Go for Profit and Growth!

SIEMENS

Annual Report 2003


SIEMENS

Siemens stands for innovation, customer focus and global competitiveness – all around the world. Generating synergies for a unique array of products, services and solutions, our broad portfolio gives us a competitive edge, particularly in tough times.

We continue to pursue the timeless vision of our founder, Werner von Siemens: to develop cutting-edge technologies for a better world. Siemens embodies sustainable success on a global scale. Today, our **GLOBAL NETWORK OF INNOVATION** comprises more than 400,000 employees, millions of customers and hundreds of thousands of partners and suppliers in over 190 countries.

FINANCIAL HIGHLIGHTS

in millions of euros	2003[1]	2002[1]
New orders	**75,056**	86,214
Sales	**74,233**	84,016
Net income		
Excluding a gain on sales of shares of Infineon	**2,445**	1,661
Gain on sales of shares of Infineon	**–**	936
Total net income	**2,445**	2,597
Net cash provided by operating activities	**5,712**	5,564
Net cash used in investing activities	**(3,939)**	(810)
Research and development expenses	**5,067**	5,819
Shareholders' equity (September 30)	**23,715**	23,521
Employees (September 30, in thousands)	**417**	426

[1] Fiscal year: October 1 – September 30

Dear shareholder,

Siemens' net income in fiscal 2003 was nearly 50 percent higher than the comparable figure a year earlier. In light of the generally unfavorable conditions on our markets, this is a major success. Most of our Groups have shown that they can hold their own – even in a difficult business environment. We have established a strong performance-oriented culture with clear goals, concrete measures and rigorous consequences.

Once again, cash flow development was especially gratifying. Net cash provided by operating activities, less net cash used in investing and financing activities, totaled €1.8 billion – despite supplemental contributions to our pension funds. The managers at our Groups have embraced the philosophy that "cash is king," having recognized that consistently positive cash flow gives our businesses the entrepreneurial leeway they need to secure competitive advantages, particularly when times are tough.

The capital markets have rewarded our success. Following declines in early October 2002 and in March 2003 – when the Siemens share price dropped to nearly €30 in a generally weak equity market – our stock rebounded sharply, to more than €50 a share at the end of the fiscal year. For fiscal 2003, we will propose a dividend of €1.10 per share. Your confidence in the Siemens share has paid off. And we will continue doing everything in our power to prove to you – and the capital markets – that Siemens is on course and making continous headway.

At the end of 2000, as we neared completion of our Ten-Point Program, we negotiated medium-term margin targets with our Groups. These targets were partly based on market conditions at that time. In the spring of 2001, however, the information and communications market, in particular, showed first signs of major structural difficulties. In response, we launched our Operation 2003, which defined the key areas where countermeasures were necessary. The results are now in:

"We have established a strong performance-oriented culture with clear goals, concrete measures and rigorous consequences."

“Eight of our nine Groups with margin targets for fiscal 2003 came through with flying colors.”

- Eight of our nine Groups with margin targets set for fiscal 2003 came through with flying colors. These Groups – Power Generation, Medical Solutions, Automation and Drives, Osram, Power Transmission and Distribution, Transportation Systems, Siemens VDO Automotive and Siemens Financial Services – achieved earnings that rank with the best in their industries. At Siemens Building Technologies, the only Group to clearly miss its target, we have taken appropriate action.
- We gave some Groups – primarily those in our I&C business area – more time to reach their margin targets because of the structural weaknesses in their markets. These Groups have also made solid progress. IC Mobile and Siemens Business Services were in the black in fiscal 2002 and again in 2003. IC Networks returned to profitability in the fourth quarter of fiscal 2003 after extensive restructuring.
- In asset management, our third action area, we exceeded our targets – as our cash flow figures clearly confirm.
- We also increased the profitability of our U.S. activities on a sustainable basis – another focus of Operation 2003. Only one of our U.S. Operating Companies posted a loss in 2003 – a situation we will correct in the current fiscal year.
- Our last action area involved cutting central costs. Here, too, we have been successful, slashing costs at our Corporate, Group and Regional headquarters by €1 billion within three years.

The Managing Board has decided not to change the Group margin targets. The Groups that have already reached their targets are making further progress. The others are intensifying their efforts to reach their targets as soon as possible.

Besides implementing Operation 2003, we also conducted a thorough review of our management system, which we wanted to make even more transparent and easier to understand. That's why we expanded our *top*$^{+}$ business excellence program at the start of fiscal 2004, integrating it into a reorganized Siemens Management System.

In the future, we will concentrate on three Company-wide programs – *Innovation, Customer focus* and *Global competitiveness* – into which we are incorporating all our existing initiatives and projects. We are gearing our management development and employee learning measures to support and complement these programs.

At the end of October 2003, our Company's top managers committed themselves to our directive for fiscal 2004 – "Go for profit and growth" – and familiarized themselves with the three Company programs:

- As part of our *Innovation* program, we will focus more strongly on developing trendsetting technologies and cross-Group technology platforms. We have already scored initial successes in this area – for example, at Medical Solutions and at Automation and Drives. This program will enable us to leverage the Company's synergies even more effectively in the future.
- By implementing our *Customer focus* program, we intend to substantially boost growth – but not at the expense of earnings. Our regional strategies will continue to concentrate on Europe and the United States. In China, we are redoubling our efforts with a fresh initiative. We also foresee major potential in India and Russia.
- Under our *Global competitiveness* program, we plan to expand our presence at lower-cost locations. This applies to purchasing as well as to manufacturing, software development and administrative services.

"In the future, we will concentrate on three company-wide programs – *Innovation, Customer focus* and *Global competitiveness*."

"We have established a highly transparent internal and external reporting system."

We see a good chance to increase sales and earnings once again by implementing these Company-wide programs. If the overall economic situation allows, we could even achieve a double-digit percentage increase in net income in fiscal 2004.

Siemens is renowned for its sound financial management. We have established a highly transparent internal and external reporting system. The Company is firmly committed to good corporate governance – and we practice what we preach. We welcome the discussion that is leading to more stringent accounting rules and regulations in the U.S. and Europe.

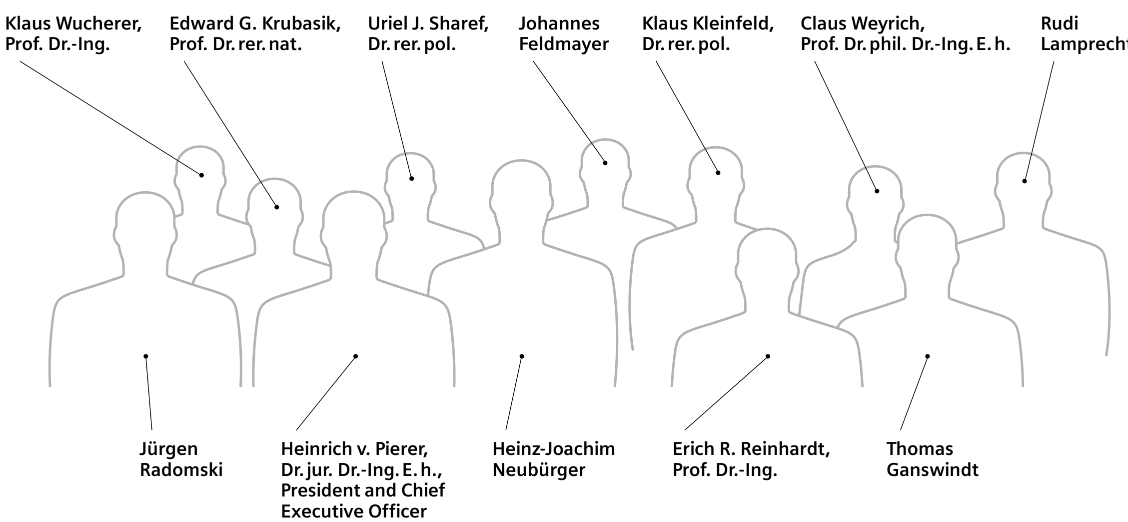
Our aim is to continually increase the value of the Company – your Company. At the same time, we subscribe to the principles of good corporate citizenship. As our Corporate Principles state: "Our ideas, technologies and activities help create a better world. Integrity guides our conduct toward our employees, business partners and shareholders." Ultimately, these values are the best prerequisite for sustainable success.

Heinrich v. Pierer

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

At a glance

Managing Board of Siemens AG*

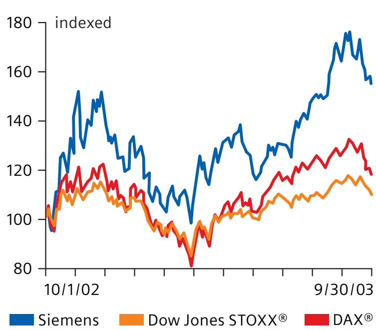


* As of January 1, 2004
For further information, see the fold-out inside the back cover.

Stock market information

in euros	2003[1]	2002[1]
Stock price range (XETRA closing prices, Frankfurt)		
High	**58.32**	78.52
Low	**32.05**	34.00
Year-end	**51.14**	34.00
Number of shares (year-end, in millions)	**891**	890
Market capitalization (year-end, in millions of euros)	**45,559**	30,273
Per-share data		
Earnings per share	**2.75**	2.92
Earnings per share (fully diluted)	**2.75**	2.92
Dividend (comparable)	**1.10**[2]	1.00

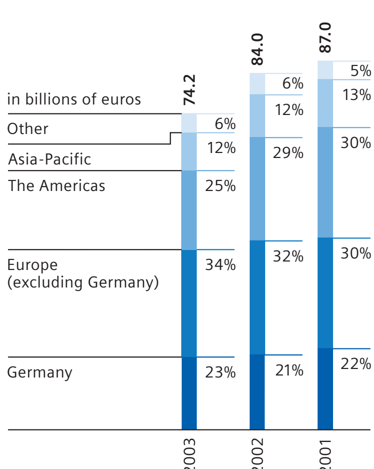
Figures reflect the stock split of April 30, 2001 (one additional share for every two shares held).
[1] Fiscal year: October 1 to September 30
[2] To be proposed at the Annual Shareholders' Meeting



The Siemens share

As of September 30, 2003, the capital stock of Siemens AG totaled approximately €2.7 billion, representing some 891 million no-par value shares in registered form. Each share has one vote.

In fiscal 2003, the Siemens share was traded on all German stock exchanges, the Swiss stock exchange, and stock exchanges in London, Paris and New York. On the New York Stock Exchange, Siemens shares are traded in the form of ADRs (American Depositary Receipts), with one ADR corresponding to one Siemens share.



Sales by region

Adjusted for currency effects and portfolio activities, sales declined 4% in fiscal 2003 to €74.2 billion. They totaled €17.1 billion in Germany, €15.4 billion in the U.S. and €8.7 billion in Asia-Pacific. At €2.8 billion, sales in China were below the prior-year figure of €3.2 billion, primarily as a result of currency effects.

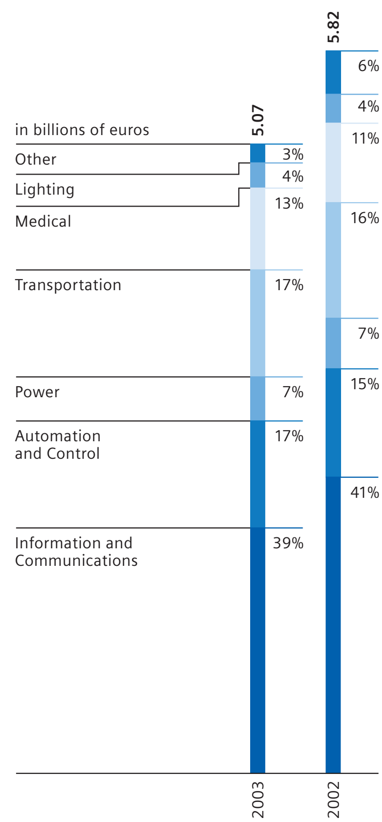
Investments in research and development

In fiscal 2003, Siemens invested €5.1 billion in research and development, or more than €23.2 million every workday. We have nearly 50,000 R&D employees worldwide. Their activities focus on all major markets that are undergoing dynamic economic and technological development.

Most of our R&D outlays flow into information, communications and automation technologies. Embedded software is playing an increasingly vital role in our products and systems, performing a growing range of functions in everything from communications networks, mobile phones, vehicle navigation systems and railway automation solutions to computed tomography systems for the healthcare community and control technology for power plants and power grids. Siemens has more than 30,000 software engineers around the globe.

Our R&D activities generate customer value by serving as a springboard for innovative products, systems and services. We aim to set the pace in as many sectors as possible. Critical success factors include systematic innovation planning, leadership in key strategic technologies, a strong patent portfolio and optimized innovation processes. We leverage technology synergies across the entire company, reaping the benefit of systematic best practice sharing and cross-Group technologies – such as software architecture and sensor systems, shared platforms like SIMATIC for automation applications and *syngo*® for diagnostic imaging.

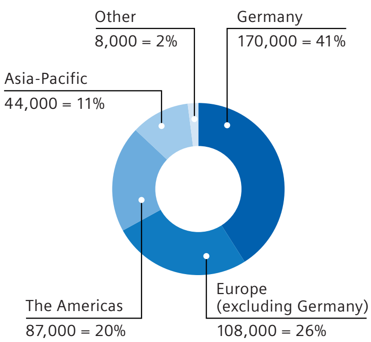
Our innovative strength derives from the creativity, commitment and knowledge of our researchers around the world, who are the backbone of our GLOBAL NETWORK OF INNOVATION.
www.siemens.com/research_and_development



Patents

In fiscal 2003, our innovative solutions yielded more than 7,000 inventions, and we filed patent applications for over two-thirds of these. Siemens is a leader in international patent statistics. In Germany, we were the largest applicant, while in Europe we held the No. 2 spot. We also ranked among the top ten patent holders in the United States. More than 45,000 patents worldwide are a testimony to our power of innovation.

Our competitive position in the patent field also depends on the strategic management of our patent portfolio. Rigorous patent management entails focusing on trendsetting technologies, eliminating any gaps in our patent portfolio, optimizing our portfolio for each region, and exchanging and granting licenses.
www.siemens.com/intellectual_property



Employees worldwide

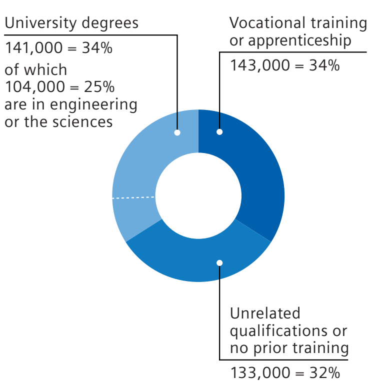
At the end of fiscal 2003, Siemens had 417,000 employees worldwide. Germany accounted for 41% (170,000) of this total, followed by the other European countries, with 26% (108,000). North America was home to roughly 16% (69,000) of our workforce, while Asia-Pacific contributed about 11% (44,000), and Latin America 4% (18,000). Approximately 2% (8,000) of our employees worked in other regions (Africa, the Middle East, the C.I.S. countries).

Women at Siemens

Women comprise 27% (112,000) of our global workforce. Twenty percent of the women employed at Siemens (23,000) hold university degrees, of which 10,000 are in technical or scientific fields. In fiscal 2003, roughly 34% (10,900) of all new hires worldwide were women. At the end of the fiscal year, women occupied 9% (around 5,250) of our 58,400 managerial positions.

Developing our people's competencies

Our commitment to vocational training and continuing education is unwavering. About 40% of the roughly €500 million we invested in this area in fiscal 2003 flowed into vocational training and 60% into business-oriented continuing education. Our vocational training programs span 35 professions and courses of study. Some 12,000 young people are currently enrolled in apprenticeship and work-study programs.



Employee qualifications

More than two-thirds (68% or some 284,000) of our 417,000 employees have professional qualifications. Thirty-four percent (141,000) hold university degrees, of which 25% (104,000) are in engineering or the sciences. Another thirty-four percent (143,000) have earned a vocational school diploma or completed an apprenticeship. Slightly less than one-third (133,000) have qualifications in fields unrelated to their work or are without any prior professional training.

New hires

Last fiscal year, we hired 32,200 employees worldwide, 30% (9,700) of whom hold university degrees. Roughly two-thirds (6,400) of our university-trained new hires are engineers or scientists. As these figures attest, we continue to boast a highly-qualified workforce.

Group Presidents*

Herbert Lohneiß, Dr. rer. nat.
SFS

Johann Löttner
SD

Hans M. Schabert
TS

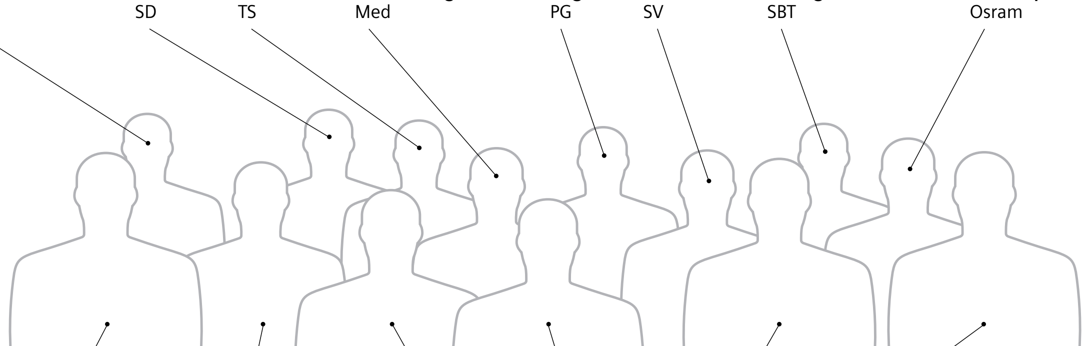
Erich R. Reinhardt, Prof. Dr.-Ing.
Med

Klaus Voges
PG

Wolfgang Dehen
SV

Heinrich Hiesinger, Dr.-Ing.
SBT

Wolf-Dieter Bopst, Dr. oec. publ.
Osram



Joergen Ole Haslestad
I&S

Udo Niehage, Dr.-Ing.
PTD

Helmut Gierse
A&D

Thomas Ganswindt
ICN

Paul A. Stodden
SBS

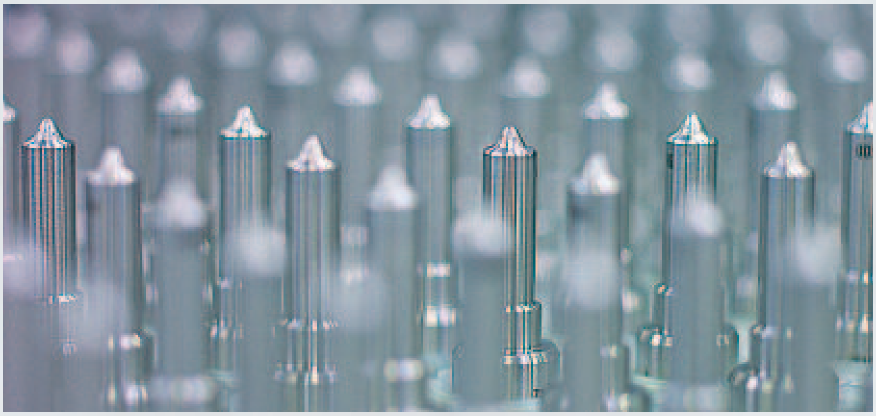
Rudi Lamprecht
ICM

* As of January 1, 2004
For further information, see the fold-out inside the back cover.

"Although our piezo-injection technology has been on the market just a short time, it's already built into more than a million cars."

Wendelin Klügl, Head of Common Rail, Siemens VDO Automotive, Regensburg, Germany

Our researchers and developers are constantly setting new standards in basic technologies and generating a steady stream of inventions and patents. Bottom-line success depends on leveraging the innovative strength of every R&D unit across the entire company. A single invention can lead to trailblazing applications in very diverse fields. Take our piezo-electric actuators, for instance. They're already a success in Siemens VDO's high-speed fuel-injection valves, which are making today's common-rail and pumped-jet diesel engines run more quietly, smoothly, cleanly and efficiently. In the future, these actuators will also be used in gasoline engines, in motors for power windows and to dampen vibrations in cars and other products. Synergies between R&D and production are just one outstanding strength of Siemens' GLOBAL NETWORK OF INNOVATION.



"The One Siemens formula for success is simple: We bundle our technological strengths and offer our customers tailored solutions from a single source."

Mindy Kantor, Marketing Director, Siemens One, Iselin, New Jersey, USA

Houston's Reliant Stadium, opened in 2002, is an excellent example of how customer orientation pays off. Four Siemens Groups joined forces to equip the facility – which seats nearly 70,000 – with everything from communications systems and fiber-optic switching gear to building automation, fire protection, and safety and security systems. A light-rail line is now being built to connect the stadium with downtown Houston in time for the 2004 Super Bowl. Siemens is also supplying key parts of this system – power generation and distribution equipment, tracks, vehicles and signaling technology. Leveraging a broad portfolio to provide the best possible solutions is what our GLOBAL NETWORK OF INNOVATION is all about.

"Developing the *syngo* software platform means cooperating across continents."

Miroslav Kliment, *syngo* Project Head, Program and System Engineering, Košice, Slovakia

Best practice sharing – that's what we call knowledge exchange across Siemens' global network. We have 30,000 software engineers all around the world, and 60 percent of our sales depend on the solutions they develop. Synergies in software often give us a decisive competitive edge. Our *syngo*® platform, which is now incorporated into more than 40 of our products, is a perfect example. It provides doctors with a uniform graphic interface for everything from ultrasound devices to MRI systems – for applications ranging from image generation and processing to data archiving and patient monitoring. Key *syngo*® components are developed by international teams at Program and System Engineering, a Siemens-owned software and electronics company with 5,000 employees in Austria, Germany, Eastern Europe, Turkey and, soon, China. At the forefront of global competition – that's Siemens' GLOBAL NETWORK OF INNOVATION.

Business areas

Information and Communications

Siemens' Information and Communications business area comprises three Groups: Information and Communication Mobile, Information and Communication Networks, and Siemens Business Services. Our range of complex I&C solutions makes us a world leader in our industry. We provide key technologies, applications and services: Next Generation Network, mobile communications, e-business solutions and a wide array of IT services.

Information and Communication Mobile (ICM)

€10.0 BILLION IN SALES

€180 MILLION IN GROUP PROFIT

As a full-line supplier and systems integrator, we ensure smooth interaction among all mobile communications components: infrastructure technologies, mobile handsets, wireless modules, multi-vendor applications and products for wireless voice and data communications. Cooperating with customers and partners throughout the world, we leverage our expertise to develop innovative products, solutions and services. Together, we are exploiting new opportunities and driving market growth.

We supply mobile infrastructure for 180 customers in more than 90 countries, making us one of the top three providers worldwide. With our partner NEC, we have set up the first commercial networks in the UK, Italy, Austria and Hong Kong to employ the Universal Mobile Telephone Standard (UMTS). With more than two dozen UMTS orders, we are a market leader in next-generation wireless technology. We also stand for quality and reliability in GSM, GPRS and EDGE systems.

Last year, we launched 26 new cell phones – including the U10 and U15 phones for UMTS, the SL55 Slider Phone and eleven cellular camera phones such as the SX1 Smart Phone. We are the world leader in phones based on Digital Enhanced Cordless Technology (DECT). Our award-winning products prove that we deliver more than technology. Our Xelibri line features the first cell phones to be marketed as fashion accessories. We have redefined the cordless phone market with our exclusive designs. Last year, in cooperation with the Italian designer Alessi, we unveiled the first designer cordless telephone.

We are also an innovation leader in the fast-growing market for wireless modules. As a top-tier supplier in such key sectors as automobiles, machine-to-machine communication and consumer goods, we are generating high growth. And with our international network of developers and manufacturing locations – including cell phone production facilities in Germany, China and Brazil – we're poised to exploit high-growth opportunities worldwide.

Information and Communication Networks (ICN)

€ 7.1 BILLION IN SALES

€ (366) MILLION IN GROUP PROFIT

We offer innovative communications technologies to equip our customers for the future and enhance their competitive advantages. Our solutions are based on the Next Generation Network, which connects people and organizations quickly and effectively via open, flexible infrastructures.

With our HiPath IP convergence product family, we enrich enterprise data networks with voice applications and integrate communications into business processes, significantly boosting our customers' productivity.

For network operators, our complete SURPASS solutions and comprehensive support open up new business opportunities in innovative services.

Our novel LifeWorks concept helps customers generate sustainable growth. LifeWorks links enterprise networks with public telecommunications systems, making the applications hosted by these systems accessible to any network and any end user. By creating a shared communications environment, LifeWorks provides uniform access to data, applications and services – in the office, at home and on the road.

We are focusing on innovations that drive the Next Generation Network and leverage its potential. Our R&D activities concentrate primarily on technologies that merge voice and data networks, provide access to broadband applications and advance optical networks.

Siemens Business Services (SBS)

€5.2 BILLION IN SALES

€13 MILLION IN GROUP PROFIT

We are an international IT service company, benefiting more than 10,000 customers around the world with our industry knowledge, systems expertise and coordinated portfolio of multi-vendor services. We focus on providing manufacturers, financial service providers and public-sector clients with consulting, systems integration and solutions, as well as operating and maintaining their complex IT infrastructures.

Our customers trust us to analyze their business processes and manage their mission-critical projects. When it comes to vital IT applications, our expertise generates added value – whether it's a rapid return on investment or sustainable business growth.

Our IT solutions optimize customers' business procedures by integrating standard applications. For example, we are Europe's leading provider of innovative e-government solutions, serving public-sector clients such as the German city of Cologne, Italy's Carabinieri police force and the Norwegian army.

Outsourcing projects already account for about half our sales. As more and more companies see the advantages of turning their IT infrastructures and IT-based business processes over to experts, our outsourcing business is sure to grow.

Meanwhile, we're driving our IT maintenance business – already the world's largest provider of multi-vendor services – with innovative service concepts.

We generate some 50 percent of our total sales outside Germany. We're particularly intent on continuing our expansion in North America, where we already do business with half of the country's 100 largest companies.

Automation and Control

Siemens' Automation and Control business area is the world's largest supplier of products, systems, solutions and services for industrial and building automation. We help our customers optimize their business and production processes, enabling them to improve their efficiency and profitability. Using the latest information technology, our Automation and Control Groups cooperate closely to exploit development synergies in the four main fields of automation: manufacturing, process, building and logistics.

Automation and Drives (A&D)

€8.4 BILLION IN SALES

€806 MILLION IN GROUP PROFIT

Our advanced automation, drives, switchgear and installation technologies are renowned worldwide – and have kept our business growing in a difficult economic environment. We are consolidating our position as world market leader and boosting our earnings to new levels.

