risks. Accounts receivable due after one year which bear no interest or have interest rates which are below market rates have been discounted.

Marketable securities included in liquid assets are reported at the lower of cost or quoted market prices at the balance sheet date.

Leasing
Accounting for leases is based on the extent to which risks and rewards incident to ownership of a leased asset lie with the lessor or the lessee (beneficial ownership). Under an operating lease the Company, as the lessor, remains the beneficial owner of the leased assets, which are capitalized as part of property, plant and equipment and depreciated as scheduled. Rental income under operating leases is recorded as sales revenue.

Under finance leases entered into by Siemens Financial Services, the economic benefits and risk of ownership are transferred to the lessee who becomes the beneficial owner. The present value of the lease payments and the unguaranteed residual value of the leased assets at the end of the basic lease period are recorded in accounts receivable. The interest component included in the lease payments is recognized in net interest income.

Special reserves
The change in tax-deductible special reserves included in the separate financial statements of consolidated companies is reversed in the consolidated financial statements and recognized in income, net of deferred taxes.

Accruals and other liabilities
The accruals for pension plans and transition payments of domestic companies that provide for the contractual retirement benefits of employees and retirees are set up according to actuarial principles under a projected benefit valuation method pursuant to the German Income Tax Act, on the basis of firm commitments existing at the balance sheet date.

This method assumes that employees earn entitlement to pension benefits from their entry into employment, but not before attaining age thirty, until retirement, based on equal annual amounts distributed over the employees' present and future service periods. As a result, the accruals for pension plans are derived using the present value of future pension benefits for which a firm commitment exists at the balance sheet date, less the present value of outstanding annual amounts until retirement.

The present value is based on discounted amounts using an assumed rate of interest of 6%. Increases in pension commitments are reflected in pension accruals at the present value of benefits earned.

Foreign subsidiaries establish accruals for retirement benefits of employees and retirees according to comparable actuarial principles using applicable local interest rates, unless the obligations are covered by pension funds. The pension related commitments also include the obligations of the Company's U.S. subsidiaries to provide postretirement health care benefits, which are determined on the basis of the accrued benefit valuation method using an assumed discount rate of 7.5% and taking into account the expected health care cost trend.

The other accrued liabilities include reasonable and sufficient allowance for all perceived risks resulting from uncertain liabilities and for anticipated losses on uncompleted transactions.

Debt and other liabilities are reported at their repayment amounts on the balance sheet date. The discount resulting from the issuance of financial liabilities is included in prepaid expenses and written down over the life of the underlying debt. Any premium is recorded in deferred income and amortized over the life of the underlying debt.

Recognition of revenues and expenses
Revenue from sales is recognized when products are shipped or services are performed and title passes. Sales relating to long-term contracts are recorded when the contract has been completed (completed contract method) or the customer has taken delivery of defined part shipments or services (performance milestones).

All research and development costs are expensed as incurred.

Current restructuring charges relate primarily to the cost of severance for workforce reductions, including the related accruals and liabilities. They are recorded when the requisite decisions have been reached, the necessary personnel measures have been defined, and the affected employee groups have been informed. In addition, this account includes exceptional depreciation and amortization, gains and losses from the retirement of property, plant and equipment and inventories, and accruals associated with discontinued operations.

Certain restructuring charges and exit costs are reported as part of extraordinary items. This restructuring activity relates to major nonrecurring, individually defined restructuring projects and facility closures. Certain measures under these projects will not materialize until the next fiscal year. The projects are subject to separate centralized project controlling. A summary and details of the restructuring projects are provided in the Management's discussion and analysis.

Taxes
All liabilities or claims relating to taxes on earnings, capital and property arising during the fiscal year are reflected in the consolidated financial statements pursuant to the relevant tax laws applicable to the individual companies.

In addition, deferred taxes are provided for the tax effects of temporary differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements, as well as for temporary differences resulting from consolidation entries. The deferred taxes are computed in accordance with the liability method on the basis of the applicable tax rates established by local tax laws. No deferred taxes are recognized for future tax benefits resulting from loss carryforwards.

Deferred tax assets and liabilities derived from temporary valuation differences in the financial statements of the consolidated companies are netted, as are deferred tax assets and liabilities derived from temporary differences due to consolidation entries. Any resulting net deferred tax asset balances are included in miscellaneous assets, while net deferred tax liabilities are recognized in other accrued liabilities.

Currency and interest rate risk management
The financial instruments used to mitigate exposure to currency and interest rate risks consist mainly of forward exchange contracts, interest rate swaps, combined interest rate/currency swaps, and options. The Company does not hold or issue derivative financial instruments for trading purposes.

Foreign currency assets and liabilities are hedged in their full principal amounts, while firm commitments and anticipated transactions are hedged according to prescribed risk limits. Due to their long-term risk profile, currency exposures arising from long-term contracts are hedged separately on a case-by-case basis.

The Company also uses derivative financial instruments to hedge its exposure to adverse movements in interest rates and manage the interest repricing frequency of its borrowings and investments.

To simplify year-on-year comparison, the hedging instruments and the underlying transactions are combined for valuation purposes. Monetary assets and liabilities denominated in foreign currencies are recorded at average exchange rates, while the related hedging transactions are carried at fair values. Gains and losses on hedging instruments relating to separately hedged long-term contracts are offset by losses and gains, respectively, on the related underlying transactions.

Derivative financial instruments utilized to hedge anticipated purchases and sales forecast to occur in the next fiscal year as well as other committed transactions are valued in one of two ways, i.e. accruals are set up to cover negative fair values, while positive fair values are not recognized.

Financial statement classification
Certain items in the consolidated statement of income and on the consolidated balance sheet have been combined. These items are shown separately in the Notes.

To enhance the informative value of gross profit on sales, all foreign exchange gains and losses, including gains and losses on foreign currency hedges, relating to sales-driven operating activities are recorded in cost of sales. The remaining foreign currency gains and losses pertain to financing activities and related hedging transactions. Accordingly, they are included in other financial gains (losses). The prior year's amounts have been restated to conform to the 1998 presentation.

Use of estimates
The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

NOTES TO THE STATEMENT OF INCOME

1 Net sales

Net sales also include income under operating leases and license agreements of DM2,070 (1997: DM1,737) million and DM760 (1997: DM730) million, respectively.

2 Research and development expenses

In connection with the first-time consolidation of Siemens Westinghouse Power Corporation, Orlando, DM175 million of the purchase price has been expensed as acquired in-process R&D know-how.

Government grants in the amount of DM243 (1997: DM233) million have been offset against research and development expenses.

3 Other operating income

Other operating income includes, among other things, proceeds of DM111 (1997: DM214) million from the sale of operating activities. Retransfers from retirement benefit corporations amounted to DM171 (1997: DM259) million.

Foreign exchange gains, including gains on derivative currency instruments, of DM472 million, which were included in other operating income in fiscal year 1997, have been reclassified to cost of sales and other financial gains.

4 Other operating expenses

Other operating expenses include additional contributions to pension accruals of DM209 (1997: DM174) million and amortization of DM252 (1997: DM277) million related to goodwill and other intangible assets resulting from acquisitions.

Foreign exchange losses, including losses on derivative currency instruments, of DM1,310 million, which were included in other operating expenses in fiscal year 1997, have been reclassified to cost of sales and other financial.