Step-by-step, we are expanding the array of innovative products and systems based on our Totally Integrated Automation and Totally Integrated Power platforms – thus enabling customers to increase their profitability while safeguarding their investments. Recent successful launches include the Simotion motion control system for production machinery and Sinamics, a new generation of drives.

Working with partners from Siemens' Power Groups and Automation and Control Groups, we have bundled process know-how with offerings for automation and power distribution. That's how we created Siemens Industry Suites – a unique sector-oriented range of products and services that substantially enhances customer productivity by pulling together all the steps in the production process.

Cooperating with external partners as well, we will continue to expand our presence in the world's key markets for automation and drives.

To improve our processes and cost positions, we are using *top*+ tools like asset management and quality assurance, and exploiting e-business applications, which we are continually optimizing and expanding.

Industrial Solutions and Services (I&S)

€4.0 BILLION IN SALES

€(41) MILLION IN GROUP PROFIT

We are experts in building and operating systems for the process and manufacturing industries. In fiscal 2003, we sharpened our focus on our two major strengths: industry solutions and traffic control systems.

In the industry sector, our innovative solutions and services help customers boost productivity at their existing facilities. In concert with our partners at other Siemens Groups, we are developing product families for the Siemens Industry Suites. These complete, integrated solutions extend from the automation level to the management level, spanning the entire production process, from receiving raw materials to shipping finished products. Tight integration of all process steps and plant systems provides our customers with innovative ways to control production processes and enhance productivity. It also guarantees a high degree of operational security, while cutting investment risks and costs. We are currently focusing our new product families primarily on the paper, mining and metals, oil and gas, and potable and waste water sectors.

In other industry segments and in the infrastructure business, our IT solutions optimize customer processes, and our advanced maintenance management tools minimize downtime. In marine engineering, we are a leading provider of electrotechnical equipment.

In the traffic control sector, we are well-positioned in conventional traffic control and guidance systems. We are strengthening our traffic telematics business by expanding our mobility management activities. Our telematics solutions will enable us to exploit the expected growth in demand for traffic management systems.

Siemens Dematic (SD)

€2.6 BILLION IN SALES

€(218) MILLION IN GROUP PROFIT

We automate logistics, materials flow and production processes. As an innovative partner, we develop everything from products and modular components to IT solutions and entire systems. Our particular strengths are distribution, industrial and airport logistics, the automation of postal and freight centers, and electronics assembly. We generate more than half our sales in the Americas.

Our activities focus on specific sectors – including chemicals and pharmaceuticals, food and beverages, electronics, wholesalers and retailers, automobiles, airports, and postal, courier, package and express services.

To implement our sector strategy, we are rigorously synergizing activities both within our Group and across the entire Siemens organization. Our goal is to offer customers fully integrated, high-performance automation solutions by exploiting innovative ideas and standardizing architectures for software, controls and mechatronic systems. Recent innovations include our Siplace X series, a new benchmark for electronics pick-and-place machines, our iSort system for sorting a broad range of mail types, and our new High Speed Diverter for baggage handling.

Our acquisition of Automation Technologies Industries in the U.S. has rounded out our range of products and services in the area of electronics production. Alliances with SAP and Manhattan Associates in the U.S. have augmented our offerings in logistics IT. A cooperative venture with the Japanese vendor TKK is helping us further expand our activities in Asia.

Siemens Building Technologies (SBT)

€5.0 BILLION IN SALES

€101 MILLION IN GROUP PROFIT

We are a world leader in building automation – offering a comprehensive range of products, systems and services for building security, fire protection and comfort control. To meet the growing demand for integrated solutions that can be implemented worldwide, we have developed global platforms. We continue to expand our range of Web-based services for optimizing energy use. Our portfolio gives customers the best of both worlds: complete systems and comprehensive services, coupled with tailored components and solutions integrated into their business processes.

To further broaden our offerings, we are continuously developing new sector-oriented solutions and intensifying cross-selling between our divisions and other Siemens Groups.

Our strategy is to exploit company-wide synergies to the greatest possible extent. Using *top*+ tools, we have increased productivity by further streamlining our production processes and outsourcing sales activities in smaller markets.

Power

Siemens' Power business area comprises Power Generation (PG) and Power Transmission and Distribution (PTD). PG offers efficient, environmentally compatible power generation systems as well as solutions for industrial applications, including services for power plants and industrial power systems. PTD – a product and turnkey systems supplier, systems integrator and service provider – enables customers to transport electrical energy safely and efficiently from power plant to consumer.

Power Generation (PG)

€7.0 BILLION IN SALES

€1.171 BILLION IN GROUP PROFIT

Faced with a weaker market for new power plants, we maintained our strong and profitable competitive position by introducing timely countermeasures.

Our first priorities were to optimize our portfolio and boost overall sales. A key move was the purchase of Alstom's industrial turbine activities, which has augmented our product lines for small and medium-sized gas turbines and for steam turbines with outputs of up to 100 megawatts. This acquisition has also advanced our Industrial Applications Division to a world-leading position in the market for industrial power solutions while improving our prospects for continued growth in the oil and gas sector. In the power plant business, we are poised to expand our activities – particularly in Asia and some parts of Europe – as demand accelerates again in the medium to long term.

Building our service business is another top priority. To exploit new opportunities in the burgeoning service market, we have set up Turbo Service Networks (TSN), the world's largest network of independent service companies. By servicing older Siemens turbines not previously covered by PG maintenance contracts, TSN is opening up a new market for us. We are also leveraging synergies between our Industrial Applications Division and our fossil-fueled power plant business to generate additional growth, particularly in services.

Power Transmission and Distribution (PTD)

€3.4 BILLION IN SALES

€207 MILLION IN GROUP PROFIT

By keeping our strategy sharply focused on our customers' needs, we have consolidated our No. 2 position worldwide and reinforced our status as a market leader and preferred partner in power transmission and distribution.

We are continuously innovating and optimizing our product portfolio to drive growth and enhance our competitive advantages. More and more of our products and systems are based on integrated communications technologies and advanced software solutions. Recent innovations include a new power control system for municipal utilities and grid operators as well as cutting-edge controls for high-voltage direct-current transmission systems.

We have again gained market share in key world markets like the Middle East and Southeast Asia. Eighty-six percent of our sales are generated outside Germany and about half that figure outside Europe. The expansion of our service business, which yields high local value added, is a key contributor to our international success. Our service offerings include the maintenance of complete national grids in Estonia and New Zealand. In the UK, we are a leading provider of metering services. In the area of high-voltage direct-current transmission, another major order in Australia has fortified our position as a leading supplier to the world market.

Via our e-business portal, customers can access our products and solutions anytime, anywhere. E-business is also helping our partners and our Group improve process efficiency.

Transportation

Siemens' Transportation business area comprises two Groups: Transportation Systems (rail systems) and Siemens VDO Automotive (automotive systems). Both Groups' products and solutions are designed to provide mobility for a world on the go and to meet growing demands for environmental compatibility and improved performance. We are innovation drivers in our industry.

Transportation Systems (TS)

€4.7 BILLION IN SALES

€284 MILLION IN GROUP PROFIT

We have consolidated our leading positions in rail automation and turnkey projects while strengthening our rolling stock and services businesses. Rigorous asset, cash, project and risk management programs have been the key to our success. From our current strong base, we intend to generate additional growth by extending our technological leadership and further internationalizing and regionalizing our business.

Orders for a new fully automated subway line in Barcelona – the first of its kind in Spain – and for signaling and control systems in the Chinese cities of Nanjing and Shenzhen highlight our strengths in urban rail automation. The successful launch of the Transrapid project in Shanghai and the sale of rapid-transit trains to Guangzhou and other metropolitan areas have further reinforced our position in China's high-growth market. We continue to enjoy an outstanding reputation as a highly reliable service provider and manufacturer of rail vehicles. We are supplying double-decker train units for Switzerland's national railway, Desiro trains for express routes operated by First and Keolis in Northern England and, in a first-time order, metro cars for Oslo's subway system. In addition, we have won maintenance contracts for London's new Heathrow Express trains and for trains operated by the British rail companies Stagecoach and First. We have also opened a Desiro service facility in Southampton, on England's south coast.

Our focus on innovation, automation, modular systems and platform concepts, coupled with a renewed emphasis on productivity and quality, will ensure our long-term market success and continued profitable growth.

Siemens VDO Automotive (SV)

€8.4 BILLION IN SALES

€418 MILLION IN GROUP PROFIT

We have continued to make solid progress despite the prolonged economic downturn. Our *top*+ WIP restructuring program – a key factor in our success – gained further momentum with four new initiatives. The centerpiece, our Zero Fault quality initiative, is enabling us to increase customer satisfaction and significantly reduce costs. We have improved our cost position by rigorously leveraging synergies in production and purchasing. In a drive to further optimize our portfolio, we have shed non-core activities like customized cockpit production.

At the same time, we are strengthening our activities in promising new fields. For example, we are now producing advanced piezo diesel injection systems in an alliance with Volkswagen. Development of piezo technologies for use in gasoline-powered engines will help make us a top innovator and world market leader in gasoline injection systems.

We are expanding our portfolio in the NAFTA countries and in Asia. Through acquisitions, we intend to considerably increase our U.S. market share in engine and driver information systems and infotainment. We are also growing our business in Asia. In China, for example, we have restructured our Commercial Vehicles Division to profit from an expected boom in this sector.

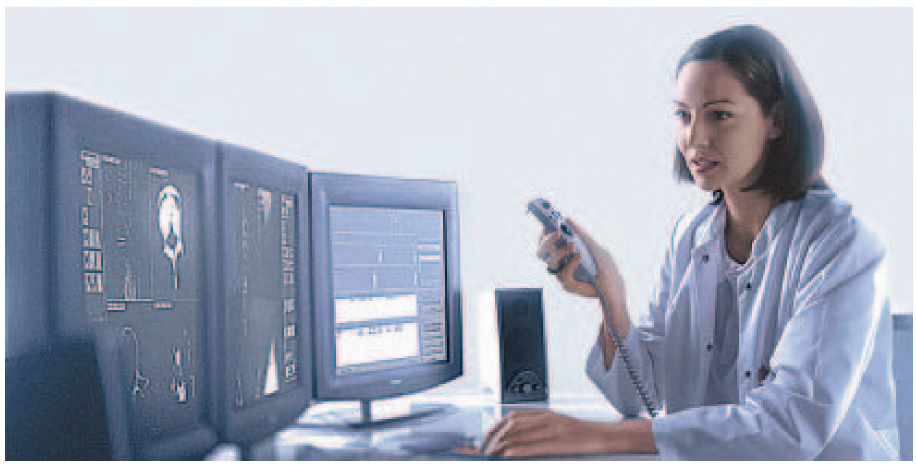
Our strategy of developing products with high end-user value has been rewarded with a spate of new orders. Successful innovations include head-up displays that supplement conventional instrumentation, and sensors for adaptive airbag triggering that enhance passenger safety.

Our intelligent, customer-oriented solutions enable car makers to differentiate themselves in a fiercely competitive world market. As more and more high-tech features are incorporated into vehicles, we will expand our leading position in automotive electronics and mechatronics.

Medical

Siemens' Medical area is renowned for its innovative products, complete solutions and wide range of services for the healthcare community. Our portfolio features a full array of imaging systems for diagnostics and therapeutics, as well as audiology systems and IT solutions for our industry. Our innovations optimize processes and improve efficiency across the healthcare continuum.

Medical Solutions (Med)



€7.4 BILLION IN SALES

€1.118 BILLION IN GROUP PROFIT

Through a unique combination of innovation, partnership and market-oriented solutions, we help our customers deliver high-quality, patient-centric healthcare. Our coordinated approach to increasing healthcare efficiency by cutting costs and boosting quality is summed up in the formula: "People, Processes, and Products." The advanced picture archiving and communication system (PACS) that we installed at Bethesda Memorial Hospital in Boynton Beach, Florida is a prime example. The system has slashed diagnosis time from 16 hours to four.

Our market was again characterized by aggressive competition, increasing price pressure and, since 2001, a weakening dollar. In addition, capital investment in major European markets remained restrained. Nevertheless, we have continued to generate profitable growth.

World-class innovation remains the key to our success. With more than 500 installed systems, the Somatom Sensation 16 is the most popular computed tomography system on the market. Our *syngo*® software platform, now incorporated into more than 40 of our products, has been licensed to more than 15,000 customers. We are now testing our new Soarian workflow management system in hospitals around the world – and have already received more than 80 orders. Soarian automatically synchronizes processes across the healthcare enterprise, enabling faster access to all relevant patient data and continuous monitoring of treatment processes.

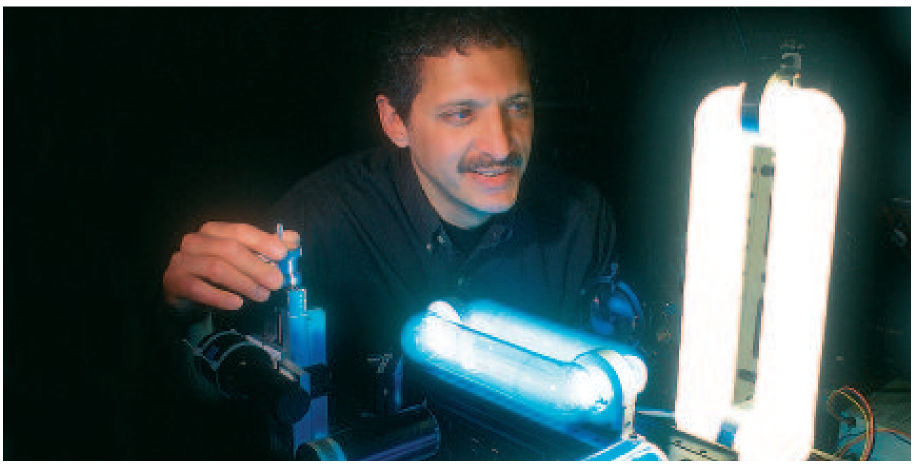
We have high expectations in the emerging field of molecular imaging, where we are cooperating with one of the world's foremost research institutes: the Harvard University School of Medicine.

On July 1, 2003, we transferred our electromedical activities into a joint venture with Draegerwerk AG in Germany. To win regulatory approval for this move, we sold our life support systems business to Getinge AB in Sweden. Our purchase of the radiation therapy activities of MRC Systems GmbH in Heidelberg, Germany has reinforced our position in the field of oncology.

Lighting

Siemens' Lighting business area, comprising Osram, specializes in lighting sources and related electronic control gear. We focus on general lighting solutions, automotive lighting, special photo-optic lamps and display lighting. Osram is a truly international company, generating nearly 90% of its sales outside Germany.

Osram



€4.2 BILLION IN SALES

€410 MILLION IN GROUP PROFIT

With our lamps, electronic control gear and opto-semiconductors, we intend to consolidate our leading position on the global lighting market. Already a premier supplier in every region of the world, we are aggressively expanding our businesses in Asia-Pacific and Eastern Europe, where we expect the fastest market growth.

We have successfully transformed ourselves from a conventional light bulb manufacturer into a cutting-edge high-tech company. Innovative lighting sources and systems are increasing our sales volume and generating above-average earnings – even in a difficult economic environment. We anticipate continued strong growth in the areas of opto-semiconductors, electronic control gear and electronically controlled lamps.

In April 2003, we opened the most advanced optoelectronics chip factory in the world. Located in Regensburg, Germany, the new facility will enable us to significantly boost our production of semiconductor lighting sources such as light-emitting diodes (LEDs). LEDs are being used more and more in automotive and general lighting applications – particularly in fields where miniaturization, long product life and color saturation are key factors. New organic LEDs also have a bright future: They are not only extremely thin and highly luminous but also allow for wide-angle viewing.

Financing and Real Estate

Siemens Financial Services (SFS)

€8.445 BILLION IN TOTAL ASSETS

€269 MILLION IN INCOME BEFORE INCOME TAXES

We provide Siemens and other industrial companies with a broad range of financial services – from sales and investment financing and equity investments in infrastructure projects to risk and liquidity management, insurance risk transfers and fund management.

In fiscal 2003, a cyclical downturn in equipment purchases by customers in the U.S. and Europe hampered growth in the leasing business of our Equipment & Sales Financing Division. A weakening currency in the U.S., where much of our business is generated, exacerbated this situation. Nonetheless, we kept credit-related losses within the normal range and increased purchases of receivables from third parties year-over-year.

Developments at our Equity Division were particularly gratifying. Returns on an investment in a power plant operated by Indonesia's Java Power have stabilized following successful negotiations with customers and the banks providing financing. Our Treasury and Financing Services Division has benefited from currency and interest rate developments in the capital markets, with financing activities generating strong earnings for our customers within the Company. As stipulated by incentive agreements, SFS receives a share of these profits.

Our Insurance and Investment Management divisions held their own in a difficult market, with rigorous cost management contributing strongly to their performance. The consulting business of our Project and Export Financing Subdivision continued its steady progress of the past few years.

We intend to maintain our status as a provider of competitive financial solutions for Siemens, and to exploit the advantages that arise from bundling the Company's financial activities. We also plan to grow our external business in markets where demand for our competencies is particularly strong. Our expertise in financial and risk management is a critical success factor that is fundamental to our growth strategy.

Financing and Real Estate

Siemens Real Estate (SRE)

€1.6 BILLION IN SALES

€206 MILLION IN INCOME BEFORE INCOME TAXES

As expected, the ongoing economic slump impacted the real estate business in fiscal 2003. Our market experienced lower prices, rising vacancies and declining utilization rates. Nevertheless, we held our own by taking proactive countermeasures. In fiscal 2002, we had already begun aligning capacities with the Siemens Groups' declining needs and withdrawing floor space from the market. We intensified these measures in fiscal 2003, launching an international initiative focused on further pruning our portfolio and more aggressively managing idle real estate. We sold properties, leased more Siemens-owned floor space to third parties and reduced the amount we ourselves rent.

To optimize floor space utilization and cut costs even further, we have implemented new office concepts. The Siemens Real Estate Office Center is a prime example. It offers offices and conference rooms for rent on a daily, weekly or monthly basis, along with a broad range of on-site services. We have also scored a success with our Flexible Office concept. Flexible offices promote worker mobility via individual work stations that can be reallocated as needed, multi-purpose work zones and modular furnishings.

A further focus is the conversion of selected Siemens locations into mixed-use urban areas. Municipal development projects of this kind are underway in Munich and Frankfurt. In 2003, we began construction of a new R&D campus in Erlangen, Germany. And at the end of the fiscal year, we laid the cornerstone for yet another major urban development project – the Siemens Headquarters Russia complex in Moscow.

Affiliates

BSH Bosch und Siemens Hausgeräte GmbH

With over 35,000 employees, 42 production facilities and sales offices in more than 100 countries, we are a world-leading manufacturer of household appliances, and we aim to further expand our market position.

We boast a comprehensive portfolio of premium products based on market-oriented innovations that generate added value for distributors and provide concrete benefits for users. With our innovations and high quality, we set technology standards and define market trends in our industry. Our brands are world-famous.

We are present in every major market, generating more than 70% of our sales outside Germany. Our global setup enables us to offset weaknesses in one market with strengths in another.

Productivity programs are bolstering our international competitiveness, while rigorous innovation management and creative marketing of new products are driving expansion. To tap new markets, we have developed regional growth strategies that focus especially on the United States, China and Eastern Europe. These regions are already making significant contributions to our profitable growth.

Affiliates

Fujitsu Siemens Computers (Holding) BV

We are the leading IT manufacturer both in Germany and in Europe as a whole.

With our unique array of information technologies and IT infrastructure solutions – ranging from hand-held computers, notebooks and desktops to servers and memory solutions – we address the needs of large enterprises, small to medium-sized companies and millions of private individuals.

We are active in every major market in Europe, Africa and the Middle East. Working hand-in-hand with our two parent companies, we also support customers in global projects.

Since our founding, we have focused on mobility and business-critical computing. Mobility delivers important advantages in cost and competitiveness, while business-critical computing meets the demand for scalable high-performance IT infrastructures with 24-hour availability. Convenient, rapid and reliable access to data and applications – anytime, anywhere – increases employee flexibility and efficiency. In fiscal 2003, our mobility portfolio included a wide range of innovations like Pen tablets, wireless LAN access technologies and mobility solutions for a variety of sectors. In business-critical computing, we focused on IT consolidation and innovative automation concepts.

Our cutting-edge offerings helped us outperform the majority of our competitors in the unfavorable market conditions of fiscal 2003.

Report of the Supervisory Board
Corporate Governance Report
Compensation Report

Dear shareholder,

The Supervisory Board of Siemens AG focused intensively on the Company's situation throughout fiscal 2003. We advised the Managing Board, monitored Company management and were involved in major Company decisions. The Managing Board provided us with regular, timely and comprehensive information on all relevant topics.

Advisory focal points

At five meetings during the course of the year, the Managing Board reported to us on business and financial developments at the Company, key business events and general strategies and planning. Between these meetings, the Managing Board informed us in writing about important developments. As Chairman of the Supervisory Board, I was also kept up-to-date on major issues and upcoming management decisions.

The Supervisory Board, or its committees, approved important business decisions requiring Board approval.

In its deliberations, the Supervisory Board focused on the effects of the difficult economic and geopolitical environment, the far-reaching structural changes currently taking place in the information and communications market, the measures which have been introduced to further optimize our business portfolio, and Siemens' corporate governance system.

The challenge at Information and Communications

Since early 2001, the Company's largest business area – Information and Communications – has been adversely affected by a sharp and prolonged downturn in market demand. Since then, we have regularly reviewed the steps being taken to restore the profitability of the three I&C Groups. The Presidents of IC Networks (ICN) and IC Mobile (ICM) reported to us in fiscal 2002, and the President of Siemens Business Services (SBS) reported to us in December 2002.

I am happy to report that ICM and SBS were profitable again in fiscal 2003, despite the difficult business environment. After two years in the red, ICN returned to profitability in the fourth quarter of fiscal 2003.

The I&C Groups must now make every effort to generate satisfactory, stable and sustainable earnings and to adjust to the changed strategic challenges of their industry. The groundwork has been laid.

TS, SV, PG and Med continue successes

In December 2002, the President of Transportation Systems (TS) reported on the successful developments at his Group. Siemens' rail business has done well in worldwide competition and reached its margin target for fiscal 2003.

The same is true for Siemens VDO Automotive (SV). In April 2003, we determined to our satisfaction that SV had completed its integration of VDO and had made solid progress following the takeover of Atecs Mannesman. In fiscal 2003, the Group established a 50/50 joint venture with Volkswagen AG to manufacture pumped-jet diesel injection valves. The new company is headquartered in Stollberg, Germany.

In July 2003, the President of Medical Solutions (Med) reported on his Group's current situation and strategy. Med has developed into one of the Company's top earners. Nearly half of its business is generated in the North American market. In a move to expand its activities in China, Med founded the joint venture Siemens Mindit Magnetic Resonance Ltd. (Shenzhen), in which Siemens holds a majority stake. Med transferred most of its Electromedical Division into a joint venture with Draegerwerk AG. Siemens holds a minority stake in the new company.

At the July meeting, we also heard a presentation on the situation and outlook at Power Generation (PG). PG substantially exceeded its margin target for the year. Now, following the end of the gas turbine boom in the U.S., the Group is entering a somewhat quieter business phase at a high margin level. In recent years, PG has concentrated its business portfolio on fossil-fuel power generation. It folded both its nuclear and hydroelectric power activities into joint ventures in which Siemens holds minority stakes. The Group's acquisitions of Westinghouse's conventional power business and Demag Delaval considerably strengthened PG's market position. The purchase of Alstom's industrial turbine business was a further key step in the Group's strategy to round out its business portfolio.

Technology and innovation

Technology and innovation are fundamental success factors at Siemens. At our April meeting, the head of Corporate Technology reported to us on the principles that drive and safeguard the Company's power of innovation. The most important strategic innovation fields are described in so-called "pictures of the future." Innovation benchmarking is conducted on an ongoing basis and rigorous innovation strategies are developed and implemented. This process ensures the efficient implementation of necessary R&D projects and the timely consideration of promising new ideas.

Corporate Technology conducts its own research and development, supports the R&D activities of the Groups worldwide and ensures a uniform Company-wide patent strategy. Siemens currently spends over five billion euros a year on research and development.

Corporate governance

At a number of meetings, we discussed the impact of the German Corporate Governance Code and the U.S. Sarbanes-Oxley Act of July 2002 on the work of the Supervisory Board and its committees. We had made important fundamental decisions regarding this subject in the previous year. At our meeting in November 2002, we decided to issue a Declaration of Conformity with the Code. We updated this Declaration in April 2003. At our November 2003 meeting, we approved a Declaration of Conformity based on the Code as revised in July 2003. This Declaration states that, with two exceptions, we fully comply with the Code's recommendations.

The Supervisory Board met in July 2003 without the Managing Board in attendance. In the future, we will conduct such executive sessions on a regular basis. At this meeting, we discussed the results of a review of our Board's efficiency and approved a number of changes.

Details of our corporate governance system are presented on the Internet and on pages 48 to 53 of this Report.

Committee meetings

Our Chairman's Committee maintained close contact with the Managing Board between the five regular Supervisory Board meetings held during fiscal 2003. As one of our Board's four committees, the Chairman's Committee met seven times to address personnel matters relating primarily to the Managing Board and to the Group executive managements, the structure and level of Managing Board remuneration, and the determination of variable and stock-based remuneration components. The Chairman's Committee also dealt with matters relating to corporate governance and the Company's strategy and performance.

Together with the independent auditors and the Managing Board, the Audit Committee discussed the annual financial statements of Siemens AG and the consolidated financial statements of Siemens worldwide, the appropriation of net income, and the annual report on Form 20-F, which Siemens submits to the SEC. During the year, the Committee also discussed in detail the Company's quarterly reports, the appointment of the independent auditors, oversight of the auditors' independence and efficiency as well as their fee. In addition, the Committee dealt intensively with the Company's risk management system and the reports of Siemens' Financial Audit Department. The Audit Committee also discussed the alignment of its organization and procedures with the requirements of the Sarbanes-Oxley Act. The Audit Committee met five times during the year, in part without the Managing Board in attendance.

The Mediation Committee, formed pursuant to § 27 (3) of the German Codetermination Act, had no occasion to meet during the year. The Investment Committee, defined in § 32 of the Act, voted on resolutions using a notational, or written, voting process and notified the Board of the outcome at subsequent meetings.

All committees regularly reported to the Supervisory Board on their work.

Financial statements

Our independent auditors, KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt/Main (KPMG), audited the annual financial statements of Siemens AG and the consolidated financial statements as well as the related Management's Discussion and Analysis (MD&A) for fiscal 2003 in accordance with the requirements of the German Commercial Code (HGB), and approved them without qualification. Our consolidated financial statements, prepared in accordance with U.S. GAAP, were also audited by KPMG, in accordance with U.S. Generally Accepted Auditing Standards, and approved without qualification. KPMG further confirmed that the consolidated financial statements and MD&A fulfill the conditions for exemption from compliance with reporting rules under German law, and that the Managing Board has implemented an effective risk management system that meets legal requirements.

We received the above-mentioned documents and the Managing Board's proposal for the appropriation of net income. The Audit Committee thoroughly examined these documents, and the Supervisory Board also reviewed them. The KPMG audit reports were presented to all members of the Supervisory Board, and we – together with the auditors, who reported on key results of the audit – examined them thoroughly. The Managing Board explained the annual and consolidated financial statements as well as the risk management system. It also provided a detailed report on the scope, focal points and costs of the audit. Following reviews by the Audit Committee and the full Supervisory Board, we approved the results 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 €1.10 per share. In addition, we approve the proposals that the amount attributable to treasury stock be carried forward and the remainder be transferred to other retained earnings.

Changes in the Supervisory Board and the Managing Board

The five-year term of the Supervisory Board elected at the Annual Shareholders' Meeting in 1998 expired at the Annual Shareholders' Meeting on January 23, 2003. Six members representing shareholders and four members representing employees retired from the Board. I would like to thank these members for their commitment and constructive contributions to our Board throughout the past term.

A new Supervisory Board was elected for the term 2003 to 2008. At the constituent meeting of the new Board in January 2003, the Board's Chairman and First Deputy Chairman were confirmed in their offices. Josef Ackermann was elected Second Deputy Chairman.

By approval of the Berlin and Munich Registry Courts, Jerry I. Speyer was confirmed as a member of the Board in July 2003, following the resignation of Hans-Dieter Wiedig. I would like to thank Mr. Wiedig for his contributions to the Board.

At our meeting on April 23, 2003, Johannes Feldmayer was appointed to the Managing Board of Siemens AG. At our meeting on July 23, 2003, the Board approved his appointment to the Corporate Executive Committee effective August 1, 2003. At the same meeting, Jürgen Radomski was appointed Labor Director and head of Corporate Personnel effective August 1, 2003. Some of the responsibilities in the Managing Board were also reassigned at that time.

Peter Pribilla died at the age of 62 on August 9, 2003, following a long illness. He had served our Company for 35 years in and outside Germany as, among other things, President of the Private Communication Systems Group, President of the Public Communication Networks Group and, as of 1998, Labor Director and head of Corporate Personnel. Professor Pribilla made a major contribution to the success of our Company over a period of many years, and we will always have fond memories of him.

Volker Jung retired on September 30, 2003, after 39 years with the Company. As a member of the Corporate Executive Committee, he had special responsibility for the Information and Communications business area and Siemens activities in Africa, the Middle East and the C.I.S. countries. We thanked him for his outstanding commitment to the Company.

Berlin and Munich, November 26, 2003
For the Supervisory Board

Dr. Karl-Hermann Baumann
Chairman

Corporate Governance Report

Good corporate governance has traditionally been a high priority at Siemens. We welcome the recent corporate governance initiatives in and outside Germany.

The German framework

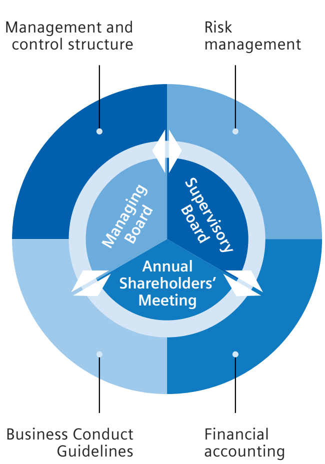
In 2002, an independent commission established by the German government issued the first German Corporate Governance Code. The Code was expanded in July 2003. Siemens complies with this expanded version in all but two respects: We do not publish the individual compensation of our Managing Board members, and our directors and officers liability (D&O) insurance policy does not include a deductible (see the Declaration of Conformity on page 53 of this Report). Our Declaration of Conformity is published on our website, where it will be updated as necessary. With the publication of our first Declaration of Conformity, as required by § 161 of the German Stock Corporation Act, in November 2002, we approved and adopted the recommendations of the German Corporate Governance Code, with two exceptions, which we noted in the Declaration: our D&O insurance policy did not include a deductible, and the chairmen of Supervisory Board committees received no additional remuneration. On January 23, 2003, the Annual Shareholders' Meeting approved an amendment to the provision in the Company's Articles of Association dealing with Supervisory Board remuneration. This amendment eliminated the second exception mentioned above. Since then, Siemens has also fulfilled the Code's requirements regarding Supervisory Board remuneration.

www.siemens.com/corporate_governance

U.S. capital market rules

Due to our listing on the New York Stock Exchange (NYSE), we are subject to U.S. capital market legislation and the rules of the U.S. Securities and Exchange Commission (SEC). In July 2002, the U.S. Congress passed the Sarbanes-Oxley Act (SOA), which aims to strengthen investor protection and restore confidence in the capital markets. The SOA – together with the associated SEC rules – introduced numerous changes in corporate governance regulations for all companies listed on U.S. stock exchanges. Some of these regulations have not yet come into effect.

In implementing the provisions of the SOA, we have, among other things, established a Disclosure Committee that is responsible for reviewing and approving all financial and related non-financial information before we make it public. We have also introduced a procedure that enables the managements of our Groups and subsidiaries to certify their compliance with our internal control system (ICS), the completeness and correctness of the financial figures they submit as well as the efficiency of their own internal financial control systems. On the basis of this procedure, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) of Siemens AG certify the appropriateness of our financial statements to the SEC, as required by the SOA. Siemens has aligned the rules for the Audit Committee of its Supervisory Board as well as for its relationship to the Company's independent auditors with the requirements of the SOA and introduced a Code of Ethics for financial matters.



Management and control structure – The Supervisory Board

Because its registered offices are located in Berlin and Munich, Siemens is subject to German corporate law. Consequently, the Company has a two-part management and oversight structure comprising a Managing Board and a Supervisory Board. The Supervisory Board has twenty members. As stipulated by the German Codetermination Act, half of the Board's members represent Company shareholders, and half represent Company employees. The shareholder representatives are elected by the Annual Shareholders' Meeting. The employee representatives are elected by an assembly representing Siemens employees in

Germany. Seven of the employee representatives must be Siemens employees, and three must be external representatives nominated by the unions. As stipulated in the Bylaws for the Supervisory Board, the shareholder representatives are independent. Some Supervisory Board members hold or held, in the past year, high-ranking positions at other companies. Siemens maintains normal business relationships with almost all of these companies. However, our sales of products and services to them are treated as arm's length transactions. Furthermore, the volume of these sales is very small in relation to the companies' total sales. Consequently, these dealings do not affect the independence of Supervisory Board members. (Further information regarding the composition of the Supervisory Board is available on pages 190-91 of this Report.)

The Supervisory Board is elected for five years. It normally meets five times a year and periodically convenes in executive session without the Managing Board in attendance. The duties, procedures and committees of the Supervisory Board are specified in bylaws. These bylaws, which are posted on the Internet, contain rules regarding, among other things, the independence, experience and knowledge required of Supervisory Board members and regarding conflicts of interest and insider trading.

The Supervisory Board oversees and advises the Managing Board in its management of Company business. At regular intervals, it discusses business development, planning, strategy and implementation. It also reviews Siemens' quarterly reports and approves the annual financial statements of Siemens AG as well as the consolidated financial statements of Siemens worldwide, taking into account both the audit reports provided by the independent auditors and the results of the review conducted by the Audit Committee. In addition, the Supervisory Board appoints the members of the Managing Board, determines their remuneration and allocates their responsibilities. Important Managing Board decisions – such as major acquisitions, divestments and financial measures – require Supervisory Board approval.

Committees of the Supervisory Board

The Supervisory Board has established four committees, whose duties, responsibilities and processes are set out in separate bylaws, fulfill the requirements of the German Corporate Governance Code, and take into account SOA requirements and, to the greatest extent possible, the rules of the NYSE. (Further information regarding the composition of the Supervisory Board committees is available on page 191 of this Report.) The committee bylaws are posted on our website.

The **Chairman's Committee**, comprising two shareholder representatives and one employee representative, performs the tasks of a nominating, compensation and corporate governance committee. It meets at least four times a year without the Managing Board in attendance. The Chairman's Committee determines the conditions of employment of Managing Board members and the level and structure of their remuneration. It also decides – on an annual basis – which portion of the Managing Board's compensation will be variable and how much of this variable portion will take the form of stock-based compensation. In addition, the Chairman's Committee makes proposals regarding the appointment of Managing Board members. Finally, it reviews and ensures the further development of Siemens' corporate governance principles.

The **Audit Committee**, comprising three shareholder representatives and two employee representatives, meets at least five times a year. The SOA requires that all members of the Audit Committee be independent. The shareholder representatives fulfill this requirement. The SEC now permits the employee representatives – who have been elected in accordance with the German Codetermination Act and who, due to their employment by the Company, are not independent – to serve on the Audit Committee. The Audit Committee oversees the Company's external and internal accounting processes, and meets at least five times a year. On the basis of the reports provided by the independent auditors, it reviews the Company's quarterly and annual financial statements, and prepares the Supervisory Board's decision whether to approve the annual financial statements. In addition, the Committee oversees the Company's internal control system and the procedures for assessing, monitoring and managing risk. It also receives reports regarding compliance with all relevant statutory and regulatory requirements. The Company's Financial Audit Department reports regularly to the Audit Committee, which determines the scope and focal points of its audit. The Audit Committee is responsible for liaising between the Company and the independent auditors. In particular, it awards the audit contract to the independent auditors appointed at the Annual Shareholders' Meeting and determines the focal points of their audit as well as their fee. In addition, the Audit Committee monitors the auditors' independence.

In accordance with the requirements of the SOA, the Supervisory Board has determined that Dr. Josef Ackermann, Dr. Karl-Hermann Baumann and Dr. Henning Schulte-Noelle qualify to serve as Audit Committee financial experts.

The **Mediation Committee** comprises two shareholder representatives and two employee representatives. In the event that the Supervisory Board cannot reach the two-thirds majority required to appoint a Managing Board member, the Mediation Committee submits proposals for resolution to the Supervisory Board.

The **Investment Committee**, comprising three shareholder representatives, is responsible for decisions regarding the exercise of Siemens' shareholder rights in other companies.

The Managing Board

The Managing Board of Siemens AG, which currently has twelve members, is the Company's top management body. It is obligated to promote the interests of the Company at all times and to drive sustainable growth in company value. As of December 2003, the Managing Board's executive committee, the Corporate Executive Committee, will have seven members. The Chairman of the Managing Board defines overall Company policies in cooperation with the Corporate Executive Committee. The Managing Board's responsibilities include determining the Company's strategic orientation, planning and finalizing the Company budget, allocating resources, and monitoring the executive management of each Group. Furthermore, the Managing Board directs the preparation of the Company's quarterly reports, the annual financial statements of Siemens AG and the consolidated financial statements of Siemens worldwide. It also selects personnel to fill key Company positions.

The Managing Board cooperates closely with the Supervisory Board. It informs the Supervisory Board regularly, promptly and comprehensively regarding all issues related to Company strategy and strategy implementation, planning, business development, financial position, earnings and emerging risks. Major decisions of the Managing Board require Supervisory Board approval. (Further information regarding the composition of the Managing Board as well as the composition and responsibilities of Managing Board committees is available on pages 192-93 of this Report.)

Shareholder relations

Four times a year – at dates specified in a financial calendar – Siemens reports to its shareholders regarding its business development, financial position and earnings. The CEO and the CFO report regularly to investors, analysts and the press regarding the full-year and quarterly results. Information which may materially affect Siemens' share price is published in press releases throughout the year.

An ordinary Annual Shareholders' Meeting normally takes place within the first four months of each fiscal year. Each share carries one vote. All shareholders listed in the stock register and from whom notification of attendance has been received by a specified date are entitled to take part. The Managing Board facilitates shareholder participation in the meeting through the use of electronic means of communication – in particular the Internet – and enables shareholders who are unable to attend to exercise their voting rights by communicating instructions directly to their representatives. The meeting is directed by the Chairman of the Supervisory Board.

The Annual Shareholders' Meeting decides on all matters assigned to it by law. Its decisions are binding on all shareholders and on the Company. They include, in particular, voting on the appropriation of net income, ratification of the acts of the Managing and Supervisory Boards, and the appointment of the independent auditors. Amendments to the Articles of Association and measures which change the Company's capital stock are approved exclusively at the Annual Shareholders' Meeting and implemented by the Managing Board with the approval of the Supervisory Board. Shareholders may submit counterproposals to the proposals of the Managing and Supervisory Boards and contest decisions of the Annual Shareholders' Meeting. Shareholders owning Siemens stock with a market value of €1 million or more may also demand a special judicial review of a particular decision.

As part of our investor relations activities, the CEO, the CFO and individual members of the Group executive managements meet regularly with analysts and institutional investors. We hold a conference for analysts once a year as well as telephone conferences with analysts upon the publication of our quarterly results. Our website provides access to financial data and other business-related information regarding Siemens worldwide.

Risk management

The Company has a system for assessing and monitoring its potential business and financial risks. The components of this risk management system are designed to enable us to anticipate risks and manage them carefully in the pursuit of our business goals. The principles, guidelines, processes and responsibilities of our internal control system have been defined and established to guarantee prompt and accurate accounting of all business transactions and to continuously provide reliable information about the Company's financial position for internal and external use.

However, the components of the internal control and risk management system do not eliminate risk entirely and, thus, cannot prevent loss or fraud in all cases. We intend to rapidly adjust the risk management and monitoring procedures of all businesses acquired during the fiscal year, so that they conform to Siemens' standards.

Financial accounting

The consolidated financial statements of Siemens worldwide are prepared in accordance with the United States Generally Accepted Accounting Principles (U.S. GAAP). The annual financial statements of Siemens AG are prepared in accordance with the accounting rules set out in the German Commercial Code. The Managing Board directs the preparation of the financial statements. The existing internal control system and the Company-wide use of uniform guidelines guarantee the accuracy of our financial statements. In addition, we have established a system of internal certification in which the executive managements of our Groups and subsidiaries certify the correctness and completeness of the financial data they submit and the efficiency of their own internal financial control processes. This system is the basis for the statement of certification, which must be signed by the CEO and the CFO and submitted to the SEC with the annual report on Form 20-F, in accordance with SOA requirements.

In this statement, the CEO and the CFO certify that the annual report submitted to the SEC is accurate, that an effective system of internal controls is in place, and that the Managing Board has reviewed this system before the publication of the annual report.

Additional SOA requirements, which will come into effect in fiscal 2005, stipulate that the CEO and the CFO must explicitly affirm that they have reviewed the effectiveness of all internal processes relevant to the quality of financial reporting. They also stipulate that the independent auditors must confirm the results of this review. In anticipation of these additional requirements, we further developed our internal control system (ICS) for financial reporting in the past year with the goal to potentially request such confirmation from our independent auditors, already in 2004.

Business Conduct Guidelines

Siemens aims to conduct its business responsibly and in compliance with all relevant statutory and regulatory requirements. The Managing Board has established guidelines to ensure that this goal is achieved. The Business Conduct Guidelines comprise rules regarding compliance with applicable laws, conflicts of interest, the use of Company facilities, and insider trading. These rules are binding for all Siemens employees, the Managing Board and the Supervisory Board. The Guidelines also specify a procedure for dealing with complaints. A Compliance Officer, who reports to the Audit Committee, has been appointed to process all complaints, including those submitted anonymously. In addition, the Managing Board and the Supervisory Board have approved a Code of Ethics for financial matters, as required by SOA rules. Both the Business Conduct Guidelines and the Code of Ethics are available on our website.

Suggestions of the German Corporate Governance Code

Siemens voluntarily complies with the Code's non-obligatory suggestions, with the following exceptions:

- Given the length of our Annual Shareholders' Meeting, complete Internet coverage seems unwarranted. Therefore, we depart somewhat from the Code's suggestion in this regard and broadcast the proceedings of the Meeting via the Internet until the general debate begins. Representatives exercising shareholders' voting rights can be reached via the Internet until that time.
- The Code suggests that first-time appointments to a managing board should not, as a rule, extend for an entire five-year term of office. While we have not followed this suggestion in the past, we do not wish to rule out the possibility of compliance at some future date.
- The Code suggests that supervisory board members be elected or reelected at different dates and for different terms of office. We consider this suggestion to be inappropriate for a supervisory board established under the German Codetermination Act. Because the employee representatives on such a supervisory board are elected for five-year terms, this suggestion could only apply to the shareholder representatives. Following it would therefore result in non-uniform treatment of board members.
- Finally, the Code suggests that the chairman of an audit committee should not be the chairman of the supervisory board or a former managing board member. We have not followed this suggestion, because we regard financial expertise alone as the decisive qualification for the chairman of an audit committee.

Declaration of Conformity with the German Corporate Governance Code
At their meetings on November 11 and 12, 2003, respectively, the Managing Board and the Supervisory Board approved the following Declaration of Conformity pursuant to § 161 of the German Stock Corporation Act:

Siemens AG complies with the recommendations of the German Corporate Governance Code – in the version of July 4, 2003 – with the following exceptions:

- Managing Board compensation (Code Section 4.2.4, sentence 2) is not reported on an individualized basis. It is broken down in our Annual Report into fixed, performance-related and long-term incentive components.
- Our D&O (directors and officers liability) insurance policy includes no deductible for Managing Board and Supervisory Board members (Code Section 3.8, paragraph 2). Our senior managers, both in and outside Germany, are covered by a group insurance policy. It is not considered appropriate to differentiate between board members and other high-level personnel. Furthermore, such a deductible is not common outside Germany.

Subsequent to the Declaration of Conformity of December 2002, Siemens AG complied with the recommendations of the November 26, 2002 version of the German Corporate Governance Code, with the following exceptions:

- Our D&O insurance policy included no deductible for Managing and Supervisory Board members (Code Section 3.8, paragraph 2).
- The reported exception to the provision of Code Section 5.4.5, paragraph 1, sentence 3, regarding the remuneration of committee chairmen was eliminated by an amendment to Siemens' Articles of Association approved at the Annual Shareholders' Meeting of January 23, 2003. For this reason, the Declaration of Conformity of December 2002 was amended in March 2003.

Consequently, Siemens AG complied with all but one of the recommendations of the November 26, 2002 version of the German Corporate Governance Code.

Berlin and Munich, November 12, 2003

Siemens AG
The Managing Board The Supervisory Board

Compensation Report

This report outlines the principles used for determining the compensation of the Managing Board of Siemens AG, sets out the level and structure of Managing Board remuneration, and describes the stock option plan of Siemens AG.

In addition, the report describes the policies and levels of compensation paid to Supervisory Board members and gives details of stock ownership by members of the Managing and Supervisory Boards.

I. Managing Board remuneration

1. The Chairman's Committee of the Supervisory Board is responsible for determining the remuneration of members of the Managing Board. The Committee comprises Dr. Karl-Hermann Baumann (Chairman of the Supervisory Board), and Dr. Josef Ackermann and Ralf Heckmann (both Deputy Chairmen of the Supervisory Board). Dr. Ackermann has been a member of the Chairman's Committee since January 23, 2003.

2. Structure of Managing Board remuneration
   The remuneration of members of the Managing Board of Siemens AG is based on the Company's size and global presence, its economic and financial position, and the level and structure of managing board compensation at comparable companies in and outside Germany. In addition, the compensation for each Board member reflects his or her responsibilities and performance. The level of compensation is designed to be internationally competitive in order to attract, retain and motivate high-quality executives who have a passion for success and thrive in a high-performance culture.
   Managing Board remuneration is performance-related and has three components: a fixed salary, a variable bonus, and stock-based compensation. The fixed compensation and the bonus are based on a "target compensation" that is reviewed regularly every two to three years on the basis of an analysis of the compensation paid by international peer companies to their top managers. The last review was conducted on April 1, 2003.
   In fiscal 2003, the target compensation was divided into a fixed compensation component of 40 percent and a variable component of 60 percent.
   Base salary: The fixed compensation is paid as a monthly salary.
   Bonus: Members of the Corporate Executive Committee receive a bonus based on the Company's attainment of certain financial goals that are set at the start of the fiscal year. These goals are primarily oriented on performance as measured by economic value added (EVA). In fiscal 2003, the goals also included the achievement of an ambitious target for net cash from operating and investing activities. One-half of the bonus is paid as an annual bonus, which is contingent upon achieving the Company-wide EVA target established for the fiscal year. The other half is granted as a long-term bonus whose amount depends on the average attainment of EVA targets over a three-year period. One-third of the long-term bonus is granted as deferred income in the form of restricted stock. The bonus, which cannot exceed 250 percent of the member's base salary, has a guaranteed minimum.

As of October 1, 2003, minor changes were made in the structure of Managing Board compensation. In the future, the target compensation will comprise 50 percent fixed and 50 percent variable compensation. The guaranteed minimum for the variable component has been dropped.

The same principles apply to Managing Board members who are not members of the Corporate Executive Committee. Their financial goals, however, depend primarily on the performance of the corporate units they lead.

Stock-based compensation: The third component of Managing Board remuneration is stock-based compensation. In fiscal 2003 and in the preceding three years, members of the Managing Board received stock options on shares of Siemens AG with a value of approximately 20 percent of the target compensation. Beginning in fiscal 2004, stock-based compensation will comprise stock options and restricted stock.

3. Stock option plans

The current 2001 Siemens Stock Option Plan (“2001 Plan”) was authorized by shareholders at the Annual Shareholders’ Meeting on February 22, 2001. This plan replaced the 1999 Siemens Stock Option Plan.

Under the 2001 Plan, the following provisions apply:

- The number of stock options granted must not exceed 55 million options, or 6.2 percent of the capital stock of Siemens AG. Stock option grants to members of the Managing Board are limited to 3.3 million options, or 6.0 percent of the total volume authorized for issuance under the plan.
- Managing Board members and other key executives in and outside Germany are eligible to receive stock options.
- The stock options are exercisable after a two-year holding period. They may be exercised at any time within the three years following the holding period.
- The exercise price is equal to 120 percent of the reference price, which corresponds to the average opening market price of the Siemens share during the five trading days preceding the date of the stock option grant.

Following a resolution on November 14, 2002 by the Managing and Supervisory Boards, 9,397,005 stock options with an estimated fair value of €92.1 million, or €9.80 per option, were awarded to 5,814 key executives in the fiscal year just ended. The exercise price amounts to €53.70. Of the total, members of the Managing Board received 345,000 stock options with an estimated value of €3.4 million.

Under the two plans (1999 Plan and 2001 Plan), the following numbers of stock options were issued through September 30, 2003:

	Options granted granted	Exercise price price	Grant date fair value
November 1999*	1,847,895	€57.73	€27.7 million
November 2000*	3,260,391	€86.23	€82.8 million
December 2001	7,357,139	€87.19	€171.9 million
November 2002	9,397,005	€53.70	€92.1 million
Options exercised or forfeited	1,451,554		
Outstanding at September 30, 2003	20,410,876		

* restated to reflect stock split

Of the total outstanding at year-end, 762,500 stock options or 3.7 percent were held by members of the Managing Board of Siemens AG.

The following table summarizes tranches of stock options outstanding and exercisable at September 30, 2003:

	Options	Remaining life	Exercise price
November 1999*	1,583,674	3 years	€57.73
November 2000*	2,989,384	4 years	€86.23

* restated to reflect stock split

The fair value of each stock option is estimated on the grant date using the Black-Scholes option pricing model. In accordance with U.S. GAAP (Accounting Principles Board Opinion No. 25), no compensation cost is reflected in net income (loss) for stock options granted under the 2001 Plan. Effective with fiscal 2004, however, the Company has elected to recognize the cost of newly issued stock options as prescribed by Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation,* as amended by SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*.

The issue of stock options to members of the Managing Board on or after October 1, 2003 is subject to the proviso that the Supervisory Board may restrict the stock option exercise in the event of extraordinary, unforeseen changes in the market price of the Siemens share.

4. Managing Board remuneration in fiscal 2003
   Managing Board members' compensation and other benefits for the fiscal year ended September 30, 2003 amounted to €28.2 million, compared with €18.5 million in the prior year, and comprised the following:

(in millions of €)	2003	2002
Base salary	6.5	4.9
Annual bonus	12.6	9.8
Long-term bonus	7.9	3.0
Other	1.2	0.8
Total cash compensation	28.2	18.5
per capita	2.2	1.7

In addition, the members of the Managing Board received a total of 345,000 stock options on shares of Siemens AG in fiscal 2003 (151,000 in fiscal 2002). Based on an estimated fair value at grant date of €9.80 per option (€23.36 in fiscal 2002), the total value of stock options issued to members of the Managing Board amounted to €3.4 million in fiscal 2003 (€3.5 in fiscal 2002). The options are exercisable within the three years following a holding period of two years. In accordance with the terms and conditions of the 2001 Plan, the exercise price is equal to €53.70, which corresponds to 120 percent of the average opening market price of the Siemens share during the five trading days preceding the date of stock option issue.

Total remuneration paid to Managing Board members was as follows:

(in millions of €)	2003	2002
Cash compensation	28.2	18.5
Stock-based compensation	3.4	3.5
Total remuneration	31.6	22.0
per capita	2.4	2.0

No loans from the Company are provided to members of the Managing Board.

II. Supervisory Board remuneration

The remuneration of members of the Supervisory Board was set at the Annual Shareholders' Meeting through shareholder approval of a proposal by the Managing and Supervisory Boards. Details of this decision are set forth in the Articles of Association of Siemens AG.

The remuneration of members of the Supervisory Board is based on the Company's size, the assignments and responsibilities of Supervisory Board members, and the Company's overall business position and performance. The remuneration includes a large earnings- or dividend-related component which is contingent on the Company's progress. The Chairman, the Deputy Chairmen as well as the Chairman and members of the Audit Committee receive additional compensation.

The current remuneration policies for the Supervisory Board were authorized at the Annual Shareholders' Meeting of February 18, 1999. Compensation policies for service on a committee were set at the Annual Shareholders' Meeting of January 23, 2003. Details are set out in § 17 of the Articles of Association of Siemens AG.

The compensation of Supervisory Board members incorporates three components:

- a fixed component
- a variable component depending on the annual dividend
- a long-term component based on the development of the stock market price.