5 Restructuring charges

This account includes charges relating to current restructuring measures implemented within company units and subsidiaries independent of the Ten-Point Program.

DM858 (1997: DM1,015) million of the aggregate amount is accounted for by charges for severance accruals, separation payments and reimbursement of unemployment benefits relating to workforce reductions. In 1998, the Company utilized DM1,176 million of the accrued reserve balances recorded in the prior year. At September 30, 1998, accruals and liabilities totaled DM2,243 million.

6 Net income from investment in other companies

(in millions of DM)	1998	1997
Income from investments	125	125
Income from profit-and-loss transfer agreements	74	76
Share in earnings resulting from equity consolidation	256	231
Gains on divestiture of investments	151	69
Losses absorbed under profit-and-loss transfer agreements	(25)	(42)
Losses on divestiture of investments	(10)	(24)
Write-downs on investments	(97)	(11)
	474	**424**

Income from investments includes DM70 (1997: DM85) million in income from subsidiaries.

Earnings resulting from equity consolidation consist primarily of the Company's share in the earnings of BSH Bosch und Siemens Hausgeräte GmbH, Munich; for the last time GPT Holdings Ltd., London; Thomson-CSF Airsys ATM SAS, Paris; White Oak Semiconductors, Richmond and Siecor Corporation, Hickory.

7 Net interest income (expense)

(in millions of DM)	1998	1997
Income from noncurrent marketable securities and long-term loans	631	824
Attributable to subsidiaries	[5]	[5]
Interest and similar income	2,056	1,530
Attributable to subsidiaries	[180]	[318]
Interest and similar expenses	(1,629)	(1,017)
Attributable to subsidiaries	[47]	[86]
Interest cost component of allocation to pension accruals	(1,119)	(1,088)
	(61)	**249**

8 Other financial gains

(in millions of DM)	1998	1997
Other financial gains	1,890	703
Other financial losses	(271)	(251)
Write-downs on other long-term financial assets and on current marketable securities	(168)	(11)
	1,451	**441**

Other financial gains include gains and losses resulting from the sale of noncurrent and current marketable securities and real estate financing companies as well as foreign exchange gains and losses resulting from financing activities.

9 Income taxes

(in millions of DM)	1998	1997
Income tax expense		
Domestic	357	855
Foreign	1,071	567
	1,428	1,422
Deferred taxes	(648)	(495)
Tax expense on income from continuing operations	**780**	**927**
Income tax effect on extraordinary items	(681)	
	99	**927**

Income tax expense includes German corporate income and local income taxes, as well as the comparable foreign taxes relating to income. Such taxes are determined in accordance with the tax laws applicable to the individual companies.

Income tax effect on extraordinary items relates to deferred taxes, because a major portion of the accrued restructuring costs recorded for financial reporting purposes cannot yet be recognized for tax purposes.

10 Other taxes

Other taxes of DM431 (1997: DM461) million are reflected in functional costs. These taxes relate primarily to property taxes.

11 Extraordinary items (after income taxes)

(in millions of DM)	1998
Extraordinary gains	1,779
Extraordinary charges	(4,201)
Extraordinary items before income taxes	(2,422)
Income taxes on extraordinary items	681
Extraordinary items after income taxes	**(1,741)**

The Managing Board of the Company authorized a ten-point restructuring program designed to achieve sustained improvements in competitiveness and earnings. The program involves substantial restructuring activity within the Siemens organization. Accordingly, extraordinary items include gains from the sale of certain divested activities as well as charges related to the corporate-wide restructuring and reorganization of the Company under the Ten-Point Program.

Gains and losses recorded prior to the date of sale of the divested activities are included in income from continuing operations before income taxes.

As a result of the measures authorized under the Ten-Point Program, certain charges were included in extraordinary items that had a substantial impact on overall earnings for the fiscal year just ended. The major component of these charges relates to capacity reductions in Semiconductors due to the closure of the production facility in North Tyneside, England, which reduced earnings by approximately DM1.6 billion. In addition, the Company took a charge of approximately DM1.1 billion for the restructuring of the information and communications segment in order to benefit from potential synergy effects. Furthermore, an extraordinary integration charge of approximately DM0.7 billion was recorded in connection with business acquisitions. And, last but not least, extraordinary restructuring charges and exit costs are required to streamline underperforming business units.

NOTES TO THE BALANCE SHEET

12 Intangible assets and property, plant and equipment

(in millions of DM)	9/30/97	Translation adjustment	Additions	Reclassifications	Retirements	9/30/98	Accumulated depreciation/amortization	Net book value as of 9/30/98	Net book value as of 9/30/97	Depreciation/amortization during fiscal year
Intangible assets										
Patents, licenses and similar rights	1,045	(57)	1,126		300	1,814	530	1,284	503	252
Goodwill	2,042	(120)	3,019		392	4,549	415	4,134	1,657	436
	3,087	(177)	4,145		692	6,363	945	5,418	2,160	688
Property, plant and equipment										
Land, equivalent rights to real property, and buildings, including buildings on land not owned	16,308	(312)	2,585	237	698	18,120	8,362	9,758	9,396	1,361
Technical equipment and machinery	18,775	(485)	2,908	867	1,488	20,577	14,008	6,569	6,264	2,329
Other equipment, plant and office equipment	19,447	(586)	5,063	262	3,209	20,977	15,703	5,274	4,593	2,653
Equipment leased to customers	2,607	(116)	1,267	42	552	3,248	1,805	1,443	796	450
Advances to suppliers and construction in progress	2,097	(60)	1,246	(1,408)	120	1,755	5	1,750	2,092	
	59,234	(1,559)	13,069		6,067	64,677	39,883	24,794	23,141	6,793
	62,321	**(1,736)**	**17,214**		**6,759**	**71,040**	**40,828**	**30,212**	**25,301**	**7,481**

Additions to property, plant and equipment include DM5,749 million resulting from first-time consolidations. Amortization of goodwill includes exceptional amortization of DM251 million. In addition, depreciation on property, plant and equipment includes exceptional depreciation charges of DM1,379 million, relating primarily to the closed chip factory in North Tyneside, England.

The exceptional depreciation and amortization charges are predominantly included in extraordinary items.

13 Investments

(in millions of DM)	9/30/97	Translation adjustment	Additions	Reclassifications	Retirements	9/30/98	Accumulated write-downs	Accumulated equity adjustment	Net book value as of 9/30/98	Net book value as of 9/30/97
Investments										
Interests in subsidiaries	1,218	(13)	537	112	526	1,328	150	(28)	1,150	1,086
Interests in associated companies	3,644	32	413	(70)	1,453	2,566		338	2,904	3,193
Noncurrent marketable securities	15,804		810			16,614			16,614	15,802
Miscellaneous investments	1,149	(8)	485	(42)	209	1,375	266		1,109	990
	21,815	**11**	**2,245**		**2,188**	**21,883**	**416**	**310**	**21,777**	**21,071**

The additions to interests in subsidiaries relate predominantly to acquisitions and capital increases. Retirements are accounted for primarily by first-time consolidations of subsidiaries.

Additions to interests in associated companies include goodwill in the amount of DM63 million. Retirements relate primarily to the divestiture of GPT Holdings Ltd., London.

Noncurrent marketable securities relate primarily to specialized investment funds which are managed by Siemens Kapitalanlagegesellschaft mbH, Munich. These securities serve to finance the domestic pension obligations. (Further information on pension accruals is provided in Note 21)

Miscellaneous investments include interests in other companies as well as long-term loans.

During the fiscal year, interests in subsidiaries were written down by DM44 million, and miscellaneous investments by DM64 million.

14 Inventories

(in millions of DM)	9/30/98	9/30/97
Materials and supplies	3,481	3,156
Work in process	5,609	5,319
Finished products and merchandise	6,138	5,626
Cost of unbilled contracts	15,629	14,646
Advances to suppliers	1,838	1,872
	32,695	**30,619**

Reasonable allowances of DM3,879 (1997: DM4,054) million were provided for the net realizable values associated with long-term contracts and for inventory risks due to slow-moving items and technical obsolescence.

15 Accounts receivable and miscellaneous assets

(in millions of DM)	9/30/98	Due after one year	9/30/97	Due after one year
Trade accounts receivable	25,773	2,131	22,048	1,625
Other accounts receivable and miscellaneous assets				
Receivables from unconsolidated subsidiaries	1,596	194	2,754	612
Receivables from associated and related companies	3,354	862	2,564	1,109
Miscellaneous assets	9,851	959	7,416	890
	14,801	2,015	12,734	2,611
	40,574	**4,146**	**34,782**	**4,236**

Miscellaneous assets include net deferred tax receivables of DM2,049 (1997: DM892) million derived from temporary differences due to consolidation entries and from temporary valuation differences in the financial statements of the consolidated companies. In addition, miscellaneous assets include certain interests in subsidiaries of DM1,060 (1997: DM1,014) million. These relate mainly to interests in real estate and project financing companies which were acquired exclusively as temporary financial investments.

Accounts receivable and miscellaneous assets are stated net of an allowance, primarily for credit and country risks, of DM3,881 (1997: DM2,902) million.

The Company's rentals to be received in the future under operating leases with noncancelable minimum terms and under finance leases are as follows (in millions of DM):

1999	2000	2001	2002	2003	thereafter
1,748	1,495	1,201	945	645	728

16 Liquid assets

(in millions of DM)	9/30/98 Carrying value	9/30/98 Market value	9/30/97 Carrying value	9/30/97 Market value
Marketable securities				
Equity securities	722	2,293	944	2,719
Debt securities	154	162	179	179
Fund shares	348	348	2,593	2,928
Cash and cash equivalents	4,391	4,391	2,713	2,713
	5,615	**7,194**	**6,429**	**8,539**

In fiscal year 1998, Siemens AG purchased 2,436,255 shares of common stock, with a total par value of DM12 million or 0.4% of the capital stock, at an average price of DM106,05 per share of DM5 par value, in order to offer them to employees for purchase. Including the 4,511 shares of treasury stock held at the beginning of the fiscal year, each with a DM5 par value, 2,437,355 shares, with a total par value of DM12 million or 0,4% of the capital stock, were sold to employees at a preferential price of DM72.00 per share. At fiscal year-end, 3,411 shares of common stock with a par value of DM5 each remained in treasury. The carrying amount of these shares, which are valued at DM91.00 each, is DM310 thousand.

17 Changes in shareholders' equity

(in millions of DM)	9/30/98	Movements in fiscal year 1998			9/30/97
Capital stock	2,974	Capital increase		118	2,856
Additional paid-in capital	10,963	Premium on common stock issued		1,608	9,355
Retained earnings		Transfers from retained earnings	(232)		
		Other changes	(280)		
		Retirement of goodwill previously charged to equity	1,674		
	14,927			1,162	13,765
Unappropriated consolidated net income		Unappropriated consolidated net income of 1998	892		
		Payment of prior year's dividend	(857)		
	892			35	857
Minority interest	1,709			(14)	1,723
Translation adjustment	(1,173)			(1,024)	(149)
	30,292			**1,885**	**28,407**

18 Capital stock and additional paid-in capital

The capital stock of Siemens AG amounts to DM2,974 million and is divided into 585,543,800 common shares and 9,236,340 preferred shares, each with a par value of DM5. Each share is entitled to one vote. Under conditions set forth in §23 of the Articles of Association, preferred stock is entitled to six votes per share in a second vote that may be demanded by the holders of preferred stock.

During fiscal year 1998, capital stock increased by a total of DM12 million through the issuance of 2.4 million common shares from the Authorized Capital II. The issue price of the new shares was DM105.95. The premium of DM243 million on the common stock issued was recorded as additional paid-in capital. After issuance, the shares were reacquired by the Company and sold to employees at a preferential price of DM72.00 per share.

In addition, capital stock increased by DM106 million through the issuance of 21,207,860 common shares from the additional capital as a result of the exercise of option rights – exercisable until June 2, 1998 – under the stock warrants attached to the 8% U.S. dollar bonds of 1992/2002 issued by Siemens Capital Corporation, Wilmington. The issue price of the new shares of DM69.30 per share includes a premium totaling DM1,364 million, which was transferred to additional paid-in capital.

Furthermore, capital stock increased by DM87 thousand through the issuance of 17,430 common shares from the additional capital to provide for the settlement offered to former shareholders of SNI AG. The premium of DM1.1 million was also included in additional paid-in capital.

The additional authorized capital of Siemens AG amounts to DM626 (1997: DM488) million (nominal value). The authorizations to issue DM400 million (nominal value) in new shares with subscription rights for shareholders (Authorized Capital I) and DM76 million (nominal value) in new shares for which the shareholders' subscription rights are excluded because the shares will be offered to employees (Authorized Capital II) will expire on February 1, 2001. The authorization to issue DM150 million (nominal value) in new shares for which the shareholders' subscription rights are excluded because the shares will be issued against contribution in kind (Authorized Capital III) will expire on February 1, 2003.

Additional capital of DM3 million provides for the settlement offered to former shareholders of SNI AG who have not tendered their SNI share certificates by September 30, 1998 under the settlement offered by Siemens AG pursuant to §320 (5) (old version) of the German Corporation Act.

19 Retained earnings

Retirement of goodwill previously charged to equity relates to the amounts associated with the first-time consolidation of Siemens Plessey Electronics Systems Ltd., Christchurch, and GPT Holdings Ltd., London, which were offset against the proceeds from the divestitures.

Retained earnings include a reserve for treasury stock of DM310 (1997: DM230) thousand. The reserve was increased by transfers from other retained earnings.

20 Minority interest

Minority interest represents the minority shareholders' proportionate share of the equity of consolidated subsidiaries, primarily Siemens AG Österreich, Vienna; Valeo Sylvania LLC, Seymour, Indiana; and Siemens Ltd., Johannesburg.

21 Accruals for pension plans and similar commitments

(in millions of DM)	9/30/98 Domestic	Foreign	Total	9/30/97 Domestic	Foreign	Total
Accruals for pension plans	16,406	698	17,104	15,900	1,101	17,001
Vested benefit obligations	[15,648]			[15,210]		
Transition payment obligations upon retirement in Germany	1,245		1,245	1,258		1,258
Obligations of subsidiaries to provide postretirement health care benefits		1,059	1,059		997	997
Commitments to pension funds		393	393		356	356
Accruals for pension plans and similar commitments	**17,651**	**2,150**	**19,801**	**17,158**	**2,454**	**19,612**

Virtually all of the Company's employees in Germany are entitled to corporate pension benefits. At fiscal year-end, 228,100 active employees had earned retirement benefit entitlements, including 133,694 employees holding vested rights. Individual benefits are generally based on eligible compensation levels or ranking within the Company hierarchy and years of service. In the year under review, 98,408 retired employees and their surviving dependents received pension payments totaling DM916 million.