In accordance with these remuneration policies, the fixed compensation of each Supervisory Board member is €6,000. As dividend-dependent compensation, each member of the Supervisory Board receives €3,500 for each €0.05 dividend per share in excess of €0.20. The Chairman of the Supervisory Board receives twice the standard compensation rate of a simple member and each Deputy Chairman receives 1.5 times the standard compensation rate. The Chairman of the Audit Committee receives an additional 100 percent and each remaining member of the Audit Committee receives an additional 50 percent of the standard compensation rate. The members of the Supervisory Board are reimbursed for any out-of-pocket expenses incurred in connection with their duties and for any sales taxes paid.

In addition, each member of the Supervisory Board receives annually 1,500 stock appreciation rights (SARs) granted and exercisable on the same terms as options issued under the Siemens stock option plan in effect at the time.

Based on a dividend rate of €1.10 per share, the Supervisory Board's total cash compensation for the fiscal year just ended (including reimbursement of out-of-pocket expenses) amounted to €1.9 million.
For the fiscal year just ended, the following cash compensation was paid:

- €207 thousand to the Chairman of the Supervisory Board, who also chairs the Audit Committee;
- €138 thousand to each of the Deputy Chairmen, who are also members of the Audit Committee, whereby €104 thousand was paid to the Deputy Chairman elected to the Supervisory Board on January 23, 2003;
- €104 thousand to each of the remaining members of the Audit Committee;
- €69 thousand to each of the remaining members of the Supervisory Board, whereby €52 thousand was paid on a pro rata basis to each of the members elected on January 23, 2003 and €17 thousand to the member whose appointment was approved by the registry courts on July 14, 2003;
- €23 thousand on average to each of the members who left the Supervisory Board on January 23, 2003.

In addition, each member of the Supervisory Board received 1,500 SARs which had a fair value of €14 thousand on the date of grant. The newly elected members of the Supervisory Board received 1,125 SARs, and the members who left the Board received 500 SARs. The total value of SARs issued to members of the Supervisory Board for the fiscal year ended September 30, 2003 was €302 thousand.

No loans from the Company are provided to members of the Supervisory Board.

III. Stock ownership by members of the Managing and Supervisory Boards

At October 25, 2003, members of the Managing Board during the fiscal year held 690,229 shares and stock options representing 0.077 percent of the capital stock of Siemens AG.

Members of the Supervisory Board held 13,998 shares and stock options. This figure does not include 16,736,966 shares, or two percent of the capital stock, that are held by the *von Siemens-Vermögensverwaltung GmbH* (vSV), a German limited liability entity that functions much like a trust. In addition, the vSV has voting control over 38,877,285 shares, or some four percent of the capital stock, under a power of attorney. Mr. Peter von Siemens is authorized to vote these shares as a representative of the founder's family.

Pursuant to § 15a of the German Securities Trading Act, members of the Managing and Supervisory Boards are legally required to disclose significant purchases or sales of shares of Siemens AG. In the fiscal year just ended, no such transactions were reported.

Information for shareholders

Management's discussion and analysis

Basis of Presentation

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

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

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

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

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

Siemens worldwide
(Consists of the following three components which include the thirteen operating Groups and two Financing and Real Estate Groups)

Operations

- Information and Communication Networks (ICN)
- Information and Communication Mobile (ICM)
- Siemens Business Services (SBS)

- Automation and Drives (A&D)
- Industrial Solutions and Services (I&S)
- Siemens Dematic (SD)
- Siemens Building Technologies (SBT)

- Power Generation (PG)
- Power Transmission and Distribution (PTD)

- Transportation Systems (TS)
- Siemens VDO Automotive (SV)

- Medical Solutions (Med)

- Osram

Other operations; Corporate items, pensions and eliminations

Financing and Real Estate

- Siemens Financial Services (SFS)
- Siemens Real Estate (SRE)

Eliminations, reclassifications and Corporate Treasury

The Management's Discussion and Analysis that follows first sets the context for fiscal 2003 with a summary of highlights for the year, including acquisitions and dispositions. We then discuss results for the Groups comprising the **Operations** and **Financing and Real Estate** components for fiscal 2003 and compare them with results from fiscal 2002. Thereafter we provide an analysis of the consolidated income statement, performance under economic value added (EVA), and discuss topics including liquidity and capital resources, critical accounting estimates and risk management. The discussion concludes with our outlook for the fiscal year ahead and a summary of material events that occurred subsequent to the close of the fiscal year.

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

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

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

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

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

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

Highlights – fiscal 2003 compared to fiscal 2002

- Net income for fiscal 2003 was €2.445 billion, representing a 47% increase from €1.661 billion a year earlier excluding a tax-free gain of €936 million from sales of Infineon shares.
- Group profit from Operations increased to €4.295 billion in fiscal 2003 from €3.756 billion in fiscal 2002. The majority of Siemens Groups reported higher earnings and margins year-over-year.
- Net cash from operating and investing activities was €1.773 billion, including €5.712 billion in net cash from operating activities. Net cash provided by operating activities included cash outflows of €1.192 billion in supplemental cash contributions to Siemens pension trusts. Net cash used in investing activities of €3.939 billion included increases in investments and marketable securities of €957 million, and €929 million for a strategic acquisition at Power Generation.
- Sales were €74.233 billion and orders were €75.056 billion, down 12% and 13%, respectively from the prior year. Adjusting for currency effects and portfolio activities, sales and orders were 4% and 5% lower, respectively, than a year earlier.
- Siemens' Managing and Supervisory Boards propose a dividend of €1.10 per share.

For the fiscal year ended September 30, 2003, Siemens reported net income of €2.445 billion and earnings per share of €2.75. Fiscal 2002 included a tax-free gain of €936 million on sales of shares in Infineon Technologies AG, which boosted net income in that period to €2.597 billion and earnings per share to €2.92. Excluding the Infineon gain, net income rose 47% year-over-year from €1.661 billion. The major component of this improvement was growth in Group profit from Operations, which climbed 14% to €4.295 billion for the year. Group profit margins rose at 10 of the 13 Groups in Operations and at Siemens Financial Services (SFS). Losses related to Siemens' ownership of Infineon decreased and positive effects from Corporate Treasury also contributed to net income growth for the year.

Net cash from operating and investing activities was €1.773 billion in fiscal 2003 compared to €4.754 billion a year earlier, a period which included significant net proceeds from portfolio activities. Within Operations, net cash provided by operating activities was €4.123 billion compared to €4.277 billion in the prior year. Both periods included supplemental cash contributions to Siemens pension plans, totalling €1.192 billion and €1.782 billion in fiscal 2003 and 2002, respectively. In fiscal 2003, net cash used in investing activities of €3.939 billion included €929 million to acquire the industrial turbine businesses of Alstom S.A., Paris (Alstom) and €957 million in increases in investments and marketable securities.

Sales of €74.233 billion and orders of €75.056 billion reflected macroeconomic conditions, the strong decline in the value of the U.S. dollar relative to the euro during the fiscal year, and the net effects of acquisitions and dispositions compared to fiscal 2002. Excluding currency and portfolio effects (i.e., on a comparable basis), sales and orders were within 4% and 5%, respectively, of prior-year levels. Against this backdrop, a number of Siemens' earnings leaders increased both sales and orders year-over-year on a comparable basis, including Medical Solutions (Med), Automation and Drives (A&D), Siemens VDO Automotive (SV), and Osram.

Acquisitions and dispositions

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

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

Segment information analysis

Operations

Information and Communications

Information and Communication Networks (ICN)

(€ in millions)	Change	Year ended September 30, 2003	2002
Group profit	47%	(366)	(691)
Group profit margin		(5.1)%	(7.2)%
Total sales	(26)%	7,122	9,647
New orders	(19)%	7,070	8,697
Net cash from operating and investing activities		106	711
		September 30, 2003	2002
Net capital employed		722	1,100
Employees (in thousands)		33	39

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

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

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

Information and Communication Mobile (ICM)

(€ in millions)	Change	Year ended September 30, 2003	2002
Group profit	88%	180	96
Group profit margin		1.8%	0.9%
Total sales	(10)%	9,964	11,045
New orders	(14)%	9,960	11,538
Net cash from operating and investing activities		692	594
		September 30, 2003	2002
Net capital employed		1,367	1,973
Employees (in thousands)		27	29

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

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

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

Siemens Business Services (SBS)

(€ in millions)	Change	Year ended September 30, 2003	2002
Group profit	(87)%	13	101
Group profit margin		0.2%	1.7%
Total sales	(10)%	5,205	5,773
New orders	(16)%	5,226	6,256
Net cash from operating and investing activities		(62)	173
		September 30, 2003	2002
Net capital employed		294	264
Employees (in thousands)		35	34

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

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

Automation and Control

Automation and Drives (A&D)

(€ in millions)	Change	Year ended September 30, 2003	2002
Group profit	11%	806	723
Group profit margin		9.6%	8.4%
Total sales	(3)%	8,375	8,635
New orders	(3)%	8,476	8,728
Net cash from operating and investing activities		1,060	1,019
		September 30, 2003	2002
Net capital employed		1,925	2,197
Employees (in thousands)		50	51

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

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

Industrial Solutions and Services (I&S)

(€ in millions)	Change	Year ended September 30, 2003	2002
Group profit	79%	(41)	(198)
Group profit margin		(1.0)%	(4.4)%
Total sales	(10)%	4,012	4,480
New orders	(4)%	3,955	4,120
Net cash from operating and investing activities		54	(107)
		September 30, 2003	2002
Net capital employed		167	315
Employees (in thousands)		26	29

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

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

Siemens Dematic (SD)

(€ in millions)	Change	Year ended September 30, 2003	2002
Group profit		(218)	45
Group profit margin		(8.4)%	1.5%
Total sales	(13)%	2,600	2,995
New orders	(8)%	2,599	2,810
Net cash from operating and investing activities		(170)	(70)
		September 30, 2003	2002
Net capital employed		877	975
Employees (in thousands)		10	12

SD posted a Group loss of €218 million for the year, compared to Group profit of €45 million in fiscal 2002. A substantial increase in loss provisions and charges, in an aggregate of €209 million related to two large contracts in Europe was the key factor in this result, together with other charges. The majority of the loss provisions occurred at the Material Handling Automation division. The charges are related primarily to a contract for the design and installation of a complete logistical infrastructure for a postal sorting center in the U.K. The Postal Automation Division increased its profit and earnings margin and won large orders from the U.S. Postal Service, while the Electronics Assembly Systems Division narrowed its loss year-over-year and restored sales growth in its large pick-and-place equipment business on a breakeven basis.

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

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

Siemens Building Technologies (SBT)

(€ in millions)	Change	Year ended September 30, 2003	2002
Group profit	(48)%	101	195
Group profit margin		2.0%	3.5%
Total sales	(11)%	4,990	5,619
New orders	(15)%	4,775	5,601
Net cash from operating and investing activities		375	295
		September 30, 2003	**2002**
Net capital employed		1,447	1,778
Employees (in thousands)		33	36

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

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

Power

Power Generation (PG)

		Year ended September 30,	
(€ in millions)	Change	2003	2002
Group profit	(26)%	1,171	1,582
Group profit margin		16.8%	16.7%
Total sales	(26)%	6,967	9,446
New orders	(31)%	7,302	10,586
Net cash from operating and investing activities		(448)	662
		September 30,	
		2003	2002
Net capital employed		1,712	(144)
Employees (in thousands)		30	26

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

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

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

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

Power Transmission and Distribution (PTD)

(€ in millions)	Change	Year ended September 30, 2003	2002
Group profit	90%	207	109
Group profit margin		6.1%	2.6%
Total sales	(19)%	3,399	4,199
New orders	(19)%	3,586	4,429
Net cash from operating and investing activities		387	149
		September 30, 2003	2002
Net capital employed		798	928
Employees (in thousands)		16	17

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

Net capital employed decreased to €798 million from €928 million due to improvements in Net working capital driven by higher customer prepayments. Net working capital improvements also positively impacted net cash from operating and investing activities, which increased by €238 million to €387 million. These factors contributed to PTD's EVA turning positive in fiscal 2003.

Transportation

Transportation Systems (TS)

(€ in millions)	Change	Year ended September 30, 2003	2002
Group profit	15%	284	247
Group profit margin		6.0%	5.7%
Total sales	8%	4,697	4,367
New orders	(11)%	4,674	5,247
Net cash from operating and investing activities		(217)	95
		September 30, 2003	2002
Net capital employed		(252)	(741)
Employees (in thousands)		18	17

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

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

Siemens VDO Automotive (SV)

		Year ended September 30,	
(€ in millions)	Change	2003	2002
Group profit		418	65
Group profit margin		5.0%	0.8%
Total sales	(2)%	8,375	8,515
New orders	(2)%	8,375	8,515
Net cash from operating and investing activities		184	224
		September 30,	
		2003	2002
Net capital employed		3,949	3,746
Employees (in thousands)		44	43

SV increased Group profit to €418 million for the year compared to €65 million a year earlier, which included a €56 million gain from the sale of the Hydraulik-Ring business, partly offset by write-downs of certain intangible assets. The Group's innovative diesel injection and onboard infotainment systems were major factors in the earnings improvement. SV's profitability improvement program also contributed to earnings growth, as the Group cut material costs, streamlined its R&D and production processes, and tightened administrative and IT spending. As a result, SV increased its Group profit margin from 0.8% in fiscal 2002 to 5.0% in fiscal 2003, though it still fell short of earning its cost of capital. Earnings improved primarily at the Group's Powertrain, Chassis & Carbody, and Interior & Infotainment divisions after multi-year investments in innovative technologies.

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

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

Medical

Medical Solutions (Med)

		Year ended September 30,	
(€ in millions)	Change	2003	2002
Group profit	10%	1,118	1,018
Group profit margin		15.1%	13.4%
Total sales	(3)%	7,422	7,623
New orders	(7)%	7,835	8,425
Net cash from operating and investing activities		845	1,124
		September 30,	
		2003	2002
Net capital employed		3,128	3,414
Employees (in thousands)		31	31

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

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

Lighting

Osram

(€ in millions)	Change	Year ended September 30, 2003	2002
Group profit	12%	410	365
Group profit margin		9.8%	8.4%
Total sales	(4)%	4,172	4,363
New orders	(4)%	4,172	4,363
Net cash from operating and investing activities		528	284
		September 30, 2003	2002
Net capital employed		2,074	2,436
Employees (in thousands)		36	35

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

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

Other Operations and Reconciliation to Financial Statements

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

Other Operations

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

Reconciliation to Financial Statements

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

Corporate items, pensions and eliminations: Corporate items includes corporate charges such as personnel costs for corporate headquarters, the results of corporate-related derivative activities as well as corporate projects and non-operating investments including the Company's share of earnings (losses) from the equity investment in Infineon. *Pensions* include the Company's pension related income (expenses) not allocated to the Groups and consists of all pension related costs, other than amounts related to the service cost of foreign pension plans. *Eliminations* represent the consolidation of transactions within the *Operations* component. *Corporate items, pensions and eliminations* was a negative €1.576 billion in fiscal 2003, compared to a negative €1.282 billion in the same period a year earlier. *Corporate items* was a negative €747 million, down from a negative €947 million in the prior year, the difference due primarily to a lower loss in fiscal 2003 related to Siemens' equity interest in Infineon and the positive resolution of an arbitration proceeding as well as reduced corporate costs in fiscal 2003. Siemens' equity share of Infineon's loss was €170 million in fiscal 2003, compared to €338 million a year earlier. *Pensions* was €828 million in fiscal 2003 compared to €250 million a year earlier, with the change due to lower return assumptions on lower net asset values in our pension trusts, and increased amortization expense related to the underfunding of our pension trusts.

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

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

Financing and Real Estate

Siemens Financial Services (SFS)

		Year ended September 30,	
(€ in millions)	Change	2003	2002
Income before income taxes	25%	269	216
Total sales		532	582
Net cash from operating and investing activities		(312)	282
		September 30,	
		2003	2002
Total assets		8,445	8,681
Allocated equity		1,080	930
Total debt		6,821	6,730
Therein intracompany financing		6,571	6,469
Therein debt from external sources		250	261
Employees (in thousands)		1	1

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

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

Siemens Real Estate (SRE)

(€ in millions)	Change	Year ended September 30, 2003	2002
Income before income taxes	(10)%	206	229
Total sales	(1)%	1,592	1,612
Net cash from operating and investing activities		351	309
		September 30, 2003	**2002**
Total assets		3,607	4,090
Allocated equity		920	920
Total debt		1,469	1,751
Therein intracompany financing		1,088	1,402
Therein debt from external sources		381	349
Employees (in thousands)		2	2

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

Eliminations, reclassifications and Corporate Treasury

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

Component information – statements of income

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

Operations

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

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

Net sales from Operations were €73.744 billion compared to €83.127 billion a year earlier. The majority of the difference resulted from currency translation effects, primarily reflecting the strength of the euro versus the U.S. dollar. Together with the net effect of acquisitions and dispositions, these impacts reduced sales by 7%. Excluding these effects, sales rose year over year at A&D, Med, Osram, SV and TS.

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

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

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

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

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

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

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

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

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

Financing and Real Estate

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

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

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

Eliminations, reclassifications and Corporate Treasury

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

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

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

Siemens worldwide

In connection with our component model of reporting, below is a discussion of the Consolidated Statements of Income for Siemens worldwide. Additional details relating to the other components of Siemens worldwide: Operations, Financing and Real Estate and Eliminations, reclassifications and Corporate Treasury are discussed above.

The following table presents selected income statement information for Siemens worldwide:

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

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

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

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

Research and development (R&D) expenses were €5.067 billion compared to €5.819 billion in the prior year. R&D spending represented 6.8% of sales, compared to 6.9% in fiscal year 2002.

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

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

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

EVA Performance

During fiscal 2003, Siemens continued its enterprise-wide focus on economic value added (EVA). We tie a significant portion of our executive incentive compensation to achieving EVA targets.

EVA is a financial performance measure of the value created or destroyed by a business. In simple terms, it compares the earnings of a business (using Group profit for the Operations Groups and income before income taxes for the Financing and Real Estate businesses as a base) against the cost of capital employed to run that business. A positive EVA means that a business has earned more than its cost of capital, whereas a negative EVA means that a business has earned less than its cost of capital. Depending on the change of EVA between comparable fiscal periods, a business is defined as value-creating or value-destroying. Consequently, the increase or decrease of EVA is an important measure of financial performance.

We use this measure of performance in addition to Group profit and income before income taxes because those measures focus on results without taking into consideration the cost of capital employed in the business. In this manner, EVA complements Group profit and income before income taxes. For EVA calculation purposes, data from the consolidated financial statements is used and to a limited extent adjusted. The most important financial adjustment, representing the major part of the total EVA adjustment amount within our Operations component results from operating lease commitments. We believe that including such financial adjustment in the EVA measure enhances our business decision-making processes.

Because the two major business components of Siemens – Operations and Financing and Real Estate – are fundamentally different from each other, we use two types of EVA calculations. In the case of Operations Groups, we use Group profit as the base measure and apply a flat tax rate of 35% for calculating operating profit after taxes. The cost of capital for each Group is determined by taking the weighted average of the after-tax cost of debt and equity of Siemens and applying a risk-based factor, which takes into account the specific risks associated with the particular business. In fiscal 2003, this determination of the cost of capital within Operations Groups ranged from 8% to 10%, unchanged compared to the prior year. This percentage is applied against average net operating assets in order to determine the capital charge. Average net operating assets were determined in fiscal 2003 on a monthly basis.

In the case of Financing and Real Estate, we take income before income taxes as the base measure and also apply a flat tax rate of 35% to arrive at net operating profit after taxes. From this result we deduct the capital charge, which is calculated by multiplying the cost of capital expressed as a percentage by the risk-adjusted equity allocated to this component. In fiscal 2003 the determination of the risk-based cost of capital within the Financing and Real Estate component ranged from 8.0% to 9.75%, unchanged compared to the prior year. EVA for Corporate Treasury is calculated similarly to Financing and Real Estate.

Other organizations that use EVA as a measure of financial performance may define and calculate EVA differently.

EVA for Siemens worldwide excluding the impact of Infineon, was a positive €822 million in fiscal 2003 compared to a positive €397 million in fiscal 2002.

EVA for Operations was a positive €135 million in fiscal 2003, compared to a negative €520 million in the prior fiscal year. Financing and Real Estate realized EVA of €156 million, up from €147 million in fiscal 2002. These improvements led to an EVA for Siemens worldwide of a positive €449 million in fiscal 2003 compared to a negative €319 million in fiscal 2002, excluding a €936 million tax-free gain on the sale of shares in Infineon. Including this gain, EVA for fiscal 2002 was a positive €617 million.

EVA calculation
For the fiscal years ended September 30, 2003 and 2002

(in millions of €)	Siemens worldwide 2003	Siemens worldwide 2002	Eliminations, reclassifications and Corporate Treasury 2003	Eliminations, reclassifications and Corporate Treasury 2002	Operations 2003	Operations 2002	Financing and Real Estate 2003	Financing and Real Estate 2002
Net Income	**2,445**	**2,597**	**198**	**(213)**	**1,897**	**2,474**	**350**	**336**
Cumulative effect of change in accounting principle, net of income taxes	(36)	–	–	–	(39)	–	3	–
Minority interest	96	29	–	(2)	96	31	–	–
Income taxes[1]	867	849	68	(69)	677	809	122	109
Income (loss) before income taxes	**3,372**	**3,475**	**266**	**(284)**	**2,631**	**3,314**	**475**	**445**
Other interest income (expense) of Operations, net	88	96	–	–	88	96	–	–
Gains on sales and dispositions of significant business interest	–	(936)	–	–	–	(936)	–	–
Taxes and other[2]	(1,098)	(713)	(93)	353	(865)	(933)	(140)	(133)
Net operating profit after taxes	**2,362**	**1,922**	**173**	**69**	**1,854**	**1,541**	**335**	**312**
	Sept. 30, 2003	Sept. 30, 2002	Sept. 30, 2003	Sept. 30, 2002	Sept. 30, 2003	Sept. 30, 2002	Sept. 30, 2003	Sept. 30, 2002
Total assets	**77,605**	**77,939**	**1,543**	**(1,970)**	**64,475**	**67,699**	**11,587**	**12,210**
Other asset and liability related reconciling items (see table segment information)					(48,533)	(51,944)		
Financial adjustments					1,334	1,926		
Average calculation[3]					1,883	5,034		
Liabilities[4]							(9,587)	(10,360)
Average net operating assets for Operations/allocated equity for Financing and Real Estate					**19,159**	**22,715**	**2,000**	**1,850**
	2003	2002	2003	2002	2003	2002	2003	2002
Net operating profit after taxes	2,362	1,922	173	69	1,854	1,541	335	312
Capital charge[5]	(1,913)	(2,241)	(15)	(15)	(1,719)	(2,061)	(179)	(165)
EVA	**449**	**(319)**	**158**	**54**	**135**	**(520)**	**156**	**147**
Adjustments for certain centrally recorded gains/charges[6]	–	936						
EVA Siemens worldwide	**449**	**617**						

(1) The income taxes of Eliminations, reclassifications and Corporate Treasury, Operations, and Financing and Real Estate are based on the consolidated effective corporate tax rate applied to income before income taxes.
(2) Other includes financial adjustments and certain reclassifications regarding Infineon in fiscal 2002.
(3) The term "Net operating assets" is the same as Net capital employed except the effects of financial adjustment and the fact that Average net operating assets are calculated in fiscal 2003 based on monthly basis. In fiscal 2002 Average net operating assets are calculated as the average of four fiscal quarters with a time lag of one quarter.
(4) As a result of allocated equity, liabilities are also partly allocated.
(5) Capital charge for eliminations, reclassifications and Corporate Treasury is risk-determined.
(6) Centrally recorded gains in fiscal 2002 represent gains on the sales of shares in Infineon.

Dividend

Siemens AG, the parent company of all businesses discussed in this report, recorded a net income under German accounting principles of €1.018 billion for fiscal 2003, compared to €1.009 billion in the previous year.

At the Annual Shareholders' Meeting scheduled for January 22, 2004, the Managing Board, in agreement with the Supervisory Board, will submit the following proposal: to pay €1.10 per share as a dividend, which aggregates to a total payout of €980 million. The prior year dividend was €1.00 per share.

Liquidity and capital resources

Cash flow – fiscal 2003 compared to fiscal 2002

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

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

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

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

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

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

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

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

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

Capital resources and capital requirements

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

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

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

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

Moody's Investors Service's rating for our short-term corporate credit and commercial paper is P–1, the highest available rating in the prime rating system, which assesses issuers' ability to honor senior financial obligations and contracts generally with a maturity not exceeding one year.

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

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

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

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

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

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

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

Principal Sources of Liquidity

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

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

Neither our commercial paper and medium-term note programs nor our backstop facilities have specific financial covenants such as rating triggers or interest coverage, leverage or capitalization ratios that could trigger remedies, such as acceleration of repayment or additional collateral support, except in the case of nonpayment of amounts when due.

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

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

Contractual Obligations and Commercial Commitments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Guarantees – Guarantees are principally represented by credit guarantees and guarantees of third-party performance. Credit guarantees cover the financial obligation of third-parties in cases where Siemens is the vendor and /or contractual partner. See also "Customer financing" below. In addition, Siemens provides credit line guarantees with variable utilization to associated and related companies. Performance bonds and guarantees of advanced payments guarantee the fulfillment of contractual commitments of partners in a consortium where Siemens may be the general or subsidiary partner. In the event of non-performance under the contract by the consortium partner(s), Siemens will be required to pay up to an agreed-upon maximum amount. Furthermore, the Company has provided indemnifications in connection with dispositions of business entities, which protect the buyer from tax, legal, and other risks related to the purchased business entity. The €1.778 billion total in the table above includes €206 million in customer financing guarantees. In the event that it becomes probable that Siemens will be required to satisfy these guarantees, provisions are established. Such provisions are established in addition to the liabilities recognized for the non-contingent component of the guarantees. Most of the guarantees have fixed or scheduled expiration dates, and in practice such guarantees are rarely drawn.

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

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

Customer financing – Siemens' strong financial profile enables us to selectively provide customers with financing. We also selectively assist customers in arranging financing from various third-party sources, including export credit agencies. This has historically been an important competitive advantage in such long-cycle businesses as power generation, transportation, and telecommunications. We also provide direct vendor financing and grant guarantees to banks in support of loans to Siemens customers and we may enter into a combination of the above arrangements. Financing requirements are entered into on a very selective basis; we have forgone and will continue to forgo new business contracts if the financing risks are not justifiable relative to the rewards. Due to significantly lower levels of capital spending at most major telecommunications operators, however, requests for such financing have decreased. As a result, customer financing commitments requiring the approval of Siemens' Corporate Executive Committee of the Managing Board have decreased significantly. The total loans and guarantees relating to such customer financing as of September 30, 2003 amounted to €1.4 billion including loans and guarantees of €756 million for approved and utilized commitments and €622 million for approved but not utilized commitments. As of September 30, 2002 total loans and guarantees relating to this customer financing amounted to €2.5 billion including loans and guarantees of €1.6 billion for approved and utilized commitments and €936 million for approved but not utilized commitments.

Provisions – In the ordinary course of business Siemens establishes various types of provisions. As of September 30, 2003, provisions for contract losses totaled approximately €1.2 billion. Accrued contract losses relate primarily to the groups PG (€276 million), ICM (€179 million), TS (€171 million), ICN (€143 million), SD (€129 million) and SBS (€106 million). For all accrued contract losses, we anticipate that the cash outflows for labor, materials, contract penalties and related costs on such contract losses will occur predominately over the next two fiscal years. In addition to provisions for losses, losses on contracts can include write-offs of inventories and other charges.

Pension Plan Funding

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

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

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

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

For more information on Siemens pension plans see Notes to the Consolidated Financial Statements.

Critical accounting estimates

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

Revenue Recognition on Long-Term Contracts
Our ICN, ICM, SBS, I&S, SD, PG, PTD and TS Groups conduct a significant portion of their business under long-term contracts with customers. We generally account for long-term projects using the percentage-of-completion method, recognizing revenue as performance on a contract progresses. This method places considerable importance on accurate estimates of the extent of progress towards completion. Depending on the methodology to determine contract progress, the significant estimates include total contract costs, remaining costs to completion, total contract revenues, contract risks and other judgments. The managements of the operating Groups continually review all estimates involved in such long-term contracts and adjust them as necessary. We also use the percentage-of-completion method for projects financed directly or indirectly by Siemens. In order to qualify for such accounting, the credit quality of the customer must meet certain minimum parameters as evidenced by the customer's credit rating or by a credit analysis performed by SFS, which performs such reviews in support of the Corporate Executive Committee. At a minimum, a customer's credit rating must be single B from the rating agencies, or an equivalent SFS-determined rating. In cases where the credit quality does not meet such standards, we recognize revenue for long-term contracts and financed projects based on the lower of cash if irrevocably received, or contract completion.

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

Goodwill

SFAS 142 requires that goodwill be tested for impairment at least annually using a two-step approach at the division level. In the first step, the fair value of the division is compared to its carrying amount including goodwill. In order to determine the fair value of the division, significant management judgment is applied in order to estimate the underlying discounted future free cash flows. In the case that the fair value of the division is less than its carrying amount, a second step is performed which compares the fair value of the division's goodwill to the carrying amount of its goodwill. The fair value of goodwill is determined based upon the difference between the fair value of the division and the net of the fair values of the identifiable assets and liabilities of the division. If the fair value of goodwill is less than the carrying amount, the difference is recorded as an impairment. As of September 30, 2003 and 2002, Siemens had total goodwill of €6.501 billion and €6.459 billion, respectively. For more information, see Notes to the Consolidated Financial Statements.

Pension and Postretirement Benefit Accounting

Our pension benefit costs and credits are determined in accordance with actuarial valuations, which rely on key assumptions including discount rates and expected return on plan assets. We determine the market-related value of plan assets for the Siemens German Pension Trust based on the average of the historical market values of plan assets over the four quarters of the preceding fiscal year. This value is the basis for the determination of the return on plan assets and amortization of unrecognized losses in the fiscal year following the actuarial valuation. For all other pension plans, asset values are based upon the fair value of plan assets at the measurement date. Due to the underfunded status of certain pension plans at their respective measurement dates, an additional minimum liability is recorded net of deferred tax assets in other comprehensive income. Our postretirement benefit costs and credits are determined in accordance with actuarial valuations, which rely on key assumptions including discount rates, and increase or decrease in health care trend rates. The discount rate assumptions reflect the rates available on high-quality fixed-income investments of appropriate duration at the measurement dates of each plan. The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation, and future estimates of long-term investment returns. Other key assumptions for our pension and postretirement benefit costs and credits are based in part on current market conditions. Pension and related postretirement benefit costs or credits could change due to variations in these underlying key assumptions.

The assumptions used for the calculation of net periodic pension cost in fiscal 2004 have already been determined. A one percentage point increase (decrease) in the discount rate assumption would result in a decrease (increase) in net periodic pension cost of €160 (€200) million. A one percentage point change in the assumption for expected return on plan assets would result in a decrease (increase) of €172 million. A one percentage point increase (decrease) in the rates of compensation increase and pension progression would result in a combined increase (decrease) of €360 (€310) million. If more than one of these assumptions were changed simultaneously, the impact would not necessarily be the same as if only one assumption was changed in isolation. For a discussion of our current funding status and the impact of these critical assumptions, see Notes to the Consolidated Financial Statements, Pension plans and similar commitments.

Accruals

Significant estimates are involved in the determination of provisions related to contract losses and warranty costs. A significant portion of the business of certain of our Operating Groups is performed pursuant to long-term contracts, often for large projects, in Germany and abroad, awarded on a competitive bidding basis. Siemens records an accrual for contract losses when current estimates of total contract costs exceed contract revenue. Such estimates are subject to change based on new information as projects progress toward completion. Loss contracts are identified by monitoring the progress of the project and updating the estimate of total contract costs which also requires significant judgment relating to achieving certain performance standards, particularly in our Power business, and estimates involving warranty costs.

Risk Management

Siemens' risk management policy is to pursue sustainable growth while taking on only manageable risks associated with creating economic value. Risk management is therefore an integral part of how we plan and execute our business strategies, and our risk management policy is set by Siemens' Corporate Executive Committee (a committee of the Managing Board that includes both the CEO and CFO). Group management executes this policy in line with Siemens' overall organizational and accountability structure. For example, each operating unit or business entity is accountable for managing the risks associated with its regional or worldwide business.

We use a coordinated set of sophisticated risk management and control systems to anticipate, measure, monitor and manage our exposure to risk. The most important of these are our well-established, enterprise-wide processes for strategic planning and management reporting. The former allows us to consider potential risks well in advance of major business decisions, and the latter enables us to monitor them closely over time as our business progresses. Our internal auditors regularly review the adequacy and efficiency of our risk management and control systems. The coordination of all these processes and procedures are intended to ensure that the Managing Board and the Supervisory Board are informed about material risks on a timely basis, as described in more detail in the section Corporate Governance.

Below we describe the major categories of risks that could materially affect our business, our financial condition and our results of operations. The risks we describe here are not necessarily the only ones we face. Additional risks not known to us, or that we now consider less significant, could also adversely affect our business.

Business Risks

Siemens operates in competitive global markets, where both customers and competitors can access many sources of information to identify the lowest prices for products and services, as well as those with high quality, superior customer service, and favorable financing terms. For example, Siemens faces aggressive price-cutting by competitors in its Information & Communications Groups (I&C) and in Medical Solutions (Med), especially in times of slow or stalled growth in customer demand. Siemens is exposed to market downturns, particularly in the highly volatile mobile communications market of ICM, the carrier switching business of ICN, the gas turbine business of PG and the automotive supplier market of SV. The recent macroeconomic downturn resulted in cost-cutting and productivity initiatives and in stagnating investing activities in fiscal 2001, 2002, and 2003. The continued effectiveness of such programs will be a factor in our future success as well.

Siemens businesses are extensively engaged in the development, acquisition and use of technology, which advances rapidly in many of the industries in which we participate. To maintain a high level of innovation and technological competitiveness, we execute divestitures, acquisitions, strategic alliances and joint ventures. Transactions such as these carry inherent risks associated with the challenges of integrating people, operations, technologies and products. We also face the risk that acquired technologies may become obsolete due to unforeseen business or market developments. To counter these risks, we conduct extensive technological analysis of potential acquisitions and business partners, and employ defined processes designed to increase the speed and effectiveness of mergers, acquisitions, and joint ventures.

Operational Risks

Within many of our operating Groups, the normal course of business includes large and complex projects for customers. PG, PTD, TS, SD, the I&C groups and I&S are generally engaged in such projects. The risks associated with these projects include unexpected technological problems, unforeseen developments at project sites, problems with our partners and subcontractors companies, and logistic difficulties. Any of these factors could lead to significant cost over-runs or project penalties.

We also have production facilities worldwide with a high degree of organizational and technological complexity. We therefore face risks within our value chain processes such as operational failures, quality issues and potential safety risks involving our products, our workers, or the environment. To manage these risks, we have established a comprehensive set of policies and procedures relating to project and quality management, product safety, workplace safety, and environmental protection. We also continuously develop and refine our production processes and technologies and our administrative processes. In addition, we rigorously maintain our facilities and train our employees.

Supplier Risks

We rely on third parties to supply us with parts, components and services. This reliance creates risks that our businesses could be affected by unexpected shortages on the part of suppliers, or by unexpected price increases due to market forces or currency fluctuations. Using third parties to manufacture, assemble and test parts and components also limits our direct control over manufacturing yields, quality assurance, and delivery schedules. We manage these supplier-related risks by closely monitoring our supply markets, carefully evaluating supplier performance, and using long-term agreements to ensure favorable supply, pricing and delivery of key parts, components, and services.

Human Resource Risks

In many of the fields in which we operate intense competition exists for highly qualified managers, professionals, and technicians who possess the necessary scientific, technical or industry-specific skills we require. Therefore, we face risks related to our continued ability to recruit, assimilate and retain qualified people in all these areas. To manage these risks, we maintain intensive contact with trade schools, universities, and professional associations that educate and train the people we are likely to need. We also provide abundant opportunities for existing employees to acquire new skills and knowledge related to our business; attractive remuneration systems aimed at retaining qualified employees; and programs designed to successfully integrate new employees into the Company.

Credit Risks

As described above, Siemens provides various forms of direct or indirect financing to customers, for large projects as well as specific product orders. It is customary in some industries, for example, for suppliers to finance large-scale infrastructure projects. Because we have the capability to engage in large infrastructure projects throughout the world, such financing could expose us to specific risks associated with a particular country or its currency. Because some of our infrastructure customers are newly formed companies, particularly in the wireless telecommunications area, we could also face infrastructure financing risks associated with a particular company. Additionally, vendor financing of projects such as GSM or UMTS wireless network equipment exposes us to credit risks. We also face a number of general risks in providing financing to our customers, including delayed payments from customers or difficulties in the collection of receivables, especially when we conduct business in emerging markets, in markets with economic difficulties, or in markets with a high number of start-up companies. We manage these risks through our enterprise-wide management emphasis on collecting receivables fully and timely. We further manage these credit risks using defined processes for assessing customer creditworthiness.

Market Risks

We define "market risk" as a potential loss due to an adverse move in market rates. We define "potential loss" for equity price risk as a decline in fair values due to an adverse move in market prices. For foreign exchange risk, a "potential loss" is defined as a decline in future cash flows due to an adverse move in market rates. For interest rate risk, we consider "potential loss" to mean, for fixed-rate instruments, a decline in fair values, and, for variable-rate instruments, a decline in future cash flows. We use the "sensitivity analysis" method to measure our market risk.

Assets from the groups' pension plans (equity investments and interest bearing securities) are not included in the discussion below.

Equity Price Risks

We have direct and indirect investments in publicly traded companies, which are held for purposes other than trading. The market value of these investments as of September 30, 2003 was €4.121 billion, with our 39.7% interest in Infineon Technologies AG, our 12.5% interest in EPCOS AG and our 9.7% interest in Juniper Networks representing a large share. An adverse move in equity prices of 20% would reduce the value of these investments by (€824) million. In fiscal 2002, an adverse move in equity prices of 20% would have reduced the value of these investments by (€450) million. The difference between the fiscal years is primarily due to an increase in Infineons and Juniper Networks' share prices during fiscal 2003.

Foreign Currency and Interest Rate Exposure

Our risk management approach is to pool and analyze interest rate and currency risk exposures of the business groups. Exceptions to this approach are made in the case of country-specific restrictions and similar considerations. The pooled exposures are recorded on a real-time basis in a treasury management system maintained by our Treasury and Financing Services (TFS) Division of SFS. This system allows us to perform an ongoing mark-to-market valuation of interest rate and currency risks of all pooled transactions, as well as a measure of credit exposure to individual financial institutions. TFS acting on behalf of Corporate Finance Treasury, hereinafter referred to as Treasury, enters into financial instruments with third-party financial institutions to offset pooled exposures using a value-at-risk model. The instruments used are readily marketable, liquid and priced on a daily basis. They include: forward exchange contracts, interest-rate swaps, cross-currency swaps, forward contracts and options. For all these tasks, Treasury has in place appropriate functional and organizational separation of duties between transaction initiation, processing, risk controlling and accounting. Unless prohibited by local restrictions, foreign exchange controls or in order to mitigate political risk, operating units are obliged to invest their excess liquidity or to cover their financial needs with Treasury. Treasury's global coverage represents approximately about 90% as far as investments but also borrowings of operating units are concerned.

As a company doing business around the world, Siemens is exposed to foreign currency cash flows from the sale of products and services which are not denominated in the functional currency of the respective Siemens unit. The operative foreign currency exposure arising from our business groups are partly offset through our production facilities abroad, as well as through procurement activities conducted in foreign currencies. In addition, a financial foreign currency exposure arises from investments and financing activities of Siemens in foreign currencies. We define generally foreign currency exposure as balance sheet items, firm commitments and foreign currency-denominated cash inflows and cash outflows from anticipated *transactions* for the next three months. This foreign currency exposure is determined from the point of view of the respective functional currencies of the Siemens' entity where the exposure exists. To address the effects of foreign exchange *translation risk* in our risk management, our working assumption is that investments in our foreign-based operations are permanent and that reinvestment is continual. Whenever a divestment of a particular asset or entity is made, we incorporate the approximate value of this *transaction* into our sensitivity analysis. Effects from currency fluctuations on the *translation* of net asset amounts into euro are reflected in the Siemens consolidated equity position. Operating units are not allowed to borrow or invest money in foreign currencies on a speculative basis. Intercompany financing or investments of operating units are preferably done in their functional currency or on a hedged basis.

Our group-wide guidelines require each entity to monitor their foreign currency exposure. Based on a guideline developed by our Corporate Finance department, the entities are required to hedge at least 75% of their total foreign currency exposure. Exceptions require special permission from and additional supervision by Corporate Finance regarding the related foreign currency exposure. Entities enter into foreign exchange contracts with Treasury. The unhedged balances from foreign currency exposure and the financial foreign currency exposure are reported to the Corporate Finance department, which monitors the overall net foreign exchange exposure of the Company. Approximately 60% of the overall foreign currency exposure is related to operative cash flows while the remaining 40% arise from financial cash flows. In the U.S. dollar approximately 50% of the exposure is related to operative cash flow and the remainder arises from financial intercompany needs. These financial cash flows mainly accrue from our financial debt issued in euro fulfilling our financing requirements in North America. The values presented in the foreign exchange risk disclosures made in this document are the unhedged positions multiplied by the assumed 10% appreciation of the euro against all currencies. In determining our foreign exchange sensitivity, we aggregate the net foreign exchange risk exposure of the operating units and Treasury.

Because our foreign currency inflows exceed our outflows, an appreciation of the euro against all foreign currencies, particularly the U.S. dollar would have a negative financial impact to the extent that future sales are not already hedged. Future changes in the foreign exchange rates can impact sales prices and may lead to margin impacts, the extent of which is determined by the matching of foreign currency revenues and expenses. In order to optimize cost of capital, the decision about the funding currency is independent from the currency needs for capital requirements. Exchange rate risk arising out of this approach is hedged. For the reasons outlined, changes in foreign currency exchange rates do not necessarily result in an impact on the profit of our Groups, but may impact cash flow.

At September 30, 2003, a parallel 10% alteration of the euro against all foreign currencies would have resulted in a decline in future cash flows of €(8) million, particularly to the U.S. dollar, the British pound and the Swiss franc, and €(79) million at September 30, 2002. Our fair value interest risk results primarily from our long-term fixed rate debt obligations and interest bearing investments. We seek to limit this risk through the use of derivative instruments which allow us to hedge fair value changes by swapping fixed rates of interest into variable rates of interest. Assuming a 100-basis-point increase in interest rates, our fair value interest risk was €(22) million on September 30, 2003, increasing from €(4) on September 30, 2002, assuming a 100 basis point decrease. This change in position was mainly due to transforming liquidity invested on a short term basis into intended maturity.

Our cash flow interest rate risk on our variable-rate portfolio was €(85) million at September 30, 2003 and €(67) million at September 30, 2002, assuming a 100-basis-point increase in interest rates. Such risk is largely related to variable interest rates resulting from the aforementioned hedges of fixed rate debt obligations.

Annual Report / 20F Disclosure Differences

In addition to this Annual Report, Siemens prepares and files an "Annual Report on Form 20-F" with the U.S. Securities and Exchange Commission (SEC) as a foreign private issuer. The Form 20-F and this Annual Report are not identical.

In particular, this Annual Report includes a quantification of our economic value added (EVA) measure, because a significant portion of our management's incentive compensation is tied to EVA targets. We provide disclosure of how the measure is calculated and how investors should use this information. Form 20-F does not include this information.

Our Annual Report on Form 20-F is available on our website at **www.siemens.com/investor_relations**

Outlook

Following the volume declines of the past year, which were substantially driven by currency translation, our goal in fiscal 2004 is to achieve further growth in profitability and win market share. As a number of our Groups have demonstrated, we are well positioned for this effort, with our clear customer focus, strength in innovation, global competitiveness, and sound financial condition. These qualities should also create the basis for double-digit percentage growth in net income for fiscal 2004, assuming generally stable economic conditions.

Subsequent events

After the close of fiscal 2003, in October 2003, Med completed the sale of its life support systems business to Getinge AB, of Sweden. Also in October 2003, Siemens made additional supplemental cash contributions to its U.S. and German pension trusts of €1.255 billion.

This Annual Report contains forward-looking statements based on beliefs of Siemens' management. We use the words "anticipate", "believe", "estimate", "expect", "intend", "should", "plan" and "project" to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to risks and uncertainties. Many factors could cause the actual results to be materially different, including, among others, changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products, lack of acceptance of new products or services and changes in business strategy. Actual results may vary materially from those projected here. Please refer to the discussion of Siemens' risk factors in our Form 20-F. Siemens does not intend or assume any obligation to update these forward-looking statements. It is our policy to disclose material information on an open, nonselective basis.

Consolidated Statements of Income

For the fiscal years ended September 30, 2003 and 2002 (in millions of €, per share amounts in €)

		Siemens worldwide	
	Note	2003	2002
Net sales		74,233	84,016
Cost of sales		(53,350)	(60,810)
Gross profit on sales		20,883	23,206
Research and development expenses		(5,067)	(5,819)
Marketing, selling and general administrative expenses		(13,534)	(15,455)
Other operating income (expense), net (therein gain on issuance of subsidiary and associated company stock €3 and €37, respectively)	**3, 4**	642	1,321
Income (loss) from investments in other companies, net	**5**	142	(114)
Income (expense) from financial assets and marketable securities, net	**6**	61	18
Interest income of Operations, net	**7**	31	94
Other interest income (expense), net	**7**	214	224
Gains on sales and dispositions of significant business interests		–	–
Income (loss) before income taxes		3,372	3,475
Income taxes[(1)]	**8**	(867)	(849)
Minority interest		(96)	(29)
Income (loss) before cumulative effect of change in accounting principle		2,409	2,597
Cumulative effect of change in accounting principle, net of income taxes		36	–
Net income (loss)		2,445	2,597
Basic earnings per share	**30**		
Income before cumulative effect of change in accounting principle		2.71	2.92
Cumulative effect of change in accounting principle, net of income taxes		0.04	–
Net income		2.75	2.92
Diluted earnings per share	**30**		
Income before cumulative effect of change in accounting principle		2.71	2.92
Cumulative effect of change in accounting principle, net of income taxes		0.04	–
Net income		2.75	2.92

(1) The income taxes of Eliminations, reclassifications and Corporate Treasury, Operations, and Financing and Real Estate are based on the consolidated effective corporate tax rate applied to income before income taxes.

(2) As of December 5, 2001, Siemens deconsolidated Infineon. The results of operations from Infineon for the first two months of the fiscal year 2002 are included in Eliminations, reclassifications and Corporate Treasury. As of December 5, 2001, the share in earnings (loss) from Infineon is included in Income (loss) from investments in other companies, net in Operations.

The accompanying notes are an integral part of these consolidated financial statements.

	Eliminations, reclassifications and Corporate Treasury[2]		Operations		Financing and Real Estate	
	2003	2002	2003	2002	2003	2002
	(1,623)	(1,297)	73,744	83,127	2,112	2,186
	1,625	1,222	(53,298)	(60,322)	(1,677)	(1,710)
	2	(75)	20,446	22,805	435	476
	–	(169)	(5,067)	(5,650)	–	–
	–	(90)	(13,243)	(15,083)	(291)	(282)
	(77)	844	555	326	164	151
	–	(16)	66	(142)	76	44
	135	(81)	(69)	124	(5)	(25)
	–	–	31	94	–	–
	206	239	(88)	(96)	96	81
	–	(936)	–	936	–	–
	266	(284)	2,631	3,314	475	445
	(68)	69	(677)	(809)	(122)	(109)
	–	2	(96)	(31)	–	–
	198	(213)	1,858	2,474	353	336
	–	–	39	–	(3)	–
	198	(213)	1,897	2,474	350	336

Consolidated Financial Statements

Consolidated Balance Sheets

As of September 30, 2003 and 2002 (in millions of €)

		Siemens worldwide	
	Note	9/30/03	9/30/02
Assets			
Current assets			
Cash and cash equivalents		12,149	11,196
Marketable securities	**9**	650	399
Accounts receivable, net	**10**	14,511	15,230
Intracompany receivables		–	–
Inventories, net	**11**	10,366	10,672
Deferred income taxes	**8**	1,063	1,212
Other current assets	**12**	4,750	5,353
Total current assets		43,489	44,062
Long-term investments	**13**	5,992	5,092
Goodwill	**14**	6,501	6,459
Other intangible assets, net	**15**	2,358	2,384
Property, plant and equipment, net	**16**	10,756	11,742
Deferred income taxes	**8**	4,359	3,686
Other assets	**17**	4,150	4,514
Other intracompany receivables		–	–
Total assets		77,605	77,939
Liabilities and shareholder's equity			
Current liabilities			
Short-term debt and current maturities of long-term debt	**20**	1,745	2,103
Accounts payable		8,404	8,649
Intracompany liabilities		–	–
Accrued liabilities	**18**	8,884	9,608
Deferred income taxes	**8**	870	661
Other current liabilities	**19**	12,125	13,691
Total current liabilities		32,028	34,712
Long-term debt	**20**	11,433	10,243
Pension plans and similar commitments	**21**	5,843	5,326
Deferred income taxes	**8**	534	195
Other accruals and provisions	**22**	3,418	3,401
Other intracompany liabilities		–	–
		53,256	53,877
Minority interests		634	541
Shareholders' equity	**23**		
Common stock, no par value. Authorized: 1,129,742,969 and 1,145,917,335 shares, respectively Issued: 890,866,301 and 890,374,001 shares, respectively		2,673	2,671
Additional paid-in capital		5,073	5,053
Retained earnings		23,020	21,471
Accumulated other comprehensive income (loss)		(7,051)	(5,670)
Treasury stock, at cost. 1,184 and 49,864 shares, respectively		–	(4)
Total shareholders' equity		23,715	23,521
Total liabilities and shareholders' equity		77,605	77,939

The accompanying notes are an integral part of these consolidated financial statements.

	Eliminations, reclassifications and Corporate Treasury		Operations		Financing and Real Estate	
	9/30/03	9/30/02	9/30/03	9/30/02	9/30/03	9/30/02
	11,345	10,269	725	873	79	54
	101	25	529	356	20	18
	(9)	(7)	10,894	12,058	3,626	3,179
	(10,777)	(13,284)	10,742	13,209	35	75
	(4)	(5)	10,284	10,592	86	85
	77	64	909	1,143	77	5
	736	1,028	3,143	3,306	871	1,019
	1,469	(1,910)	37,226	41,537	4,794	4,435
	19	2	5,636	4,797	337	293
	–	–	6,421	6,369	80	90
	–	–	2,338	2,362	20	22
	1	2	7,114	7,628	3,641	4,112
	1,127	764	3,165	2,771	67	151
	131	103	1,371	1,304	2,648	3,107
	(1,204)	(931)	1,204	931	–	–
	1,543	(1,970)	64,475	67,699	11,587	12,210

	977	1,143	646	785	122	175
	4	6	8,216	8,453	184	190
	(7,426)	(7,776)	1,771	1,799	5,655	5,977
	6	18	8,748	9,445	130	145
	(271)	(206)	877	647	264	220
	284	375	11,578	12,853	263	463
	(6,426)	(6,440)	31,836	33,982	6,618	7,170
	10,176	6,833	748	2,974	509	436
	–	–	5,813	5,299	30	27
	182	(50)	250	119	102	126
	21	28	3,101	3,068	296	305
	(2,410)	(2,341)	378	45	2,032	2,296
	1,543	(1,970)	42,126	45,487	9,587	10,360
	–	–	634	541	–	–
	–	–	21,715	21,671	2,000	1,850
	1,543	(1,970)	64,475	67,699	11,587	12,210

Consolidated Statements of Cash Flow

For the fiscal years ended September 30, 2003 and 2002 (in millions of €)

	Siemens worldwide	
	2003	2002
Cash flows from operating activities		
Net income (loss)	2,445	2,597
Adjustments to reconcile net income to cash provided		
Minority interest	96	29
Amortization, depreciation and impairments	3,334	4,126
Deferred taxes	262	(191)
Gains on sales and disposals of businesses and property, plant and equipment, net, and gain from issuance of subsidiary and associated company stock	(232)	(1,610)
Losses (gains) on sales of investments, net	2	(177)
Gains on sales and dispositions of significant business interests	–	–
Losses (gains) on sales and impairments of marketable securities, net	23	4
Loss (income) from equity investees, net of dividends received	10	298
Change in current assets and liabilities		
(Increase) decrease in inventories, net	8	1,349
(Increase) decrease in accounts receivable, net	623	1,763
Increase (decrease) in outstanding balance of receivables sold	(291)	(503)
(Increase) decrease in other current assets	1,416	1,213
Increase (decrease) in accounts payable	(396)	(899)
Increase (decrease) in accrued liabilities	(621)	(575)
Increase (decrease) in other current liabilities	(668)	(1,025)
Supplemental contributions to pension trusts	(1,192)	(1,782)
Change in other assets and liabilities	893	947
Net cash provided by operating activities	5,712	5,564
Cash flows from investing activities		
Additions to intangible assets and property, plant and equipment	(2,852)	(3,894)
Acquisitions, net of cash acquired	(1,055)	(3,787)
Purchases of investments	(736)	(332)
Purchases of marketable securities	(221)	(338)
Increase in receivables from financing activities	(94)	(172)
Increase (decrease) in outstanding balance of receivables sold by SFS	–	–
Proceeds from sales of long-term investments, intangibles and property, plant and equipment	839	1,218
Proceeds from sales and dispositions of businesses	119	6,097
Proceeds from sales of marketable securities	61	398
Net cash (used in) provided by investing activities	(3,939)	(810)
Cash flows from financing activities		
Proceeds from issuance of common stock	–	156
Purchase of common stock of Company	–	(152)
Proceeds from issuance of treasury shares	4	81
Proceeds from issuance of debt	2,702	384
Repayment of debt	(1,742)	(847)
Change in short-term debt	(445)	512
Change in restricted cash	–	(2)
Dividends paid	(896)	(888)
Dividends paid to minority shareholders	(110)	(103)
Intracompany financing	–	–
Net cash (used in) provided by financing activities	(487)	(859)
Effect of deconsolidation of Infineon on cash and cash equivalents	–	(383)
Effect of exchange rates on cash and cash equivalents	(333)	(118)
Net increase (decrease) in cash and cash equivalents	953	3,394
Cash and cash equivalents at beginning of period	11,196	7,802
Cash and cash equivalents at end of period	12,149	11,196
Supplemental disclosure of cash paid for:		
Interest	545	794
Income taxes	795	389

The accompanying notes are an integral part of these consolidated financial statements.