The accruals for pension plans of Siemens AG and other domestic companies provide for the direct contractual retirement benefits of employees and retirees. In accordance with legal requirements, the vested rights of the Company's domestic employees and retirees to receive retirement benefits are insured with the Pensions-Sicherungsverein (PSVaG), an independent pension guaranty association.

Retirement benefit corporations, primarily Siemens-Altersfürsorge GmbH, provide for 20% of the domestic retirement obligations to employees subject to collective bargaining agreements and to their surviving dependents. The existing pension commitments of these retirement benefit corporations amount to DM1,720 (1997: DM1,791) million and are covered by assets with a market value of DM2,167 (1997: DM2,278) million.

In Germany, employees who entered into the Company's employment on or before September 30, 1983 are entitled to transition payments for the first six months after retirement equal to the difference between their final compensation and the retirement benefits payable under the corporate pension plan (transition payment obligations upon retirement in Germany).

As in Germany, the Company's foreign subsidiaries offer primarily defined benefit pension plans. Retirement benefits may vary depending on the legal, fiscal and economic requirements in each country.

The retirement benefit obligations of the Company's consolidated foreign subsidiaries are predominantly covered by external pension funds. Direct pension commitments are accrued. Material foreign pension accruals exist primarily in Sweden and in Austria. As of fiscal year 1998, a major portion of the pension commitments in Austria are covered by an external defined contribution pension fund.

The aggregate benefit obligation of the independent foreign pension funds amounts to DM8,796 (1997: DM5,702) million and is covered by assets with a market value of DM9,246 (1997: DM6,470) million. The substantial increase reflects the consolidation of Elektrowatt and the removal of other plan assets and liabilities from the consolidated balance sheet. The largest of these pension funds are located in Switzerland with fund assets of DM3,647 million, the U.S. with DM2,939 million, the U.K. with DM1,194 million and Austria with DM587 million. Accruals are set up to provide for benefit obligations not covered by the assets of certain external pension funds (commitments to pension funds).

Certain foreign companies, primarily in the U.S., provide postretirement health care benefits to employees (obligations of subsidiaries to provide postretirement health care benefits).

Siemens' net benefit expense for direct and indirect pension obligations and similar commitments follows.

Net benefit expense for pension plans and similar commitments *(in millions of DM)*	1998	1997
Benefits earned during the year	(501)	(549)
Interest cost on benefit obligations	(1,044)	(1,007)
Return on domestic plan assets	1,153	1,052
Additional contributions to pension accruals to provide for future increases in benefits	(209)	(174)
Net benefit expense for pension plans	**(601)**	**(678)**
Cost of domestic transition payment obligations	(126)	(133)
[including interest cost]	[75]	[81]
Cost of subsidiaries' obligations to provide postretirement health care benefits	(69)	(68)
Transfers to/from retirement benefit corporations or pension funds	110	206
Net benefit expense for pension related commitments	(85)	5
Total net benefit expense	**(686)**	**(673)**

Interest cost on benefit obligations, net of the return on domestic plan assets, is included in other financial gains, while the additional contributions to pension accruals and the transfers from retirement benefit corporations are recorded in other operating income and expenses. The remaining net benefit expense for pension plans and similar commitments is carried in functional costs or other operating income and expenses. DM353 million of the aggregate net benefit expense is accounted for by domestic operations.

PENSION OBLIGATIONS BASED ON THE ACCRUED BENEFIT VALUATION METHOD

The disclosure of pension accrual funding in Germany by the market values of domestic plan assets managed predominantly by Siemens Kapitalanlagegesellschaft mbH, Munich, is based on pension accruals determined under the internationally accepted accrued benefit valuation method. By incorporating market interest rates, future compensation levels and pension trends, this method provides a better approximation to the market values of the obligations than the projected benefit valuation method pursuant to the German Income Tax Act. The actuarial assumptions used in determining the valuation bases follow.

Assumed discount rate	6%
Compensation increase rate	2.5% p.a.
Pension progression rate	1.5% p.a.

The domestic pension accruals determined on the basis of the accrued benefit valuation method exceed the accruals for pension plans under the projected benefit valuation method as reported on the balance sheet by DM3,934 (1997: DM3,820) million.

The domestic pension accruals are funded by plan assets which are included in noncurrent marketable securities on the consolidated balance sheet.

Funding of domestic pension accruals determined under the accrued benefit valuation method by the market values of domestic plan assets is shown below.

(in millions of DM)	9/30/98	9/30/97
Domestic plan assets at market values	20,372	19,903
Domestic pension accruals based on the accrued benefit valuation method	20,340	19,720
Overfunding of pension accruals	**32**	**183**

The small amount of overfunding indicates that the market values of the plan assets carried separately by the Company just cover the year-end pension accruals determined according to internationally accepted valuation principles. These plan assets are currently not available for other financing purposes.

The following table shows the funding by plan assets at market values of the domestic and foreign indirect pension obligations assumed by retirement benefit corporations and pension funds in Germany and abroad, as determined under the accrued benefit valuation method.

(in millions of DM)	9/30/98	9/30/97
Domestic plan assets	2,167	2,278
Domestic pension obligations	2,170	2,220
Under/overfunding	**(3)**	**58**
Foreign plan assets	9,246	6,470
Foreign pension obligations	9,200	6,030
Overfunding	**46**	**440**
Total overfunding	**43**	**498**

The plan assets designed to finance the direct and indirect domestic pension obligations are primarily held in specialized investment funds managed by Siemens Kapitalanlagegesellschaft mbH, Munich.

22 Other accrued liabilities

(in millions of DM)	9/30/98	9/30/97
Provisions for taxes	2,845	2,638
Extraordinary restructuring charges and exit costs	1,595	
Employee related costs	5,481	5,556
Business related accruals	6,743	6,492
Warranties	[3,915]	[3,133]
Order related losses and risks	[2,731]	[3,294]
Remediation and environmental protection	1,697	1,652
Miscellaneous accruals	5,189	3,742
	23,550	**20,080**

In addition to current restructuring charges, employee related costs include mainly accruals for vacation pay, compensation time and service anniversary awards.

Remediation and environmental protection liabilities have been accrued primarily to account for the cleanup of the closed fuel element facility in Hanau, Germany.

Miscellaneous accruals relate to a number of perceived risks and uncertain liabilities to which the Company may be exposed.

23 Debt

(in millions of DM)		Years to maturity				Years to maturity		
	9/30/98	0 – 1	1 – 5	over 5	9/30/97	0 – 1	1 – 5	over 5
Bonds and notes	7,375	146	3,373	3,856	3,503		506	2,997
Loans from banks	3,323	2,357	772	194	2,649	2,054	487	108
Promissory notes and other loans	3,786	3,521	263	2	3,052	1,963	1,036	53
	14,484	**6,024**	**4,408**	**4,052**	**9,204**	**4,017**	**2,029**	**3,158**

Promissory notes and other loans include commercial paper and loans denominated in U.S. dollars and various European currencies, as well as unlisted bonds with interest rates ranging from 0.66% to 7.69%, depending on the currency environment.