Eliminations, reclassifications and Corporate Treasury		Operations		Financing and Real Estate	
2003	2002	2003	2002	2003	2002
198	(213)	1,897	2,474	350	336
–	(2)	96	31	–	–
–	209	2,894	3,440	440	477
20	(185)	206	18	36	(24)
–	(936)	(145)	(588)	(87)	(86)
–	7	2	(172)	–	(12)
–	936	–	(936)	–	–
9	(2)	13	3	1	3
–	17	70	322	(60)	(41)
–	86	14	1,234	(6)	29
(527)	844	1,141	871	9	48
(21)	(607)	(270)	104	–	–
835	459	561	833	20	(79)
3	(254)	(396)	(595)	(3)	(50)
–	30	(571)	(577)	(50)	(28)
466	(99)	(961)	(851)	(173)	(75)
–	–	(1,192)	(1,782)	–	–
137	439	764	448	(8)	60
1,120	729	4,123	4,277	469	558
–	(149)	(2,468)	(3,149)	(384)	(596)
–	–	(1,055)	(3,787)	–	–
–	(65)	(714)	(263)	(22)	(4)
(92)	(306)	(127)	(27)	(2)	(5)
276	(864)	–	–	(370)	692
21	607	–	–	(21)	(607)
–	–	556	801	283	417
–	–	119	6,097	–	–
26	317	34	78	1	3
231	(460)	(3,655)	(250)	(515)	(100)
–	–	–	156	–	–
–	–	–	(152)	–	–
–	–	4	81	–	–
2,702	384	–	–	–	–
(1,700)	(809)	(12)	(15)	(30)	(23)
(106)	843	(323)	(481)	(16)	150
–	(2)	–	–	–	–
–	–	(896)	(888)	–	–
–	–	(110)	(103)	–	–
(907)	3,178	787	(2,615)	120	(563)
(11)	3,594	(550)	(4,017)	74	(436)
–	(383)	–	–	–	–
(264)	(71)	(66)	(44)	(3)	(3)
1,076	3,409	(148)	(34)	25	19
10,269	6,860	873	907	54	35
11,345	10,269	725	873	79	54

Consolidated Statements of Changes in Shareholders' Equity

For the fiscal years ended September 30, 2003 and 2002 (in millions of €)

	Common stock	Additional paid-in capital	Retained earnings
Balance at October 1, 2001	2,665	4,901	19,762
Net income	–	–	2,597
Change in currency translation adjustment	–	–	–
Change in unrealized gains and losses	–	–	–
Total comprehensive income	–	–	2,597
Dividends paid	–	–	(888)
Issuance of common stock	6	152	–
Purchase of common stock	–	–	–
Re-issuance of treasury stock	–	–	–
Balance at September 30, 2002	2,671	5,053	21,471
Net income	–	–	2,445
Change in currency translation adjustment	–	–	–
Change in unrealized gains and losses	–	–	–
Total comprehensive income	–	–	2,445
Dividends paid	–	–	(896)
Issuance of common stock	2	20	–
Purchase of common stock	–	–	–
Re-issuance of treasury stock	–	–	–
Balance at September 30, 2003	2,673	5,073	23,020

The accompanying notes are an integral part of these consolidated financial statements.

Accumulated other comprehensive income (loss)					
Cumulative translation adjustment	Available-for-sale securities	Derivative instruments	Minimum pension liability	Treasury shares at cost	Total
401	54	23	(3,994)	–	23,812
–	–	–	–	–	2,597
(533)	–	–	–	–	(533)
–	(239)	36	(1,418)	–	(1,621)
(533)	(239)	36	(1,418)	–	443
–	–	–	–	–	(888)
–	–	–	–	–	158
–	–	–	–	(167)	(167)
–	–	–	–	163	163
(132)	(185)	59	(5,412)	(4)	23,521
–	–	–	–	–	2,445
(695)	–	–	–	–	(695)
–	268	24	(978)	–	(686)
(695)	268	24	(978)	–	1,064
–	–	–	–	–	(896)
–	–	–	–	–	22
–	–	–	–	(127)	(127)
–	–	–	–	131	131
(827)	83	83	(6,390)	–	23,715

Segment Information

As of and for the fiscal years ended September 30, 2003 and 2002 (in millions of €)

	New orders (unaudited)		External sales		Intersegment sales		Total sales	
	2003	2002	2003	2002	2003	2002	2003	2002
Operations Groups								
Information and Communication Networks (ICN)	7,070	8,697	6,592	9,169	530	478	7,122	9,647
Information and Communication Mobile (ICM)	9,960	11,538	9,811	10,910	153	135	9,964	11,045
Siemens Business Services (SBS)	5,226	6,256	3,964	4,212	1,241	1,561	5,205	5,773
Automation and Drives (A&D)	8,476	8,728	7,159	7,430	1,216	1,205	8,375	8,635
Industrial Solutions and Services (I&S)	3,955	4,120	2,907	3,378	1,105	1,102	4,012	4,480
Siemens Dematic (SD)	2,599	2,810	2,444	2,894	156	101	2,600	2,995
Siemens Building Technologies (SBT)	4,775	5,601	4,706	5,291	284	328	4,990	5,619
Power Generation (PG)	7,302	10,586	6,949	9,398	18	48	6,967	9,446
Power Transmission and Distribution (PTD)	3,586	4,429	3,188	3,928	211	271	3,399	4,199
Transportation Systems (TS)	4,674	5,247	4,668	4,349	29	18	4,697	4,367
Siemens VDO Automotive (SV)	8,375	8,515	8,365	8,491	10	24	8,375	8,515
Medical Solutions (Med)	7,835	8,425	7,345	7,604	77	19	7,422	7,623
Osram	4,172	4,363	4,113	4,308	59	55	4,172	4,363
Other operations[5]	1,840	1,895	1,129	1,238	728	785	1,857	2,023
Total Operations Groups	**79,845**	**91,210**	**73,340**	**82,600**	**5,817**	**6,130**	**79,157**	**88,730**
Reconciliation to financial statements								
Corporate items, pensions and eliminations	(6,916)	(7,688)	192	244	(5,605)	(5,847)	(5,413)	(5,603)
Other interest expense	–	–	–	–	–	–	–	–
Gains on sales and dispositions of significant business interests	–	–	–	–	–	–	–	–
Other assets related reconciling items	–	–	–	–	–	–	–	–
Total Operations (for columns Group profit/ Net capital employed, i.e. Income before income taxes/Total assets)	**72,929**	**83,522**	**73,532**	**82,844**	**212**	**283**	**73,744**	**83,127**
Financing and Real Estate Groups								
Siemens Financial Services (SFS)	532	582	433	436	99	146	532	582
Siemens Real Estate (SRE)	1,592	1,612	265	243	1,327	1,369	1,592	1,612
Eliminations	–	–	–	–	(12)	(8)	(12)	(8)
Total Financing and Real Estate	**2,124**	**2,194**	**698**	**679**	**1,414**	**1,507**	**2,112**	**2,186**
Eliminations, reclassifications and Corporate Treasury	**3**	**498**	**3**	**493**	**(1,626)**	**(1,790)**	**(1,623)**	**(1,297)**
Siemens worldwide	**75,056**	**86,214**	**74,233**	**84,016**	**–**	**–**	**74,233**	**84,016**

(1) Group profit of the Operations Groups is earnings before financing interest, certain pension costs and income taxes.
(2) Net capital employed of the Operations Groups represents total assets less tax assets, certain accruals and non-interest bearing liabilities other than tax liabilities.
(3) Intangible assets, property, plant and equipment, acquisitions, and investments.
(4) Includes amortization and impairments of intangible assets, depreciation of property, plant and equipment, and write-downs of investments.
(5) Other operations primarily refer to certain centrally-held equity investments and other operating activities not associated with a Group.
(6) Includes (for Eliminations within Financing and Real Estate consists of) cash paid for income taxes according to the allocation of income taxes to Operations, Financing and Real Estate, and Eliminations, reclassifications and Corporate Treasury in the Consolidated Statements of Income.

	Group profit[1]		Net capital employed[2]		Net cash from operating and investing activities		Capital spending[3]		Amortization, depreciation and impairments[4]	
	2003	2002	9/30/03	9/30/02	2003	2002	2003	2002	2003	2002
	(366)	(691)	722	1,100	106	711	219	415	447	850
	180	96	1,367	1,973	692	594	347	453	326	368
	13	101	294	264	(62)	173	193	222	255	282
	806	723	1,925	2,197	1,060	1,019	281	248	231	240
	(41)	(198)	167	315	54	(107)	45	60	52	56
	(218)	45	877	975	(170)	(70)	42	71	55	62
	101	195	1,447	1,778	375	295	82	133	144	155
	1,171	1,582	1,712	(144)	(448)	662	1,120	300	163	184
	207	109	798	928	387	149	65	92	65	75
	284	247	(252)	(741)	(217)	95	120	135	65	64
	418	65	3,949	3,746	184	224	569	534	400	435
	1,118	1,018	3,128	3,414	845	1,124	321	321	227	206
	410	365	2,074	2,436	528	284	280	330	268	289
	212	99	1,515	535	(362)	89	520	50	64	51
	4,295	**3,756**	**19,723**	**18,776**	**2,972**	**5,242**	**4,204**	**3,364**	**2,762**	**3,317**
	(1,576)	(1,282)	(3,781)	(3,021)	(2,504)[6]	(1,215)[6]	33	3,835	132	123
	(88)	(96)	–	–	–	–	–	–	–	–
	–	936	–	–	–	–	–	–	–	–
	–	–	48,533	51,944	–	–	–	–	–	–
	2,631	**3,314**	**64,475**	**67,699**	**468**	**4,027**	**4,237**	**7,199**	**2,894**	**3,440**

	Income before income taxes		Total assets							
	269	216	8,445	8,681	(312)	282	237	283	220	271
	206	229	3,607	4,090	351	309	169	317	220	206
	–	–	(465)	(561)	(85)[6]	(133)[6]	–	–	–	–
	475	**445**	**11,587**	**12,210**	**(46)**	**458**	**406**	**600**	**440**	**477**
	266	**(284)**	**1,543**	**(1,970)**	**1,351**[6]	**269**[6]	**–**	**214**	**–**	**209**
	3,372	**3,475**	**77,605**	**77,939**	**1,773**	**4,754**	**4,643**	**8,013**	**3,334**	**4,126**

Notes

1 Basis of presentation

The accompanying Consolidated Financial Statements present the operations of Siemens AG and its subsidiaries, (the Company or Siemens). The Consolidated Financial Statements have been prepared in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP). Siemens has prepared and reported its Consolidated Financial Statements in euros (€).

Siemens is a German based multinational corporation with a balanced business portfolio of activities predominantly in the field of electronics and electrical engineering (for further information see Note 31).

In order to comply with §292a of the German Commercial Code (HGB), the Consolidated Financial Statements were supplemented with Management's Discussion and Analysis on a consolidated basis and additional explanations. Therefore, the Consolidated Financial Statements, which have to be filed with the Commercial Registry and published in the German Federal Gazette (Bundesanzeiger), comply with the Fourth and Seventh Directives of the European Community. For the interpretation of these directives the Company relied on the German Accounting Standard No. 1 of the German Accounting Standards Committee.

The Consolidated Financial Statements and Management's Discussion and Analysis as of September 30, 2003, prepared in accordance with §292a of the HGB, are being filed with the Commercial Registries of the Berlin-Charlottenburg and Munich District Courts under the numbers HRB 12300 and HRB 6684, respectively.

Financial statement presentation

The presentation of the Company's worldwide financial data is accompanied by a component model presentation breaking down Siemens' financial position, results of operations and cash flows into three components (see below). These components contain the Company's reportable segments (also referred to as "Groups").

- **Siemens worldwide** – Represents the Consolidated Financial Statements of the Company.
- **Operations** – is defined as Siemens' thirteen operating Groups including certain operating activities not associated with these Groups and centrally managed items including corporate headquarters, but excluding the activities of the **Financing and Real Estate** Groups and the Corporate Treasury.
- **Financing and Real Estate** – Siemens' **Financing and Real Estate** Groups are responsible for the Company's international leasing, finance, credit and real estate management activities.
- **Eliminations, reclassifications and Corporate Treasury** – Captures separately the consolidation of transactions among **Operations** and **Financing and Real Estate**, as well as certain reclassifications. This component also includes the Company's Corporate Treasury activities.

The Company's presentation of **Operations, Financing and Real Estate** and Corporate Treasury reflects the management of these components as distinctly different business activities, with different goals and requirements. Management believes that this presentation provides a clearer understanding of the components of the Company's financial position, results of operations and cash flows. The accounting and valuation principles applied to these components are generally the same as those used for **Siemens worldwide**. The Company has allocated shareholders' equity to the **Financing and Real Estate** business based on a management approach which takes into consideration the inherent risk evident in the underlying assets. The remaining amount of total shareholders' equity is shown under **Operations**. The financial data presented for the **Operations** and **Financing and Real Estate** components are not intended to purport the financial position, results of operations and cash flows as if they were separate entities under U.S. GAAP.

(in millions of €, except where otherwise stated and per share amounts)

Effective December 2001, Infineon is no longer consolidated but instead accounted for as an investment using the equity method. Accordingly, the Company's net investment in Infineon is included within *Long-term investments* in the Consolidated Balance Sheets, and its share of the net income or losses of Infineon is included as part of *Income (loss) from investments in other companies, net* in the Consolidated Statements of Income (see Notes 3 and 13). The consolidated results of operations and cash flows of Infineon for the two months ended November 2001 are included in **Eliminations, reclassifications and Corporate Treasury**.

The information disclosed in these Notes relates to **Siemens worldwide** unless otherwise stated.

2 Summary of significant accounting policies

Basis of consolidation – The Consolidated Financial Statements include the accounts of Siemens AG and all subsidiaries which are directly or indirectly controlled. Results of associated companies – companies in which Siemens has the ability to exercise significant influence over operating and financial policies (generally through direct or indirect ownership of 20% to 50% of the voting rights) – are recorded in the Consolidated Financial Statements using the equity method of accounting.

A complete list of Siemens' subsidiaries and associated companies is being filed with the Commercial Registries of the Berlin-Charlottenburg and Munich District Courts.

Foreign currency translation – The assets and liabilities of foreign subsidiaries, where the functional currency is other than the euro, are translated using period-end exchange rates, while the statements of operations are translated using average exchange rates during the period. Differences arising from such translations are included as a separate component of shareholders' equity.

The exchange rates of the significant currencies of non-euro countries used in the preparation of the Consolidated Financial Statements were as follows:

Currency	ISO Code	Year-end exchange rate 1 € quoted into currencies specified below		Annual average rate 1 € quoted into currencies specified below	
		September, 30		Year ended September, 30	
		2003	2002	2003	2002
Swiss francs	CHF	1.538	1.461	1.498	1.469
British pound	GBP	0.699	0.630	0.676	0.624
U.S. dollar	USD	1.169	0.985	1.085	0.922

Revenue recognition – Revenue is recognized for product sales when title passes, the risks and rewards of ownership have been transferred to the customer, the fee is fixed or determinable, and collection of the related receivable is probable. If product sales are subject to customer acceptance, revenues are not recognized until customer acceptance occurs. For product sales which require the Company to install the product at the customer location, and for which installation is essential to the functionality of the product being installed, revenue is recognized when the equipment has been delivered to and installed at the customer location provided those sales do not qualify for multiple deliverable accounting as set forth in Emerging Issues Task Force (EITF) Issue 00-21, *Revenue Arrangements with Multiple Deliverables* (see *Accounting changes* below). If a contract or arrangement involves the provision of multiple elements, the Company applies the guidance in EITF 00-21 to determine if the contract or arrangement contains more than one unit of accounting and, if applicable, the allocation of arrangement consideration to such units of accounting. The appropriate revenue recognition convention is then applied to each separate unit of accounting. Revenues from service transactions are recognized based on service performance. For long-term service contracts, revenues are generally recognized on a straight-line basis over the term of the contract. Revenues under certain fixed-price long-term IT-related contracts and revenues from long-term construction-type projects are generally recognized under the percentage-of-completion method, based on the percentage of costs to date compared to the total estimated contract costs, contractual milestones or performance. Operating lease income for the rental of equipment is recognized on a straight-line basis over the lease term. Interest income from capital leases is recognized using the interest method.

Product-related expenses and contract loss provisions – Provisions for estimated costs related to product warranties are recorded in cost of sales at the time the related sale is recognized, and are established on an individual basis except for consumer products, which are accrued for on an aggregate basis. The estimates reflect historic trends of warranty costs as well as information regarding product failure experienced during construction, installation or testing of products. In the case of new products, expert opinions and industry data are also taken into consideration in estimating product warranty accruals. Research and development costs are expensed as incurred. Contract loss provisions are established in the period when the current estimate of total contract costs exceeds contract revenue.

Earnings per share – Basic earnings per share is computed by dividing net income by the weighted average shares outstanding during the year. Diluted earnings per share is calculated by adjusting outstanding shares assuming conversion or exercise of all potentially dilutive securities or stock options. Share and per share data for all periods presented reflect the Company's 3-for-2 stock split in fiscal 2001 and are based on the new number of shares (except where otherwise stated).

Cash and cash equivalents – The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Marketable securities and investments – The Company's marketable securities are accounted for at fair value if readily determinable. Securities are classified as either available-for-sale or trading securities. Management determines the appropriate classification of its investments in marketable securities at the time of purchase and reevaluates such determination at each balance sheet date. Marketable securities classified as available-for-sale are reported at fair value, with unrealized gains and losses included in accumulated other comprehensive income, net of applicable deferred taxes. Realized gains and losses are accounted for using the specific identification method. Investments for which there is no readily determinable market value are recorded at cost.

Available-for-sale marketable securities and investments which incur a decline in value below cost that is judged to be other than temporary are considered impaired. The Company considers all available evidence such as market conditions and prices, investee-specific factors and the duration and extent to which fair value is less than cost in evaluating potential impairment of its marketable securities and investments. Impairments are recognized in earnings in the period in which the decline in value is judged to be other than temporary and a new cost basis in the marketable security or investment is established.

Securitization transactions – When the Company sells trade receivables in securitizations, it retains a deferred payment account and servicing obligations, all of which are retained interests in the securitized receivables. Servicing responsibilities for these transactions remain with the Company, for which it receives an adequate servicing fee. The gain or loss on the sale of receivables is determined based upon the difference between the total proceeds received on the sale and the allocated carrying amount of the sold receivables. The allocated carrying amount is determined based upon the relative fair value of the receivables sold and the retained interest. Fair values are based upon quoted market prices whenever available. As such information is generally not available for retained interests, estimates of fair values are based on the present value of future expected cash flows determined using management's best estimate of key assumptions including credit risk and discount rates commensurate with the risks involved. In subsequent periods following securitization, retained interests in securitized receivables are carried at fair value. Changes in fair value of retained interests are recognized in earnings. In fiscal 2003, the Company did not enter into securitization transactions.

Inventories – Inventory is valued at the lower of acquisition or production cost or market, cost being generally determined on the basis of an average or first-in, first-out method (FIFO). Production costs comprise direct material and labor and applicable manufacturing overheads, including depreciation charges. The determination of the market value involves valuation allowances derived from consumption trends.

Goodwill and Other intangible assets – Intangible assets consist of goodwill and patents, software, licenses and similar rights. In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 141, *BusinessCombinations*, and SFAS 142, *Goodwill and Other Intangible Assets*. Since October 1, 2001, the Company amortizes, consistent with these statements, intangible assets with finite useful lives on a straight-line basis over their respective estimated useful lives to their estimated residual values. Estimated useful lives for software, patents, licenses and other similar rights generally range from three to five years, except for intangible assets with finite useful lives acquired in business combinations. Goodwill and intangible assets other than goodwill which are determined to have indefinite useful lives are not amortized, but instead tested for impairment at least annually. In connection with the adoption of SFAS 142, the Company was required to reassess the lives of its intangible assets and determined that none of its intangible assets have indefinite useful lives. The Company evaluates the recoverability of goodwill using a two-step impairment test approach at the division level. In the first step, the fair value of the division is compared to its carrying amount including goodwill. In the case that the fair value of the division is less than its carrying amount, a second step is performed which compares the fair value of the division's goodwill to the carrying amount of its goodwill. The fair value of goodwill is determined based upon the difference between the fair value of the division and the net of the fair values of the identifiable assets and liabilities of the division. If the fair value of goodwill is less than the carrying amount, the difference is recorded as an impairment. See Note 14 and 15 for further information.

(in millions of €, except where otherwise stated and per share amounts)

Property, plant and equipment – Property, plant and equipment is valued at acquisition or manufacturing cost less accumulated depreciation. Depreciation expense is recognized either using the declining balance method until the straight-line method yields larger expenses or the straight-line method. Costs of construction of certain long-term assets include capitalized interest, which is amortized over the estimated useful life of the related asset. The following useful lives are assumed:

Factory and office buildings	20 to 50 years
Other buildings	5 to 10 years
Technical machinery & equipment	5 to 10 years
Furniture & office equipment	generally 5 years
Equipment leased to others	generally 3 to 5 years

Impairment of long-lived assets – The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by the comparison of the carrying amount of the asset to the undiscounted future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Estimated fair value is generally based on either appraised value or measured by discounted estimated future cash flows (see below *Accounting changes* for information regarding the adoption of SFAS 144).

Derivative instruments and hedging activities – In accordance with SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, derivative instruments, such as interest rate swap contracts and foreign-currency exchange contracts, are recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. Changes in the fair value of derivative financial instruments are recognized periodically either in income or, in the case of a cash flow hedge, in shareholders' equity (as a component of other comprehensive income). Certain derivative instruments embedded in host contracts are also accounted for separately as derivatives. See Note 25, *Derivative instruments and hedging activities*, for a description of the Company's risk management strategies and the effect these strategies have on the Consolidated Financial Statements.

(in millions of €, except where otherwise stated and per share amounts)

Taxes – The Company applies SFAS 109, *Accounting for Income Taxes*. Under the asset and liability method of SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The effect on deferred tax assets and liabilities of a change in tax laws is recognized in the results of operations in the period the new laws are enacted. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized.

Asset retirement obligations – On October 1, 2002, Siemens adopted SFAS 143, *Accounting for Asset Retirement Obligations*, as described below in *Accounting changes*. Legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or normal use of the asset are recognized at fair value in the period in which the liability is incurred if a reasonable estimate of fair value can be made. Such estimates are generally determined based upon estimated future cash flows discounted using a credit-adjusted risk-free interest rate. The fair value of the liability is added to the carrying amount of the associated asset. The additional carrying amount is depreciated over the life of the asset. The liability is accreted at the end of each period through charges to operating expense. If the obligation is settled for other than the carrying amount of the liability, the Company will recognize a gain or loss on settlement.

Issuance of shares by subsidiaries or associated companies – Gains or losses arising from the issuances of shares by subsidiaries or associated companies, due to changes in the Company's proportionate share of the value of the issuer's equity, are recorded as income or expense pursuant to U.S. Securities and Exchange Commission Staff Accounting Bulletin Topic 5H, *Accounting for Sales of Stock by a Subsidiary*.

Stock-based compensation – Pursuant to SFAS 123, Siemens has elected to apply Accounting Principles Board (APB) Opinion 25, *Accounting for Stock Issued to Employees*, and related Interpretations in accounting for its stock-based compensation plans (see Note 27). The following table illustrates recorded compensation expense and the effect on net income and earnings per share if the Company had adopted the fair value based accounting method prescribed by SFAS 123:

	Year ended September 30, 2003	2002
Net income		
As reported	2,445	2,597
Plus: Stock-based employee compensation expense included in reported net income, net of taxes	28	46
Less: Stock-based employee compensation expense determined under fair value based accounting method, net of taxes	(147)	(144)
Pro forma	**2,326**	**2,499**
Basic earnings per share		
As reported	2.75	2.92
Pro forma	2.61	2.81
Diluted earnings per share		
As reported	2.75	2.92
Pro forma	2.61	2.81

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

Reclassification – The presentation of certain prior year information has been reclassified to conform to the current year presentation.

Accounting changes – On October 1, 2002, Siemens adopted SFAS 143, *Accounting for Asset Retirement Obligations*, as described above (see *Asset retirement obligations*). As a result of adopting SFAS 143, income of €59 (€36 net of income taxes) has been recorded as a *Cumulative effect of change in accounting principle*, primarily in connection with the Company's remediation and environmental accrual related to the decommissioning of the facilities for the production of uranium and mixed-oxide fuel elements in Hanau, Germany (Hanau facilities) as well as the facilities in Karlstein, Germany (Karlstein facilities). See Note 22 for further information.