Debt in the amount of DM186 (1997: DM153) million is secured, DM134 (1997: DM93) million of which, primarily outside Germany, is secured by mortgages. Domestic debt of DM8 million is secured by claims under a Hermes export credit guarantee. In some countries, the Company has pledged securities and executed promissory notes to secure borrowings, in conformity with local practice.

Bonds and notes *(in millions)*	Foreign currency		DM
Elektrowatt AG, Zurich			
2.75% 1993/2003 Swiss franc bonds	CHF	100	121
3% 1994/2004 Swiss franc bonds	CHF	200	242
7.75% 1992/2002 Swiss franc bonds	CHF	44	52
Landis & Gyr Ltd., Jersey			
2% 1994/2001 Swiss franc bonds	CHF	100	121
Siemens Capital Corporation, Wilmington, Delaware			
1% 1996/2001 DM notes			250
8% 1992/2002 US$ bonds	USD	590	989
4.5% 1998/2001 US$ bonds	USD	300	503
6% 1998/2008 US$ bonds	USD	1,000	1,676
6.88% 1997/2000 British pound bonds	GBP	100	284
0.1% 1998 Portuguese escudo bonds	PTE	15,000	146
7.5% 1998/2003 Greek drachma Eurobonds	GRD	5,000	29
Siemens Western Finance N.V., Willemstad, Curaçao			
1986/2001 US$ zero coupon bonds	USD	158	265
Siemens Financierungsmaatschappij N.V., The Hague			
3.25% 1997/2002 Swiss franc bonds	CHF	350	423
5.75% 1998/2002 US$ bonds	USD	200	335
5.5% 1997/2007 DM parallel bonds			750
5.5% F1997/2007 French franc parallel bonds	FRF	2,500	746
5.5% 1997/2007 Dutch guilder parallel bonds	NLG	500	443
			7,375

The total discount of DM23 million resulting from the bond issues is included in prepaid expenses.

24 Other liabilities

(in millions of DM)		Years to maturity				Years to maturity		
	9/30/98	0 – 1	1 – 5	over 5	9/30/97	0 – 1	1 – 5	over 5
Trade accounts payable	12,085	11,638	297	150	10,113	9,715	365	33
Additional liabilities								
Liabilities to unconsolidated subsidiaries	579	576	3		681	677	3	1
Liabilities to associated and related companies	373	370	3		783	783		
Miscellaneous liabilities	9,706	9,325	240	141	8,512	8,008	338	166
	10,658	10,271	246	141	9,976	9,468	341	167
	22,743	**21,909**	**543**	**291**	**20,089**	**19,183**	**706**	**200**

Tax liabilities of DM1,573 (1997: DM1,035) million are included in miscellaneous liabilities. In addition, this account comprises liabilities of DM1,294 (1997: DM1,354) million mandated by the social security program, including liabilities for severance payments of DM517 (1997: DM517) million.

Miscellaneous liabilities of DM12 (1997: DM0) million were secured.

NOTES TO THE STATEMENT OF CASH FLOWS

25 Net cash provided by operating activities and net cash used in investing activities

Net cash provided by operating activities includes interest income of DM2,491 (1997: DM2,433) million and interest expense of DM1,769 (1997: DM1,037) million.

The additions to property, plant and equipment recorded in the statement of cash flows are DM236 million lower than the consolidated total of DM7,499 million, due to the elimination of noncash expenditures for lease financing.

ADDITIONAL INFORMATION

26 Personnel costs

(in millions of DM)	1998	1997
Wages and salaries	32,344	30,985
Statutory social welfare contributions and expenses for optional support payments	5,524	5,412
Expenses relating to pension plans and employee benefits	1,507	1,663
	39,375	**38,060**

The expenses relating to pension plans and employee benefits are reduced by DM1,119 (1997: DM1,088) million to provide for the interest cost component included in the allocation to pension accruals. This amount was charged as an expense in arriving at the total of net interest income.

The average number of employees in fiscal year 1998 was 401,000 (1997: 382,000). In this figure, part-time employees are not counted as full units but are included on a proportionate basis. The employees were engaged in the following activities:

	1998	1997
Manufacturing	185,000	166,000
Sales and marketing	123,300	125,700
Research and development	45,600	45,000
Administration and general services	47,100	45,300
	401,000	**382,000**

27 Remuneration of the Supervisory Board and the Managing Board, and loans granted

Provided that the shareholders approve the proposed dividend at their Annual Shareholders' Meeting on February 18, 1999, the amount authorized to be paid for fiscal year 1998 will be DM1.3 (1997: DM1.3) million for the Supervisory Board; DM19.2 (1997: DM18.8) million for the Managing Board; and DM25.0 (1997: DM22.2) million to former members of the Managing Board and their surviving dependents. Pension commitments to former members of the Managing Board and their surviving dependents are covered by an accrual of DM162.6 (1997: DM155.2) million.

Loans to members of the Managing Board totaled DM0.9 (1997: DM1.8) million (repaid in 1998: DM0.9 million). These loans bear interest of up to 6% and have contractual terms of up to nine years.

The members of the Managing Board of Siemens AG are listed on pages 3 and 4 of this Annual Report. The members of the Supervisory Board of Siemens AG are presented on page 42.

28 Guarantees and other commitments

(in millions of DM)	1998	1997
Discounted bills of exchange	276	182
Provided to subsidiaries	[3]	[4]
Guarantees	480	172
Provided to subsidiaries, associated and related companies, and third parties	[11]	[11]
Warranties	4,598	2,897
Provided to subsidiaries, associated and related companies, and third parties	[1,467]	[602]
Collateral for third party liabilities	3	16

Guarantees and warranties relate primarily to guarantees issued in connection with the financing for long-term contracts. Reasonable and sufficient allowance is provided for in miscellaneous accruals when there is substantial assurance that the Company will be required to satisfy these guarantees.

29 Financial obligations under leases

At September 30, 1998, the Company had payment obligations under real estate property leases and under long-term lease agreements for movable and immovable assets with an aggregate nominal value of DM2,958 (1997: DM2,994) million, including DM139 (1997: DM70) million to unconsolidated subsidiaries. Under the terms of these leases, the agreements do not transfer the effective ownership rights to the leased properties. Accordingly, they are not capitalized in the consolidated financial statements.

The aggregate rental expense in fiscal year 1998 was DM298 (1997: DM315) million. Future lease payments in succeeding years, totaling DM2,958 million, under all leases are as follows:

1999	2000	2001	2002	2003	thereafter
338	320	292	277	258	1,473

30 Other financial obligations

The Company has commitments to make capital contributions of DM249 (1997: DM77) million to other companies, including DM9 (1997: DM31) million to subsidiaries.

The Company is liable for contributions in the amount of DM603 (1997: DM645) million that were not fully paid in, including DM392 (1997: DM442) million to unconsolidated subsidiaries, as a limited partner pursuant to §171 of the German Commercial Code.

The Company is jointly and severally liable and has capital contribution obligations as a partner in companies formed under the German Civil Code, through which it has executed profit-and-loss transfer agreements with other companies, as a partner in commercial partnerships and in a European Economic Interest Grouping (EEIG)), and as a participant in various joint ventures.

31 Derivative financial instruments

The Company uses both listed and over-the-counter (OTC) derivative financial instruments to hedge the currency and interest rate risks associated with its operational business as well as its investing and financing activities.

Derivative financial instruments outstanding at fiscal year-end follow.

	Notional amount		Fair value	
(in millions of DM)	9/30/98	9/30/97	9/30/98	9/30/97
Currency portfolio				
Forward exchange contracts	21,332	21,772	161	(724)
Interest rate and combined interest rate/currency swaps	8,317	7,609	54	25
Options	232	1,273	(3)	24
Other forward contracts	7,830	4,628	(4)	–
	37,711	**35,282**	**208**	**(675)**
Interest rate portfolio				
Forward exchange contracts	9,957	5,101	5	(10)
Interest rate and combined interest rate/currency swaps	13,167	16,582	165	(59)
Options	1,030	1,019	–	1
Other forward contracts	4,527	3,549	19	(3)
	28,681	**26,251**	**189**	**(71)**

The notional amount represents the aggregate gross amount of all purchases and sales agreed upon between the parties and, therefore, is not a direct measure of the exposure of the Company through its use of derivatives. Opportunities and risks are reflected by the fair value which corresponds to the estimated amounts that would have been received or paid if the derivative financial instruments had been settled at fiscal year-end.

Forward currency contracts utilized by the Company predominantly mature within one year, while interest rate and combined interest rate/currency swaps generally mature after one year. Option contracts and other forward contracts generally have maturities not exceeding 12 months.

The currency portfolio includes, among other things, derivatives that hedge transactions denominated in U.S. dollars with an aggregate notional amount of DM17.5 billion and a total fair value of approximately DM78 million as well as transactions denominated in British pounds with a notional amount of DM4.5 billion and a fair value of approximately DM17 million.

At September 30, 1998, the total fair value of currency and interest rate portfolio derivatives was DM397 million. The increase in fair value is primarily a result of the decline of the U.S. dollar and the British pound relative to the German mark, which started in August. The positive fair value of the derivatives is largely offset by negative changes in the value of the underlying exposures being hedged.

The Company's total exposure to credit risk amounts to DM543 (1997: DM230) million. Credit risk represents the total cost of replacing those derivative contracts in a gain position, net of offsetting agreements. The Company is exposed to credit related losses should any of the counterparties fail to perform as contracted. To minimize its exposure to credit risk, the Company deals exclusively with high credit quality financial institutions in Germany and abroad. Approximately 90% of these have credit ratings of AAA or AA from Standard & Poor's or Moody's. In addition, the Company limits the amount of credit exposure to any one bank, based on the bank's credit rating.

32 Segment information

Business segments	External sales in millions of DM		Intersegment sales in millions of DM		Total sales in million of DM	
	1998	1997	1998	1997	1998	1997
Energy	17,005	15,083	593	906	17,598	15,989
Industry	21,530	19,756	5,117	5,044	26,647	24,800
Communications	28,612	25,778	1,351	1,290	29,963	27,068
Information	14,369	13,223	2,583	2,184	16,952	15,407
Transportation	10,589	8,532	25	50	10,614	8,582
Health care	7,414	7,535	58	43	7,472	7,578
Components	9,191	7,865	1,626	1,507	10,817	9,372
Lighting	6,530	6,279	28	48	6,558	6,327
Siemens Financial Services	158		104		262	
Other, consolidations	2,298	2,879		704	(9,187)	(8,193)
Siemens worldwide	**117,696**	**106,930**	**11,485**	**11,776**	**117,696**	**106,930**

Business segments	Pretax income in millions of DM		Capital spending in millions of DM		Depreciation/write-downs in millions of DM	
	1998	1997	1998	1997	1998	1997
Energy	15	106	2,585	528	612	374
Industry	1,511	917	3,778	1,189	623	562
Communications	955	1,362	1,860	1,564	1,042	995
Information	68	105	674	724	583	601
Transportation	(588)	(24)	729	630	375	321
Health care	167	(170)	136	160	163	170
Components	(863)	340	2,497	3,433	2,842	1,171
Lighting	584	468	476	501	375	372
Siemens Financial Services	280		652		143	
Other, consolidations	1,309	431	899	1,032	287	485
Siemens worldwide	**3,438**	**3,535**	**14,286**	**9,761**	**7,045**	**5,051**

For segment reporting purposes, related activities have been combined into business segments.

Pretax income is equal to income from continuing operations before income taxes. In accordance with the Company's internal principles of management control, the business segments' income includes general corporate expenses, interest, and restructuring charges and exit costs.

Capital spending includes both capital expenditures and long-term investments. The prior year's figures have been restated to conform to the 1998 presentation. Depreciation/write-downs include exceptional depreciation charges on property, plant and equipment resulting from the closure of the production facility in North Tyneside, England, which have been allocated to the Components segment.

Geographic segments	Sales by customer location in millions of DM		Sales by company location in millions of DM		Pretax income in millions of DM	
	1998	1997	1998	1997	1998	1997
Germany	36,252	36,299	78,564*	73,006	414	1,628
Europe (other than Germany)	35,056	30,825	40,765	32,353	1,694	1,257
The Americas	27,107	21,558	25,623	21,737	637	453
Asia-Pacific	12,788	11,842	10,541	8,033	391	265
Other	6,493	6,406	1,282	1,082	89	(32)
Consolidations			(39,079)	(29,281)	213	(36)
Siemens worldwide	**117,696**	**106,930**	**117,696**	**106,930**	**3,438**	**3,535**

Geographic segments	Capital spending in millions of DM		Depreciation/write-downs in millions of DM	
	1998	1997	1998	1997
Germany	3,309	3,863	2,935	2,779
Europe (other than Germany)	5,954	3,189	2,784	1,042
The Americas	3,996	1,495	913	888
Asia-Pacific	841	1,103	381	310
Other	186	111	32	32
Siemens worldwide	**14,286**	**9,761**	**7,045**	**5,051**

Consolidations classified under the caption "Pretax income" include only items that cannot meaningfully be associated with specific geographic segments. All other intercompany eliminations have been allocated to those geographic areas in which the amounts were originally incurred.

* Includes exports to customers and subsidiaries totaling DM42,312 (1997: DM36,707) million shipped to the following areas: Europe (other than Germany) DM18,248 (1997: DM15,918) million; the Americas DM8,454 (1997: DM5,867) million; Asia-Pacific DM10,952 (1997: DM10,341) million; Other DM4,658 (1997: DM4,581) million.

Berlin and Munich, November 20, 1998

Siemens Aktiengesellschaft

The Managing Board

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated financial statements of Siemens Aktiengesellschaft and subsidiaries as of September 30, 1998. In connection with our audits we have also reviewed Management's discussion and analysis for fiscal year 1998 to establish whether it presents a true and fair view of the position of Siemens Aktiengesellschaft and subsidiaries. The preparation and content of these consolidated financial statements and Management's discussion and analysis are the responsibility of the Managing Board of the Company. Our responsibility is to express an opinion on these consolidated financial statements and Management's discussion and analysis based on our audits.

We conducted our audits pursuant to §317 of the German Commercial Code (HGB) in accordance with generally accepted auditing standards established by the German Institute of Certified Public Accountants (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and the Management's discussion and analysis is consistent with the consolidated financial statements. An audit of the consolidated financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements and Management's discussion and analysis. An audit also includes reviewing the scope of companies included in consolidation, assessing the accounting, valuation and consolidation principles used and significant estimates made by the Managing Board, as well as evaluating the overall presentation of the consolidated financial statements and Management's discussion and analysis. We believe that our audits provide a reasonable basis for our opinion.