On October 1, 2002, the Company adopted SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which supersedes SFAS 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, and the accounting and reporting provisions of APB Opinion 30, *Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, for the disposal of a segment of a business. This statement establishes a single accounting model based on SFAS 121 for long-lived assets to be disposed of by sale, including discontinued operations. Major changes include additional criteria for long-lived assets to qualify as "held for sale" and the requirement that long-lived assets to be disposed of other than by sale be classified as held and used until the disposal transaction occurs. SFAS 144 retains the current requirement to separately report discontinued operations but expands that reporting to include a component of an entity (rather than only a segment of a business) that either has been disposed of or is classified as held for sale. SFAS 144 requires long-lived assets to be disposed of by sale to be recorded at the lower of carrying amount or fair value less costs to sell and to cease depreciation. Siemens applied the provisions of SFAS 144 prospectively and the adoption of SFAS 144 did not have a material impact on the Company's financial statements.

In July 2002, the FASB issued SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which nullifies EITF Issue 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. SFAS 146 requires that a liability for costs associated with exit or disposal activities first be recognized when the liability is irrevocably incurred rather than at the date of management's commitment to an exit or disposal plan. Examples of costs covered by the standard include certain employee severance costs, contract termination costs and costs to consolidate or close facilities or relocate employees. In addition, SFAS 146 stipulates that the liability be measured at fair value and adjusted for changes in estimated cash flows. The provisions of the new standard are effective prospectively for exit or disposal activities initiated after December 31, 2002. Siemens applied the provisions of SFAS 146 prospectively and the adoption of SFAS 146 did not have a material impact on the Company's financial statements.

In November 2002, the FASB issued FASB Interpretation (FIN) 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, which addresses the disclosure to be made by a guarantor in its interim and annual financial statements about its obligation under guarantees. FIN 45 also requires the guarantor to recognize a liability for the non-contingent component of the guarantee, that is, the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The initial measurement of this liability is the fair value of the guarantee at inception. The Company has adopted the disclosure requirements of FIN 45 (see Note 24 for information about guarantees and for information related to product warranties, see above *Product-related expenses and contract loss provisions* and Note 18) and has applied the recognition and measurement provisions for all guarantees entered into or modified after December 31, 2002.

In November 2002, the EITF reached a final consensus on EITF Issue 00-21, *Revenue Arrangements with Multiple Deliverables*. This Issue addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities, specifically how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. The Issue also addresses how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. This issue is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF Issue 00-21 did not have a material impact on the Company's financial statements.

In January 2003, the FASB issued FIN 46, *Consolidation of Variable Interest Entities*, which interprets Accounting Research Bulletin (ARB) 51, *Consolidated Financial Statements*. FIN 46 clarifies the application of ARB 51 with respect to the consolidation of certain entities (variable interest entities – "VIE's") to which the usual condition for consolidation described in ARB 51 does not apply because the controlling financial interest in VIE's may be achieved through arrangements that do not involve voting interests. In addition, FIN 46 requires the primary beneficiary of VIE's and the holder of a significant variable interest in VIE's to disclose certain information relating to their involvement with the VIE's. The provisions of FIN 46 apply immediately to VIE's created after January 31, 2003, and to VIE's in which an enterprise obtains an interest after that date. On October 9, 2003, the FASB issued FASB Staff Position (FSP) FIN 46-6, *Effective Date of FASB's Interpretation No. 46, Consolidation of Variable Interest Entities*, which defers the effective date for initial application of FIN 46 for VIE's created before February 1, 2003 to December 31, 2003. Following FSP FIN 46-6, the Company decided to adopt FIN 46 as of December 31, 2003 for those VIE's created before February 1, 2003. The Company holds variable interests in various VIE's which are not significant either individually or in the aggregate. The impact of consolidating certain of these VIE's on the Company's financial statements will not be material.

(in millions of €, except where otherwise stated and per share amounts)

3 Acquisitions and dispositions

Acquisitions

During the years ended September 30, 2003 and 2002, the Company completed a number of acquisitions. These acquisitions have been accounted for under the purchase method and have been included in the Company's Consolidated Financial Statements since the date of acquisitions.

In connection with the acquisition of Atecs Mannesmann AG (Atecs) in April 2001, Siemens was granted an option to acquire Mannesmann AG's remaining interest in Atecs, either at the option of Mannesmann during the period from the date of closing through September 30, 2002, or at the option of Siemens during the period from April 1, 2002 through December 31, 2003. In January 2002, the Company completed its acquisition of Atecs through Vodafone AG's exercise of its option to sell its 50% minus two shares stake in Atecs to Siemens for cash consideration of approximately €3.7 billion. The purchase price was paid on March 1, 2002.

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

The Company made certain other acquisitions during the years ended September 30, 2003 and 2002 and accounted for by the purchase method of accounting, which did not have a significant effect on the Consolidated Financial Statements.

Dispositions

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

On December 5, 2001, Siemens entered into a transaction as described below under *Deconsolidation of Infineon*, the effect of which is that it no longer has majority voting interest in Infineon and from such date no longer included the assets and liabilities and results of operations of Infineon in its Consolidated Financial Statements but instead accounts for its interest in Infineon using the equity method.

In January 2002, Siemens exercised its option to sell its remaining interest in Rexroth, a wholly-owned subsidiary of Atecs classified as held-for-sale, to Bosch for an adjusted equity value of €2.7 billion less proceeds from businesses already sold to Bosch. This business had been accounted for as an asset held-for-sale and no gain or loss was recorded in connection with the disposition.

On July 1, 2002, Siemens completed the sale of Unisphere Networks, Inc. to Juniper Networks, Inc. (Juniper) in exchange for €376 cash and 35.8 million shares of Juniper stock. At closing, the value of the Juniper shares received was €208. The sale transaction resulted in a pretax gain of €421. Included in the gain calculation is €179, representing the carrying amount of Unisphere's goodwill (see Note 14). As a result of the transaction Siemens received 9.7% of Juniper common shares. The Juniper shares held by Siemens are subject to certain restriction provisions. Accordingly, Siemens may only sell 3 million of Juniper common shares during each of the first three quarters beginning 3 months subsequent to closing and afterwards 6 million of Juniper common shares each quarter thereafter (see Note 13 for further information regarding the Company's investment in Juniper shares).

In September 2002, Siemens completed the sale of several business activities to Kohlberg Kravis Roberts & Co. L.P. (KKR). KKR took over units that had belonged to the former Atecs Mannesmann Group: Mannesmann Plastics Machinery, the gas spring producer Stabilus, Demag Cranes & Components and the harbor crane unit Gottwald. As part of the package, Siemens also sold the metering business of its Power Transmission and Distribution Group, the Ceramics division of its Power Generation Group, and Network Systems, a regional service business belonging to its Information and Communication Networks Group. The business activities were placed in a holding company, called Demag Holding s.a.r.l (Luxembourg). The gross purchase price totaled €1.69 billion. KKR holds an 81% and Siemens a 19% stake in the holding company. In addition to this 19% equity stake in the holding company Siemens received a vendor note of €215 and another note receivable of €38. The purchaser assumed net debt of €372, and Siemens received net cash proceeds of approximately €1.0 billion. The transaction resulted in a pretax gain of €21. Siemens will use cost accounting for its 19% interest in Demag Holding. The governing structure of Demag Holding provides for KKR to have absolute control over virtually all operating, financial, and other management decisions, while Siemens ownership is proportionate to the investment and only passive in nature.

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

Deconsolidation of Infineon

As of December 5, 2001, Siemens deconsolidated Infineon. The deconsolidation followed a series of other transactions pursuant to which the Company reduced its ownership interest in Infineon from approximately 71% at the beginning of fiscal 2001 to 47.1% at December 31, 2001.

In April 2001, Siemens irrevocably transferred 93,825,225 Infineon shares to its domestic pension trust. A pretax gain of €3,459 (after-tax gain of €2,519) was realized on the non-cash contribution of these shares based upon the market price of Infineon shares at the date of transfer. The business purpose of the contribution of Infineon shares to this pension trust was to shore up an already existing under-funded position in the pension trust that was to increase substantially during the third quarter of fiscal 2001 following the Company's acquisition of Atecs. As a result of the transfer, the Company reduced its ownership interest in Infineon by approximately 15% of Infineon's then outstanding share capital.

In July 2001, Infineon completed a capital increase by way of a public offering of 60 million of its shares for which Siemens realized a pretax gain of €484.

In August 2001, Infineon issued an additional 6.4 million shares of new stock in connection with the acquisition of Catamaran Communications Inc. As a result of this transaction, the Company realized a pretax gain of €83. The acquisition of Catamaran Communications Inc. was accounted for using the purchase method of accounting with a purchase price of €252 resulting in goodwill of €179 and a charge for acquired IPR&D of €57.

As a result of Siemens' irrevocable transfer of Infineon shares into the domestic pension trust, the follow-on offering of 60 million shares by Infineon and additional dilution resulting from acquisitions made by Infineon using its shares, Siemens' ownership interest in Infineon decreased to approximately 50.4% as of September 30, 2001.

During the first quarter of fiscal 2002, the Company sold 23.1 million shares of Infineon in open market transactions resulting in net proceeds of €556 and reducing its ownership interest to its December 31, 2001 level of 47.1%. As a result of these sales Siemens realized a tax-free gain of €332.

On December 5, 2001, the Company transferred 200 million Infineon shares or approximately 28.9% of Infineon's share capital to an irrevocable, non-voting trust under a trust agreement. The trustee is not related to the Company or any of its affiliates. Under the terms of the trust agreement, the trustee has legal title to the shares held in trust and the Company has irrevocably relinquished all voting rights in the shares. However, the trustee is not permitted to vote any Infineon shares it holds in trust under the agreement. The Company continues to be entitled to all the benefits of economic ownership of the shares held in trust, including the right to receive cash dividends and other cash distributions, which the trustee has agreed to pay to the Company promptly upon receipt. The trustee is not entitled to sell or encumber the shares held in trust except at the Company's direction, but the Company has agreed not to direct the sale of any such shares to itself, any affiliate, any vehicle established by the Company or any of its affiliates, or to Infineon. The trustee has agreed to pay to the Company any proceeds resulting from a permitted sale. Under the arrangement, the trustee holds the shares in trust for the benefit of the beneficiaries under the trust agreement, which include the Company as trustor and third party shareholders of

Infineon. The trust agreement will terminate only when the Company and its affiliates, on a consolidated basis, have held, directly or indirectly, less than 50% of the voting share capital of Infineon, including the shares held in trust by the trustee, for a period of two consecutive years. Upon termination, any shares held by the trustee would revert to the Company and the Company would be again entitled to vote these shares. Certain provisions of the trust agreement, including those relating to voting and transfer of the shares held in trust, may not be amended without the approval of Infineon's shareholders.

Under the terms of a related standstill agreement, the Company has agreed with the trustee that it will not, and it will not permit its affiliates to, directly or indirectly, acquire or offer to acquire ownership of Infineon shares, or securities convertible into Infineon shares, or any other Infineon voting securities or securities convertible into Infineon voting securities. The Company has also agreed that neither it nor any of its affiliates will procure for itself any third party's voting rights in respect of Infineon shares. These provisions terminate on the termination of the trust agreement.

The Company's irrevocable transfer of Infineon shares to the non-voting trust on December 5, 2001, reduced the Company's voting interest in Infineon by an amount corresponding to the number of shares transferred. Accordingly, while the Company's ownership interest at December 31, 2001 was 47.1%, its voting interest based on total outstanding shares of Infineon was 18.2%. Such voting interest, when combined with the voting interest in Infineon shares of 13.2% held by the Company's domestic pension trust, represented a combined voting interest of 31.4% as of December 31, 2001. Since shareholders of Infineon other than the Company and the pension trust owned approximately 39.7% of Infineon's share capital as of December 31, 2001, they control a majority of the shares that may be voted at any Infineon shareholders' meeting. The effect of the transfer of Infineon shares into the non-voting trust resulted in shareholders in Infineon other than the Company and the pension trust having a disproportionate voting interest (see Note 13).

As the Company no longer has a majority voting interest in Infineon, it has from December 5, 2001 no longer included the assets and liabilities and results of operations of Infineon in its Consolidated Financial Statements and instead accounts for its ownership interest in Infineon using the equity method. Under the equity method of accounting, the Company's net investment in Infineon is included within Long-term investments in the Consolidated Balance Sheets, and its share of the net income or losses of Infineon is included as part of Income (loss) from investments in other companies, net in the Consolidated Statements of Income.

After the deconsolidation, in January 2002, the Company sold an additional 40 million shares of Infineon in open market transactions resulting in net proceeds of €966. As a result of these sales, Siemens realized a tax-free gain of €604 and its ownership interest in Infineon decreased to approximately 39.7% (see Note 13).

Siemens' net income for the fiscal years ended September 30, 2003 and 2002, includes the Company's share of the loss of Infineon of €170 and €453, respectively.

(in millions of €, except where otherwise stated and per share amounts)

4 Other operating income (expense), net

	Year ended September 30,	
	2003	2002
Gains on sales and disposals of businesses, net	101	1,455
Gains on sales of property, plant and equipment, net	131	155
Impairment of goodwill	–	(378)
Other	410	89
	642	**1,321**

For a description of significant items included in *Gains on sales and disposals of businesses, net*, see Note 3.

As described in Note 2, the Company ceased to amortize goodwill at the beginning of fiscal 2002 due to the adoption of SFAS 142. *Impairment of goodwill* in fiscal 2002 relates to the Access Solutions division of ICN (see Note 14).

The line item *Other* includes net gains recognized in connection with the cancellation of orders at PG amounting to €359 for fiscal year ended September 30, 2003.

5 Income (loss) from investments in other companies, net

	Year ended September 30,	
	2003	2002
Income from investments	42	61
Share in earnings (losses) from equity investees, net	236	(158)
Gains on sales of investments	21	209
Losses on sales of investments	(23)	(32)
Write-downs on investments	(159)	(193)
Other	25	(1)
	142	**(114)**

Share in earnings (losses) from equity investees, net for fiscal 2003 includes negative €170, representing Siemens' share in the net loss of Infineon. For fiscal 2002, the equity share of Infineon's net loss following the deconsolidation of Infineon in December 2001 was a negative €338. The Company's total share of losses in Infineon amounted to €453 for fiscal 2002. *Gains on sales of investments* for fiscal 2002 includes the gains on the sale of two centrally held investments totaling €133.

(in millions of €, except where otherwise stated and per share amounts)

6 Income from financial assets and marketable securities, net

	Year ended September 30, 2003	2002
Gains (losses) on sales of available-for-sale securities, net	(6)	20
Other financial gains (losses), net	67	(2)
	61	**18**

In fiscal 2003 and 2002, included in *Other financial gains (losses), net*, are impairments of certain marketable securities totaling €17 and €24, respectively, where the decline in value was determined to be other than temporary.

7 Interest income, net

	Year ended September 30, 2003	2002
Interest income (expense) of Operations, net	31	94
Other interest (expense) income, net	214	224
Total interest income, net	**245**	**318**
Thereof: Interest and similar income	789	1,061
Thereof: Interest and similar expense	(544)	(743)

Interest income (expense) of Operations, net includes interest income and expense related to receivables from customers and payables to suppliers, interest on advances from customers and advanced financing of customer contracts. *Other interest (expense) income, net* includes all other interest amounts primarily consisting of interest relating to debt and related hedging activities as well as interest income on corporate assets.

8 Income taxes

Income (loss) before income taxes is attributable to the following geographic regions:

	Year ended September 30, 2003	2002
Germany	477	(1,033)
Foreign	2,895	4,508
	3,372	**3,475**

(in millions of €, except where otherwise stated and per share amounts)

Income tax expense (benefit) consists of the following:

	Year ended September 30, 2003	2002
Current:		
German corporation and trade taxes	149	105
Foreign income taxes	457	935
	606	**1,040**
Deferred:		
Germany	16	(454)
Foreign	245	263
	261	**(191)**
Income tax expense, net	**867**	**849**

For the fiscal year ended September 30, 2003, the Company is subject to German federal corporation income tax at a base rate of 26.5% plus a solidarity surcharge of 5.5% on federal corporation taxes payable. As a result, the statutory rate for the year ended September 30, 2003 consists of the federal corporate tax rate, including solidarity surcharge, of 28% and trade tax net of federal benefit of 13% for a combined rate of 41%.

For the fiscal year ended September 30, 2002, the Company was subject to German federal corporation tax at a base rate of 25% plus solidarity surcharge of 5.5% on federal corporation taxes payable. As a result, the statutory rate for the year ended September 30, 2002 consists of the federal corporate tax rate, including solidarity surcharge, of 26.4% and trade tax net of federal benefit of 12.6%, for a combined rate of 39%.

In September 2002, the German government enacted the Flood Victim Solidarity Law. Under this legislation, for the Company's fiscal year ending September 30, 2003 only, the base rate of German federal corporation taxation is increased from 25% to 26.5%. Included in the 2002 financial statements is a deferred tax benefit of €7 reflecting the net tax impact of items which are expected to reverse in fiscal year 2003 at a differentiated rate for 2003.

Income tax expense differs from the amounts computed by applying the German federal corporation income tax rate, including the solidarity surcharge, plus the after-federal tax benefit rate for trade taxes on income (41% and 39% for September 2003 and 2002, respectively) as follows:

	Year ended September 30, 2003	2002
Expected income tax expense	1,383	1,355
Increase (decrease) in income taxes resulting from:		
Non-deductible losses and expenses	88	164
Goodwill and acquired in-process research and development	26	162
Tax-free income	(158)	(18)
Change in tax base of investments	148	–
Gains from sales of business interests	(66)	(586)
Effect of change in German tax rates	–	(7)
Foreign tax rate differential	(419)	(171)
Tax-effect of equity method investments	(153)	(72)
Other	18	22
Actual income tax expense	**867**	**849**

(in millions of €, except where otherwise stated and per share amounts)

Deferred income tax assets and liabilities on a gross basis are summarized as follows:

	September 30, 2003	September 30, 2002
Current assets:		
Inventories	505	227
Receivables	256	623
Accrued liabilities	682	899
Liabilities	324	218
Tax loss and credit carryforward	615	632
Other	406	533
Total current deferred tax assets, before valuation allowances	2,788	3,132
Valuation allowances	(82)	(158)
Current deferred tax assets	2,706	2,974
Current liabilities:		
Inventories	1,482	1,343
Receivables	281	102
Accrued liabilities	423	403
Liabilities	156	392
Other	171	183
Current deferred tax liabilities	2,513	2,423
Current deferred tax assets, net	193	551
Non-current assets:		
Intangibles	269	40
Property, plant and equipment	140	232
Retirement plans	1,993	1,511
Accrued liabilities	576	671
Liabilities	363	262
Tax loss and credit carryforward	1,605	1,563
Other	881	972
Total non-current deferred tax assets, before valuation allowances	5,827	5,251
Valuation allowances	(559)	(389)
Non-current deferred tax assets	5,268	4,862
Non-current liabilities:		
Intangibles	252	364
Property, plant and equipment	572	380
Accrued liabilities	259	305
Liabilities	21	273
Other	339	49
Non-current deferred tax liabilities	1,443	1,371
Non-current deferred tax assets, net	3,825	3,491
Total deferred tax assets, net	**4,018**	**4,042**

As of September 30, 2003, the Company had approximately €5,132 of gross tax loss carryforwards. Of the total, €4,210 tax loss carryforwards have unlimited carryforward periods and €922 expire over the periods to 2021.

(in millions of €, except where otherwise stated and per share amounts)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion of the deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable profits during the periods in which those temporary differences and tax loss carryforwards become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences, after giving effect to related valuation allowances.

The Company provides for income taxes or foreign withholding taxes on the cumulative earnings of foreign subsidiaries when it is determined that such earnings either will be subject to taxes or are intended to be repatriated. During the years ended September 30, 2003 and 2002, the Company provided for €44 and €17, respectively of deferred tax liabilities associated with declared, but unpaid, foreign dividends. Income taxes on cumulative earnings of €5,397 of foreign subsidiaries have not been provided for because such earnings will either not be subject to any such taxes or are intended to be indefinitely reinvested in those operations. It is not practicable to estimate the amount of the unrecognized deferred tax liabilities for these undistributed foreign earnings.

Including the items charged or credited directly to related components of accumulated other comprehensive loss and the benefit from changes in accounting principles, the provision (benefit) for income taxes consists of the following:

	Year ended September 30,	
	2003	2002
Provision for income taxes	867	849
Cumulative effect of change in accounting principle	23	–
Shareholders' equity for other comprehensive income	(394)	(1,008)
	496	**(159)**

9 Marketable securities

As of September 30, 2003 and 2002, the Company's portfolio of marketable securities consisted solely of securities classified as available-for-sale.

The following tables summarize the current portion of the Company's investment in available-for-sale securities (for information regarding the non-current available-for-sale securities, see Note 13):

	September 30, 2003				September 30, 2002			
			Unrealized				Unrealized	
	Cost	Fair Value	Gain	Loss	Cost	Fair Value	Gain	Loss
Equity securities	118	194	78	2	238	199	9	48
Debt securities	424	436	12	–	52	53	1	–
Fund securities	20	20	1	1	158	147	1	12
	562	**650**	**91**	**3**	**448**	**399**	**11**	**60**

(in millions of €, except where otherwise stated and per share amounts)

Unrealized gains (losses) on available-for-sale securities included in accumulated other comprehensive income (loss) (AOCI) are shown net of applicable deferred income taxes, as well as tax effects which were previously provided but were reversed into earnings upon the changes in the German tax law enacted in October 2000. Those tax effects amounted to €134 and will remain in AOCI until such time as the entire portfolio of available-for-sale securities in Germany is liquidated.

The estimated fair values of investments in debt securities by contractual maturity were as follows:

	September 30, 2003
Due within one year	27
Due after one year through five years	292
Thereafter	117

Actual maturities may differ from contractual maturities because borrowers have the right to call or prepay certain obligations.

Proceeds from sales of available-for-sale securities for the years ended September 30, 2003 and 2002 were €61 and €398, respectively. Gross realized gains on sales of available-for-sale securities for the years ended September 30, 2003 and 2002 were €8 and €29, respectively. Gross realized losses on sales of available-for-sale securities for the years ended September 30, 2003 and 2002, were €14 and €9, respectively.

10 Accounts receivable, net

	September 30,	
	2003	2002
Trade receivables from the sale of goods and services, net	13,094	13,882
Receivables from sales and finance leases, net	1,289	1,146
Receivables from associated and related companies, net	128	202
	14,511	**15,230**

Related companies are those in which Siemens has an ownership interest of less than 20% and no significant influence over their operating and financial policies.

The valuation allowance for accounts receivable developed as follows:

	Year ended September 30,	
	2003	2002
Valuation allowance as of beginning of fiscal year	1,585	1,785
Increase (decrease) in valuation allowances recorded in the income statement in the current period	(50)	215
Write-offs charged against the allowance	(383)	(385)
Recoveries of amounts previously written-off	23	37
Foreign exchange translation adjustment	(53)	(67)
Valuation allowance as fiscal year-end	**1,122**	**1,585**

(in millions of €, except where otherwise stated and per share amounts)

Receivables from sales and finance leases

	September 30, 2003
2004	1,424
2005	998
2006	670
2007	410
2008	229
Thereafter	195
Minimum future lease payments	3,926
Less: Unearned income	(517)
Less: Allowance for doubtful accounts	(126)
Plus: Unguaranteed residual values	162
Net investment in lease receivables	3,445
Less: Long-term portion	(2,156)
Receivables from sales and finance leases, current	**1,289**

Investments in direct financing and sales-type leases primarily relates to equipment for information and communication products, data processing and medical engineering equipment. Investments in direct financing leases also include leases of industrial and consumer products of third party manufacturers. Actual cash flows will vary from contractual maturities due to future sales of finance receivables, prepayments and write-offs.

Securitization of trade receivables

During fiscal 2002 and 2001, the Company sold a total of €4,553 and €1,848, respectively, in short-term trade receivable securitizations and retained interests in all trade receivables sold through the SieFunds structure, which are subordinated to the interests of the investors. The value of retained interests was subject to credit, prepayment, and interest rate risks of the trade receivables sold. As of September 30, 2002 and 2001, the fair value of retained interests in trade receivables sold amounted to €50 and €65, respectively, based on the following key assumptions used: average days outstanding of 37 and 64, discount rates of 3.0% and 4.0% per annum and credit risks of 0.5% and 0.7% per annum. At the time securitizations were completed, those key assumptions were assessed at: average days outstanding of 43 and 61, discount rates of 3.0% and 4.6% per annum and credit risks of 0.4% and 0.6% per annum, for the fiscal years 2002 and 2001. In addition, the Company has provided letters of credit to cover up to an additional 17% of credit losses on receivables originated by the Company. As of September 30, 2002 and 2001, the letters of credit covered €40 and €127, respectively, of receivables originated by the Company. There were no further recourses to the Company's other assets and liabilities for failure of debtors to pay when due.

In fiscal years 2002 and 2001, the Company recognized pretax losses on securitization transactions of €22 and €13, respectively. Cash received from securitization trusts totaled approximately €4,156 and €1,673, in fiscal years 2002 and 2001. Cash flows resulting from retained interests amounted to €365 and €95, in fiscal periods ended September 30, 2002 and 2001.

(in millions of €, except where otherwise stated and per share amounts)

11 Inventories, net

	September 30, 2003	2002
Raw materials and supplies	2,118	2,430
Work in process	2,066	1,674
Costs and earnings in excess of billings on uncompleted contracts	5,787	5,572
Finished goods and products held for resale	2,770	3,385
Advances to suppliers	795	544
	13,536	13,605
Advance payments received	(3,170)	(2,933)
	10,366	**10,672**

12 Other current assets

	September 30, 2003	2002
Taxes receivable	1,100	1,320
Loans receivable	707	905
Other receivables from associated and related companies	337	466
Other	2,606	2,662
	4,750	**5,353**

13 Long-term investments

	September 30, 2003	2002
Investment in associated companies	4,834	4,120
Miscellaneous investments	1,158	972
	5,992	**5,092**

Investments in associated companies generally represent non-controlling interests in entities of 20% to 50% accounted for using the equity method of accounting. During fiscal 2003, *Investments in associated companies* increased mainly due to the Company's investment in various equity and debt security funds. As of September 30, 2003 and 2002, this line item included €2,249 and €2,441, respectively, related to the Company's equity investment in Infineon. The market value of the Company's investment in Infineon (based upon the Infineon share price) at the end of September 30, 2003 and 2002, was €3,212 and €1,606, respectively. Until December 2001, Infineon was included in the Consolidated Financial Statements of Siemens AG. The Company entered into transactions as described in Note 3 under *Deconsolidation of Infineon*, the effect of which is that Siemens no longer has majority voting interest and therefore, as of December 5, 2001, the assets and liabilities and results of operations of Infineon are no longer included in its Consolidated Financial Statements but the Company instead accounts for its interest in Infineon using the equity method. In January 2002, the Company sold an additional 40 million shares in open market transactions. As a result of these series of transactions and additional dilution resulting from acquisitions made by Infineon using its shares, Siemens ownership interest and voting interest in Infineon was 39.7% and 33.3%, respectively, as of September 30, 2002. As a

(in millions of €, except where otherwise stated and per share amounts)

result of the Siemens German Pension Trust's sale of its remaining Infineon shares during the first half of fiscal 2003, Siemens voting interest in Infineon decreased to 16.6% as of September 30, 2003 (see table below).