Our audits of the consolidated financial statements and Management's discussion and analysis did not give rise to objections.

In our opinion, the consolidated financial statements prepared by the Managing Board of the Company present fairly, in all material respects, the financial position of Siemens Aktiengesellschaft and subsidiaries and the results of their operations in conformity with generally accepted accounting principles. The Management's discussion and analysis is consistent with the consolidated financial statements and presents a true and fair view of the group's position.

Munich, November 25, 1998

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Wiedmann — Wirtschaftsprüfer
Dr. Hoyos — Wirtschaftsprüfer
(independent auditors)

as of September 30, 1998	Sales[1] (DM million)	Income after taxes[1] (DM million)	Equity interest (%)
I. Subsidiaries			
Germany			
Siemens Nixdorf Informationssysteme AG, Paderborn	2,786	281 [4]	100
Siemens Business Services GmbH & Co. OHG, Munich	3,509	(59)	100
Osram GmbH, Munich	2,421	334	100
Siemens ElectroCom GmbH & Co., Constance	637	(34)	100
Vacuumschmelze GmbH, Hanau	536	28	100
Siemens Microelectronics Center GmbH & Co. OHG, Dresden	825	(8)	100
Siemens Finanzierungsgesellschaft für Informationstechnik mbH, Munich	7	360	100
Duewag AG, Krefeld-Uerdingen	590	(286)	99
Siemens Matsushita Components GmbH & Co. KG, Munich	1,110	188	50[2]
Europe			
Siemens S.A., Brussels	1,456	53	100
Siemens A/S, Ballerup (Copenhagen)	658	2	100
Siemens Osakeyhtiö, Espoo (Helsinki)	455	24	100
Siemens S.A.S., Saint-Denis (Paris)	1,679	13	100
Siemens A.E., Elektrotechnische Projekte und Erzeugnisse, Athens	177	(1)	100
Siemens plc, Bracknell (London)[3]	2,957	(198)	100
Siemens Ltd., Dublin	216	1	100
Siemens S.p.A., Milan[3]	1,839	26	100
Siemens Nederland N.V., The Hague	1,619	50	100
Siemens A/S, Oslo	981	21	100
Siemens Aktiengesellschaft Österreich, Vienna[3]	3,757	109	74
Siemens S.A., Lisbon[3]	1,035	41	100
Siemens AB, Stockholm	757	(4)	100
Siemens-Elema AB, Solna (Stockholm)	707	23	100
Siemens Building Technologies AG, Zurich[3] [5]	5,316	203	100
Siemens Schweiz AG, Zurich[3]	1,811	59	100
Siemens S.A., Madrid	1,266	41	100
Simko Ticaret ve Sanayi A.Ş., Istanbul	654	7	75
Siemens Rt., Budapest[3]	138	5	100
Siemens Nixdorf Information Systems S.A., Brussels	504	11	100
Siemens Nixdorf Information Systems S.A., Cergy (Paris)	432	(167)	100
Siemens Nixdorf Information Systems Ltd., Bracknell (London)	922	30	100
Siemens Nixdorf Informatica S.p.A., Milan	842	13	51
Siemens Nixdorf Informatiesystemen B.V., Zoetermeer/Netherlands	198		100
Siemens Nixdorf Informationssysteme Ges.m.b.H., Vienna	618	5	100
Siemens Nixdorf Informationssystem AB, Solna (Stockholm)	292		100
Siemens Nixdorf Informationssysteme AG, Kloten (Zurich)	390	20	100
Siemens Nixdorf Sistemas de Información S.A., Tres Cantos (Madrid)	312	58	100
Osram S.A.S., Molsheim/France	351	8	100
Osram Ltd., Wembley (London)	237	5	100
Osram Società Riunite Osram Edison-Clerici S.p.A., Milan	513	5	100

[1] These figures comply with the financial statements prepared in accordance with the specific generally accepted accounting principles in each country and do not reflect the amounts included in the consolidated financial statements. Income after taxes is translated at the average exchange rate on the balance sheet date, and sales are translated at the average rate of exchange for the year.

[2] Subsidiary pursuant to §290, par. 2(1) of the German Commercial Code.

[3] Sales and income after taxes as stated in the consolidated financial statements.

[4] Excluding extraordinary gains of DM759 million.

[5] Only the company's assets and liabilities have been included in the consolidated financial statements at September 30, 1998.

[6] Excluding extraordinary gains of DM360 million from the reversal of accruals on deferred tax assets, net of goodwill charged to equity.

	Sales[1] (DM million)	Income after taxes[1] (DM million)	Equity interest (%)
The Americas			
Siemens USA (consolidated financial statements)	18,591	342[6]	100
including: Siemens Automotive Corporation, Auburn Hills, Michigan			
Siemens Business Services, LLC, Burlington, Massachusetts			
Siemens ElectroCom International, Inc., Arlington, Texas			
Siemens Electromechanical Components, Inc., Peachtree City, Georgia			
Siemens Energy & Automation, Inc., Alpharetta, Georgia			
Siemens Information and Communication Networks, Inc., Boca Raton, Florida			
Siemens Information and Communication Products, LLC, Austin, Texas			
Siemens Medical Systems, Inc., Iselin, New Jersey			
Siemens Microelectronics, Inc., Cupertino, California			
Siemens Power Corporation, Richland, Washington			
Siemens Power Transmission & Distribution, LLC, Raleigh, North Carolina			
Siemens Transportation Systems, Inc., Iselin, New Jersey			
Siemens Westinghouse Power Corporation, Orlando, Florida			
Osram Sylvania, Inc., Danvers, Massachusetts			
Siemens Canada Ltd., Mississauga (Ontario)	1,156	45	100
Grupo Siemens S.A. de C.V., Mexico City[3]	702	16	100
Osram de México S.A. de C.V., Tultitlán	98		100
Siemens S.A., Buenos Aires	988	11	100
Siemens Ltda., São Paulo	2,186	87	100
Siemens S.A., Bogotá	203	5	94
Siemens S.A., Caracas	104	4	100
Osram Argentina S.A.C.I., Buenos Aires	130	8	100
Osram do Brasil Companhia de Lâmpadas Elétricas Ltda., Osasco (São Paulo)	224	13	100
Asien/Pazifik			
Siemens Ltd., Richmond (Melbourne)[3]	606	19	100
Siemens Ltd., Beijing	49	52	100
Siemens Ltd., Mumbai	442	(22)	51
Siemens Ltd., Hong Kong	260		100
P.T. Siemens Indonesia, Jakarta	102	1	94
Siemens K.K., Tokyo	413	2	83
Siemens Inc., Manila	161	(8)	100
Siemens Components (Integrated Circuits) Sdn. Bhd., Malacca/Malaysia[3]	1,696	54	100
Siemens Pakistan Engineering Co. Ltd., Karachi	102	7	64
Siemens Components (Pte.) Ltd., Singapore[3]	2,494	47	100
Siemens Telecommunication Systems Ltd., Taipei[3]	403	29	60
Osram-Melco Ltd., Yokohama	218	8	51
Others			
Siemens Ltd., Johannesburg[3]	1,586	30	64
II. Associated companies			
Germany			
BSH Bosch und Siemens Hausgeräte GmbH, Munich	6,338	161	50
Tela Versicherung Aktiengesellschaft, Berlin and Munich	587	25	50
International			
Telsi Ltd., London[3]	4,675	37	50
Siecor Corporation, Hickory, North Carolina[3]	1,948	154	50

Assets/funds employed September 30,	1998	1997	1996	1995	1994*
Siemens worldwide					
Intangibles, property, plant, and equipment	30,212	25,301	21,330	18,570	17,989
Noncurrent marketable securities	16,614	15,802	14,859	13,968	
Other investments	5,163	5,269	4,419	4,487	3,459
Noncurrent assets	51,989	46,372	40,608	37,025	21,448
Current assets (excl. liquid assets)	54,420	45,302	39,245	34,788	33,074
Liquid assets	5,615	6,429	7,648	10,164	23,916
Total assets	112,024	98,103	87,501	81,977	78,438
Paid-in capital	13,937	12,211	11,417	11,414	11,410
Equity generated	16,355	16,196	13,781	11,077	10,400
Shareholders' equity	30,292	28,407	25,198	22,491	21,810
as a percent of balance sheet total	27%	29%	29%	27%	28%
Total accrued liabilities	43,351	39,692	38,489	38,218	37,871
of which: Pension accruals	19,801	19,612	18,649	17,747	16,669
of which: Other accrued liabilities	23,550	20,080	19,840	20,471	21,202
Debt	14,484	9,204	6,179	5,141	4,518
Debt-equity ratio	0.48:1	0.32:1	0.24:1	0.22:1	0.21:1
Other liabilities and deferred income	23,897	20,800	17,635	16,127	14,239
Total funds employed	112,024	98,103	87,501	81,977	78,438

Earnings/dividend/yield	1998	1997	1996	1995	1994
Siemens worldwide					
Pretax income before financial results	1,574	2,421	2,307	1,146	850
Financial results	1,864	1,114	951	1,456	1,260
Pretax income	3,438	3,535	3,258	2,602	2,110
Income taxes	780	927	767	518	461
Income after income taxes	2,658	2,608	2,491	2,084	1,649
Return on equity	9.1%	9.7%	10.5%	9.4%	7.8%
Extraordinary gains and accounting changes	(1,741)		496		344
Net income	917	2,608	2,987	2,084	1,993
Total dividend of Siemens AG	892	857	840	728	728
Dividend per share in DM**	1.50	1.50	1.50	13	13

Cash flows	1998	1997	1996	1995	1994*
Cash provided by operating activities	3,981	4,073	4,666	5,394	7,156
Cash used in investing activities	(7,869)	(7,211)	(6,295)	(6,693)	(4,287)
Cash provided by (used in) financing activities	3,326	1,861	(971)	1,190	(393)
of which: Issuance of debt	3,274	1,942	250		
of which: Repayment of debt	(18)		(37)	(29)	(1,183)
Change in liquid assets	(814)	(1,219)	(2,516)	(155)	2,103

Amounts in millions of DM unless stated otherwise

* Prior year not made comparable
** Per DM5 par value share as of 1996
*** Without temporary student workers and trainees

New orders	1998	1997	1996	1995	1994
German operations	34,718	35,639	37,998	38,049	35,100
International operations	84,883	77,481	62,807	53,851	53,271
Siemens	119,601	113,120	100,805	91,900	88,371
Change over prior year in %	+6%	+12%	+10%	+4%	+5%

Sales	1998	1997	1996	1995	1994
German operations	36,252	36,299	36,391	37,857	35,771
International operations	81,444	70,631	57,789	50,906	48,827
Siemens	117,696	106,930	94,180	88,763	84,598
Change over prior year in %	+10%	+14%	+6%	+5%	+4%

Employees*** (in thousands) September 30,	1998	1997	1996	1995	1994
Germany	194	197	203	211	218
International	222	189	176	162	158
Siemens	416	386	379	373	376

Personnel costs	1998	1997	1996	1995	1994
Siemens	39,375	38,060	35,958	35,467	35,999

Capital spending	1998	1997	1996	1995	1994
Germany	3,309	3,864	3,767	3,478	2,649
International	10,977	5,897	4,095	3,987	3,072
Siemens	14,286	9,761	7,862	7,465	5,721
Acquisitions	6,787	2,030	1,213	2,021	1,188
Capital expenditures	7,499	7,731	6,649	5,444	4,533
Depreciation and amortization	7,045	5,051	4,556	4,564	4,473
as a percent of capital expenditures	94%	65%	69%	84%	99%

Research and development	1998	1997	1996	1995	1993/94
Siemens	9,088	8,132	7,296	7,274	7,508
as a percent of sales	7.7%	7.6%	7.7%	8.2%	8.9%

Siemens AG
Statement of income and balance sheet
in billions of DM (condensed version)

	1998	1997
Net sales	72.2	67.4
Cost of sales	(56.0)	(50.9)
Gross profit on sales	16.2	16.5
Other functional costs	(18.3)	(16.7)
Other income/expenses	3.6	2.1
Income before income taxes	1.5	1.9
Income taxes	(0.1)	(0.4)
Extraordinary items	(1.6)	
Net income	(0.2)	1.5

September 30,	1998	1997
Property, plant and equipment	5.1	5.9
Investments	25.1	23.0
Noncurrent assets	30.2	28.9
Inventories	3.2	2.2
Accounts receivable	25.6	24.7
Securities, liquid assets	18.6	14.6
Total assets	77.6	70.4
Shareholders' equity	23.7	23.0
Accrued liabilities and special reserves	30.2	29.1
Debt	0.4	0.7
Other liabilities	23.3	17.6
Total shareholders' equity and liabilities	77.6	70.4

The annual financial statements of Siemens AG have received an unqualified audit opinion from KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, and will be published in the German Federal Gazette and filed with the Commercial Registries of the Berlin-Charlottenburg and Munich District Courts.

The complete financial statements of Siemens AG can be obtained in German free of charge from Siemens AG, Infoservice UK/Z130, P.O. Box 2348, 90713 Fürth, Germany.

ADDRESS:
Siemens AG
Wittelsbacherplatz 2
D-80333 Munich
Federal Republic of Germany
Internet http://www.siemens.de

INFORMATION ON CONTENTS:
Telephone ++49 89 636-33032
636-32474
Fax ++49 89 636-32825
636-32830
Telex 52100-0 sie d

FOR COPIES PLEASE CONTACT:
Telephone ++49 89 636-32910
Fax ++49 89 636-32908
E-mail over.inform@mchw.siemens.de
Internet http://www.siemens.de/de/the_company/infopoint

This Annual Report is also available in French, German, and Spanish. An abbreviated version has been prepared in Japanese. (Telephone ++49 89 636-32528).

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Siemens financial diary*

Interim report for the first quarter	Jan. 27, 1999
Annual Shareholders' Meeting Olympiahalle, Munich, 10:00 a.m.	Feb. 18, 1999
Ex-dividend date	Feb. 19, 1999
Interim report for six months	Apr. 21, 1999
Summer Press Conference and interim report for nine months	July 22, 1999
Preliminary figures for fiscal year	Nov. 3, 1999
Annual Press Conference	Dec. 2, 1999
Annual Shareholders' Meeting for fiscal 1999	Feb. 24, 2000

* Preliminary dates

Siemens Aktiengesellschaft

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