	September 30, 2003	shares in thousands	September 30, 2002	shares in thousands
Siemens' ownership interest	39.7%	286,292	39.7%	286,292
Less: Non-voting trust's interest		200,000		200,000
Siemens' voting interest	16.6%*	86,292	16.6%*	86,292
Siemens German Pension Trust's voting interest	–	–	16.7%*	87,053
Siemens' total voting interest	**16.6%***	**86,292**	**33.3%***	**173,345**

* Based upon total Infineon shares outstanding at September 30, 2003 and 2002, respectively, less 200 million shares contributed to the non-voting trust (see Note 3). As of September 30, 2003 and 2002, Siemens' total voting interest is 12.0% and 24.0%, respectively, based on the total shares outstanding.

Miscellaneous investments generally include interests in other companies for which there is no readily determinable market value and which are recorded at the lower of cost or net realizable value. As of September 30, 2003, in this line item Siemens reported €308 of the fair value related to its investment in Juniper representing the Company's total non-current portion of available-for-sale securities (cost amounted to €104 and unrealized gains to €204).

14 Goodwill

The table below presents the carrying amount of goodwill by Group:

	10/1/02	Translation adjustment and other	Acqui-sitions	Dis-positions	9/30/03
Operations					
Information and Communication Networks (ICN)	265	(2)	4	18	249
Information and Communication Mobile (ICM)	93	–	3	–	96
Siemens Business Services (SBS)	230	(23)	74	–	281
Automation and Drives (A&D)	281	(1)	49	1	328
Industrial Solutions and Services (I&S)	92	(26)	1	–	67
Siemens Dematic (SD)	581	(2)	–	15	564
Siemens Building Technologies (SBT)	442	(13)	1	1	429
Power Generation (PG)	598	(64)	409	–	943
Power Transmission and Distribution (PTD)	148	(10)	3	–	141
Transportation Systems (TS)	115	–	–	–	115
Siemens VDO Automotive (SV)	1,528	(1)	2	5	1,524
Medical Solutions (Med)	1,898	(284)	19	31	1,602
Osram	98	(16)	–	–	82
Financing and Real Estate					
Siemens Financial Services (SFS)	90	(10)	–	–	80
Siemens Real Estate (SRE)	–	–	–	–	–
Siemens worldwide	**6,459**	**(452)**	**565**	**71**	**6,501**

(in millions of €, except where otherwise stated and per share amounts)

In fiscal 2002, as a result of the adoption of SFAS 142, €348 of net intangibles relating to customer base (€287 at PG and €61 at Med) were reclassified from *Other intangible assets, net* to *Goodwill*. In addition, *Goodwill* increased by €306 resulting from minor acquisitions and purchase price allocation adjustments totaling €228 at ICN, SD, PG, SV and Med primarily related to Atecs and Acuson. Retirements totaled €492 mainly as a consequence of the deconsolidation of Infineon and the Company's sale of Unisphere Networks at ICN (see Note 3). In connection with its annual goodwill impairment tests required by SFAS 142, the Company determined that the goodwill at its Access Solutions division of ICN, mainly originating from the acquisition of Efficient, was impaired. As a result of significant declines in demand in the telecommunications equipment market, management recorded a goodwill impairment charge of €378 in the fourth quarter of 2002. Fair value was determined using a traditional discounted cash flows approach.

15 Other intangible assets, net

	10/1/02	Translation adjustment	Additions	Retirements	9/30/03	Accumulated depreciation	Net book value as of 9/30/03	Accumulated-depreciation 10/1/02	Net book value-as of 10/1/02	Depreciation during fiscal year
Software	1,453	(104)	444	134	1,659	664	995	444	1,009	354
Patents, licenses and similar rights	2,485	(160)	441	243	2,523	1,160	1,363	1,110	1,375	334
Other intangible assets	**3,938**	**(264)**	**885**	**377**	**4,182**	**1,824**	**2,358**	**1,554**	**2,384**	**688**

Amortization expense for the year ended September 30, 2002 amounted to €618.

The estimated amortization expense of other intangible assets for the next five fiscal years is as follows:

Fiscal year	
2004	573
2005	419
2006	270
2007	219
2008	165

(in millions of €, except where otherwise stated and per share amounts)

16 Property, plant and equipment, net

	10/1/02	Translation adjustment	Additions	Reclassifications	Retirements	9/30/03	Accumulated depreciation	Net book value as of 9/30/03	Accumulated depreciation 10/1/02	Net book value as of 10/1/02	Depreciation during fiscal year
Land and buildings	9,476	(305)	888	177	820	9,416	4,586	4,830	4,522	4,954	300
Technical machinery and equipment	8,578	(410)	786	231	736	8,449	5,930	2,519	6,061	2,517	612
Furniture and office equipment	10,294	(364)	1,045	139	1,492	9,622	7,544	2,078	7,762	2,532	1,323
Equipment leased to others	1,701	(95)	226	(5)	174	1,653	945	708	862	839	250
Advances to suppliers and construction in progress	912	(42)	438	(542)	143	623	2	621	12	900	–
Property, plant and equipment	**30,961**	**(1,216)**	**3,383**	**–**	**3,365**	**29,763**	**19,007**	**10,756**	**19,219**	**11,742**	**2,485**

17 Other assets

	September 30, 2003	2002
Long-term portion of receivables from sales and finance leases (see Note 10)	2,156	2,320
Prepaid pension assets	52	197
Long-term loans receivable	531	557
Other	1,411	1,440
	4,150	**4,514**

18 Accrued liabilities

	September 30, 2003	2002
Employee related costs	2,366	2,637
Income and other taxes	1,234	1,574
Product warranties	1,830	1,634
Accrued losses on uncompleted contracts	987	864
Other	2,467	2,899
	8,884	**9,608**

Employee related costs primarily include accruals for vacation pay, bonuses, accrued overtime and service anniversary awards and the current portion of accruals for pension plans and similar commitments, as well as provisions for severance payments.

(in millions of €, except where otherwise stated and per share amounts)

The current and non-current accruals for product warranties developed as follows:

	Year ended September 30, 2003
Accrual as of beginning of period	2,094
Amount charged to expense in current period (additions)	1,159
Reduction due to payments in cash or in kind (usage)	(605)
Foreign exchange translation adjustment	(77)
Other changes related to existing warranties	(218)
Accrual as of end of period	**2,353**

19 Other current liabilities

	September 30, 2003	2002
Billings in excess of costs and estimated earnings on uncompleted contracts and related advances	4,755	6,054
Payroll and social security taxes	2,493	2,305
Sales and other taxes	944	941
Bonus obligations	1,099	1,073
Liabilities to associated and related companies	428	372
Deferred income	633	786
Accrued interest	140	151
Other liabilities	1,633	2,009
	12,125	**13,691**

20 Debt

	September 30, 2003	2002
Short-term		
Notes and bonds	436	322
Loans from banks	777	1,461
Other financial indebtedness	494	280
Obligations under capital leases	38	40
Short-term debt and current maturities of long-term debt	1,745	2,103
Long-term		
Notes and bonds (maturing 2004 – 2011)	9,997	9,315
Loans from banks (maturing 2004 – 2011)	287	152
Other financial indebtedness (maturing 2004 – 2015)	904	527
Obligations under capital leases	245	249
Long-term debt	11,433	10,243
	13,178	**12,346**

(in millions of €, except where otherwise stated and per share amounts)

As of September 30, 2003, weighted average interest rates for loans from banks, other financial indebtedness and obligations under capital leases were 4.5% (2002: 4.3%), 2.9% (2002: 3.4%) and 6.3% (2002: 6.9%), respectively. In some countries, the Company has pledged securities and executed promissory notes to secure borrowings in conformity with local practice.

The Company has agreements with financial institutions under which it may issue up to €3 billion of commercial paper and U.S.$3.0 billion (€2.6 billion) of commercial paper. As of September 30, 2003 and 2002, outstanding commercial paper totaled €385 (interest rates from 1.0% to 1.04%) and €94 (interest rates from 1.67% to 1.72%), respectively.

The Company also has agreements with financial institutions under which it may issue up to €5.0 billion in medium-term notes. As of September 30, 2003 and 2002, approximately €1.4 billion and €1.6 billion, respectively, was outstanding under this program.

The Company maintains three global backstop facilities of U.S.$3.0 billion (€2.6 billion), €0.75 billion and €0.4 billion. As of September 30, 2003, the full amounts of these lines of credit remain unused. Commitment fees for the years ended September 30, 2003 and 2002 totaled approximately €3 and €3, respectively. Under the terms of the agreements, credit may be used for general business purposes. Borrowings under these credit facilities would bear interest of 0.225% (for the U.S.$3.0 billion and the €0.75 billion facility) above either EURIBOR (Euro Interbank Offered Rate) in case of a drawdown in euros, or LIBOR (London Interbank Offered Rate) in case of a drawdown in one of the other currencies agreed on. Borrowings under the €0.4 billion facility would bear interest of 0.28% above EURIBOR.

Other financial indebtedness includes €603 and €222, as of September 30, 2003 and 2002, respectively for Siemens' continuing involvement in certain real estate assets sold or transferred in which Siemens has retained significant risks and rewards of ownership, mainly through assumption of construction risks and obligations or through circumstances in which Siemens participates directly or indirectly in the change in market value of the property. Therefore, these transactions have been accounted for as financing obligations. The real estate properties are carried on the Company's Consolidated Balance Sheets and no sale and profit has been recognized.

As of September 30, 2003, the minimum lease payments under capital leases for the next five years and thereafter are as follows:

Fiscal year	
2004	48
2005	38
2006	39
2007	39
2008	35
Thereafter	124
Minimum lease payment obligation	323
Less: unamortized interest expense	(40)
Obligations under capital leases	283
Less: current portion	(38)
	245

(in millions of €, except where otherwise stated and per share amounts)

As of September 30, 2003, the aggregate amounts of indebtedness maturing during the next five years and thereafter are as follows (excluding capital leases which are disclosed separately):

Fiscal year	
2004	1,707
2005	1,222
2006	2,269
2007	1,494
2008	998
Thereafter	5,205
	12,895

Details of the Company's medium-term notes and bonds are as follows:

	September 30, 2003 Currency (notional amount)		€*	September 30, 2002 Currency (notional amount)		€*
3.25% 1997/2002 Swiss franc notes				CHF	350	240
2.75% 1993/2003 Swiss franc bonds				CHF	100	68
7.5% 1998/2003 Greek drachma € notes				GRD	5,000	14
1.11% 2002/2003 U.S.$ LIBOR linked notes	USD	200	171			
1.22% 2002/2003 U.S.$ LIBOR linked notes	USD	50	43	USD	50	51
1.15% 2002/2004 U.S.$ LIBOR linked bonds	USD	125	107	USD	125	127
3% 1994/2004 Swiss franc bonds	CHF	178	115	CHF	178	122
1.0% 2000/2005 EUR exchangeable notes	EUR	1,060	1,094	EUR	2,500	2,554
5.0% 2001/2006 € bonds	EUR	2,000	2,109	EUR	2,000	2,078
2.5% 2001/2007 Swiss franc bonds	CHF	250	168	CHF	250	174
5.5% 1997/2007 € bonds	EUR	991	1,025	EUR	991	1,016
6% 1998/2008 U.S.$ notes	USD	970	945	USD	970	1,110
1.375% 2003/2010 € convertible notes	EUR	2,500	2,500			
5.75% 2001/2011 € bonds	EUR	2,000	2,156	EUR	2,000	2,083
			10,433			**9,637**

* Includes adjustments for fair value hedge accounting.

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

During fiscal 2003, Siemens repurchased and retired €1,440 of the €2,500 Siemens Nederland N.V. 1.0% exchangeable notes into shares of Infineon Technologies AG and recognized a gain of €35.

21 Pension plans and similar commitments

Pension benefits provided by Siemens are currently organized primarily through defined benefit pension plans which cover virtually all of the Company's domestic employees and many of the Company's foreign employees. In order to fund Siemens' obligations under the defined benefit plans, the Company's major pension plans are funded with assets in segregated pension entities. Furthermore, there are other postretirement benefits, which primarily comprise transition payments to German employees after retirement as well as postretirement health care and life insurance benefits to U.S. employees. These predominantly unfunded other postretirement benefit plans are qualified as defined benefit plans under U.S. GAAP.

In addition to the above, the Company has foreign defined contribution plans for pensions and other postretirement benefits. The recognition of a liability is not required because the obligation of the Company is limited to the payment of the contributions into these plans.

Accounting for defined benefit plans

Consolidated Balance Sheets

Defined benefit plans determine the entitlements of their beneficiaries. The net present value of the total fixed benefits for service already rendered is represented by the actuarially calculated **accumulated benefit obligation (ABO)**.

An employee's final benefit entitlement at regular retirement age may be higher than the fixed benefits at the measurement date due to future compensation or benefits increases. The net present value of this ultimate future benefit entitlement for service already rendered is represented by the **projected benefit obligation (PBO)**, which is actuarially calculated with consideration for future compensation increases.

The accrued benefit cost is equal to the PBO when the assumptions used to calculate the PBO such as discount rate, compensation increase rate and pension progression rate are achieved. In the case of funded plans, the market value of the external assets is offset against the benefit obligations. The net liability or asset recorded on the balance sheet is equal to the under- or overfunding of the PBO in this case, when the expected return on plan assets is subsequently realized.

Differences between actual experience and assumptions made for the discount rate, compensation increase rate and pension progression rate, as well as the differences between actual and expected returns on plan assets, result in the asset or liability related to pension plans being different than the under- or overfunding of the PBO. Such a difference also occurs when the assumptions used to value the PBO are adjusted at the measurement date. If the difference is so significant that the current benefit obligation represented by the ABO (or the amount thereof not funded by plan assets) exceeds the liability recorded on the balance sheet, such liability must be increased. The unfunded portion of the ABO is referred to as the **Minimum Liability**. This increase of the liability, however, is not recognized as an expense in the income statement, because this U.S. GAAP regulation only serves as a basis to improve the transparency of the financial statements. The required increase in the liability is referred to as the **additional minimum liability (AML)**, and its offsetting adjustment results in the recognition of either an intangible asset or as a separate component of shareholders' equity **(accumulated other comprehensive income)**. The treatment as a separate component of shareholders' equity is recorded, net of tax, as a reduction of shareholders' equity.

(in millions of €, except where otherwise stated and per share amounts)

Funded pension plans can result in a prepaid pension asset despite an underfunded ABO – as in the case of the Siemens German Pension Trust. In the case of an underfunded ABO, the prepaid pension asset is no longer considered recoverable and must be eliminated through the recognition of a liability. The AML is recorded and the prepaid pension asset that is no longer considered recoverable is eliminated with an offsetting adjustment recorded as described above. This will result in a pension liability totaling the amount of the underfunded ABO.

The Consolidated Balance Sheets include the following significant components related to pension plans and similar commitments based upon the situation at September 30:

	September 30,	
	2003	2002
Accumulated other comprehensive income	(10,340)	(8,863)
thereof principal pension benefit plans	(10,192)	(8,829)
Less income tax effect	3,950	3,451
thereof principal pension benefit plans	3,901	3,443
Accumulated other comprehensive income, net of income taxes	(6,390)	(5,412)
thereof principal pension benefit plans	(6,291)	(5,386)
Accruals for pension plans and similar commitments	5,843	5,326
thereof principal pension benefit plans	3,935	3,557
thereof principal other postretirement benefit plans	1,303	1,431
thereof other	605	338

Consolidated Statements of Income

The recognized expense related to pension plans and similar commitments in the Consolidated Statements of Income is referred to as **net periodic pension cost (NPPC)** and consists of several separately calculated and presented components. The related minimum expense is the **service cost**, which is the actuarial net present value of the part of the PBO for the service rendered in the respective fiscal year; the **interest cost** for the expense derived from the addition of accrued interest on the PBO at the end of the preceding fiscal year on the basis of the identified **discount rate**; and the **expected return on plan assets** in the case of funded benefit plans.

The presentation on the **balance sheet** is derived from the sum of: the recognized historical service cost plus interest cost, and in the case of funded pension plans, additionally the expected return on plan assets and the contributions – the latter of which does not affect net income. A prepaid pension asset, as in the case of the German Siemens Pension Trust, results on the basis of this principle when the sum of the recognized expected return on plan assets, plus the contributions, is greater than the sum of the recognized expense of service cost and interest cost.

The balance sheet item is equal to the PBO or, respectively, the funded status, as far as the assumptions used to calculate the PBO such as discount rate, compensation increase rate and pension progression rate as well as the expected return on plan assets are realized (as described above). Changes in the selected assumptions and deviations between the actual experience and the assumptions for discount rate, compensation increase rate and pension progression rate as well as an actual return different from the expected return lead to changes of the PBO and the fair value of plan assets which have not yet been previously recognized in the income statement and thus are not part of the recorded balance sheet item. These differences – termed **unrecognized gains and losses** – are calculated and recorded separately without an immediate impact on the net income. However, U.S. GAAP provides a corridor of 10% of the higher of PBO or plan assets, whereby an amortization over the average remaining service period of the active employees is required as a separate component of the NPPC for the amounts exceeding the 10% corridor.

In the Consolidated Statements of Income, NPPC is allocated among functional costs (cost of sales, research and development, marketing, selling and general administrative expense), according to the function of the employee groups accruing benefits.

In the Consolidated Statements of Income, results for the Company's principal pension and other postretirement benefits was a loss before income taxes in fiscal 2003 of €1,032 compared to €570 in the previous fiscal year.

Consolidated Statements of Cash Flow

The Company makes payments directly to the participants in the case of unfunded benefit plans and the payments are included in net cash provided by (used in) operating activities. For funded pension plans, the participants are paid by the external pension fund and accordingly these payments are cash neutral to the Company. In this case, the Company's regular funding (service cost) and supplemental cash contributions result in a net cash use in operating activities.

In the Consolidated Statements of Cash Flow, results for the Company's principal pension and other postretirement benefits was a net cash use in operating activities of €1,453 compared to €2,085 in the previous fiscal year. The separately reported supplemental cash contributions to pension trusts in fiscal 2003 and 2002 of €1,192 and €1,782, respectively, were included in these amounts.

Principal pension benefits

The principal pension benefit plans cover approximately 498,000 participants, including 246,000 active employees, 86,000 former employees with vested benefits and 166,000 retirees and surviving dependants. Individual benefits are generally based on eligible compensation levels and/or ranking within the Company hierarchy and years of service. Retirement benefits under these plans vary depending on legal, fiscal and economic requirements in each country.

The Company's principal pension benefit plans are explicitly explained in the subsequent sections with regard to:

- Pension obligations and funded status (page 150),
- Recognition of an additional minimum liability (AML) (page 152),
- Components of NPPC (page 153),
- Assumptions for the calculation of the PBO and NPPC (page 154),
- Sensitivity analysis (page 156),
- Additional information concerning changes of the AML and the actual returns on plan assets (page 156),
- Plan assets (page 157),
- Pension plan funding (page 158) and
- Pension benefit payments (page 159).

(in millions of €, except where otherwise stated and per share amounts)

Pension benefits: Pension obligations and funded status

A reconciliation of the funded status of the principal pension benefit plans to the amounts recognized in the Consolidated Balance Sheets is as follows:

	September 30, 2003			September 30, 2002		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Fair value of plan assets	15,899	11,016	4,883	14,531	9,676	4,855
Projected benefit obligation (PBO)	20,878	14,156	6,722	19,492	13,331	6,161
Funded status[1]	(4,979)	(3,140)	(1,839)	(4,961)	(3,655)	(1,306)
Siemens German Pension Trust	(3,140)			(3,655)		
U.S.	(1,061)			(746)		
U.K.	(458)			(299)		
Other	(320)			(261)		
Unrecognized net losses[2]	11,295	9,313	1,982	10,424	8,969	1,455
Unrecognized prior service cost	83	–	83	119	–	119
Unrecognized net transition asset	(1)	–	(1)	(3)	–	(3)
Net amount recognized	**6,398**	**6,173**	**225**	**5,579**	**5,314**	**265**
Amounts recognized in the consolidated balance sheets consist of:						
Prepaid pension assets	52	–	52	197	–	197
Accrued pension liability	(3,935)	(2,702)	(1,233)	(3,557)	(3,063)	(494)
Intangible assets	89	–	89	110	–	110
Accumulated other comprehensive loss	10,192	8,875	1,317	8,829	8,377	452
Net amount recognized	**6,398**	**6,173**	**225**	**5,579**	**5,314**	**265**

(1) Funded status: The funded status shows the coverage of the PBO by the plan assets as of the measurement date, and, where applicable, fundings between the measurement date and the balance sheet date. The PBO is calculated based on the projected unit credit method and reflects the net present value as of the measurement date of the accumulated pension entitlements of active employees, former employees with vested rights and of retirees and their surviving dependents with consideration of future compensation and pension increases. The funded status of the Company's principal pension plans, amounting to approximately €5 billion, did not change significantly compared to the previous year. Two offsetting factors contributed to this effect. First, the Company contributed €1,192 in cash to the pension trusts, as well as €377 in real estate as additional supplemental contributions. These supplemental contributions occurred in the first and fourth quarters of fiscal 2003. Offsetting this effect was an increase in the PBO of the plans as a result of a reduction in the discount rates used in measuring the PBO from a weighted average of 6.0% to 5.4% consistent with the general decline in interest rates worldwide. This increased the PBO by € 1.4 billion.

(2) Unrecognized net losses: The NPPC is determined at the beginning of the relevant measurement period based on assumptions for the discount rate, compensation increase rate and pension progression rate as well as the long-term rate of return on plan assets. The effect of differences between the actual experience and the assumed assumptions and changes in the assumptions are disclosed in the line item Unrecognized net losses. The unrecognized net losses amounting to €11,295 are particularly due to the negative development in international capital markets in the years 2001 and 2002. During these two years, an actual loss of €6,444 has been realized while assuming an expected return on pension assets of the principal pension benefit plans of €3,030, thus increasing the unrecognized net losses by €9,474.

The measurement date for the PBO and fair value of plan assets of the Company's domestic pension benefit plans is September 30, and either September 30 or June 30 for the majority of its foreign plans. For such plans with a measurement date of June 30, the actual investment return of the plan assets relate to the period from July 1, of the prior fiscal year, until June 30 of the current fiscal year, and not the year ended September 30.

(in millions of €, except where otherwise stated and per share amounts)

A detailed reconciliation of the changes in the PBO for fiscal 2003 and 2002 and some additional detail information concerning pension plans is provided in the following table:

	September 30, 2003			September 30, 2002		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Change in projected benefit obligations:						
Projected benefit obligation at beginning of year	19,492	13,331	6,161	18,544	13,077	5,467
Foreign currency exchange rate changes	(739)	–	(739)	(265)	–	(265)
Service cost	484	212	272	487	206	281
Interest cost	1,121	767	354	1,151	772	379
Settlements and curtailments	(2)	–	(2)	–	–	–
Plan participants' contributions	32	–	32	32	–	32
Amendments and other	476	(34)	510	(53)	(197)	144
Actuarial losses	1,000	563	437	697	301	396
Acquisitions	44	10	34	84	13	71
Divestments	(83)	(7)	(76)	(255)	(221)	(34)
Benefits paid	(947)	(686)	(261)	(930)	(620)	(310)
Projected benefit obligation at end of year	**20,878**	**14,156**	**6,722**	**19,492**	**13,331**	**6,161**
Siemens German Pension Trust	14,156			13,331		
U.S.	3,031			3,095		
U.K.	1,919			1,742		
Other	1,772			1,324		

The total projected benefit obligation at the end of the fiscal year includes approximately €8,600 for active employees, €2,200 for former employees with vested benefits and €10,100 for retirees and surviving dependants.

The following table shows the change in plan assets for fiscal year 2003 and 2002, and some additional detail information concerning pension plans:

	September 30, 2003			September 30, 2002		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Change in plan assets:						
Fair value of plan assets at beginning of year	14,531	9,676	4,855	14,761	9,682	5,079
Foreign currency exchange rate changes	(546)	–	(546)	(166)	–	(166)
Actual return on plan assets	648	641	7	(1,187)	(713)	(474)
Acquisitions and other	413	–	413	171	–	171
Divestments and other	(20)	–	(20)	(173)	(173)	–
Employer contributions (supplemental)	1,569	1,385	184	1,782	1,500	282
Employer contributions (regular)	219	–	219	241	–	241
Plan participants' contributions	32	–	32	32	–	32
Benefits paid	(947)	(686)	(261)	(930)	(620)	(310)
Fair value of plan assets at end of year	**15,899**	**11,016**	**4,883**	**14,531**	**9,676**	**4,855**
Siemens German Pension Trust	11,016			9,676		
U.S.	1,970			2,349		
U.K.	1,461			1,443		
Other	1,452			1,063		

(in millions of €, except where otherwise stated and per share amounts)

Pension benefits: Recognition of an Additional Minimum Liability (AML)

The total accumulated benefit obligation (ABO) of the principal pension benefit plans amounted to €19,779 and €17,842, as of September 30, 2003 and 2002, respectively.

For fiscal 2003 and 2002, the PBO, ABO and fair value of plan assets for the principal pension benefit plans whose ABO exceeded the fair value of plan assets at the measurement date were as follows:

	September 30, 2003			September 30, 2002		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Projected benefit obligation	20,701	14,156	6,545	16,940	13,331	3,609
Siemens German Pension Trust	14,156			13,331		
U.S.	3,031			3,095		
U.K	1,919			–		
Other	1,595			514		
Accumulated benefit obligation	19,642	13,718	5,924	15,825	12,739	3,086
Siemens German Pension Trust	13,718			12,739		
U.S.	2,746			2,659		
U.K	1,749			–		
Other	1,429			427		
Fair value of plan assets	15,744	11,016	4,728	12,149	9,676	2,473
Siemens German Pension Trust	11,016			9,676		
U.S.	1,970			2,105		
U.K	1,450			–		
Other	1,308			368		
Underfunding of accumulated benefit obligation	**(3,898)**	**(2,702)**	**(1,196)**	**(3,676)**	**(3,063)**	**(613)**
Siemens German Pension Trust	(2,702)			(3,063)		
U.S.	(776)			(554)		
U.K	(299)			–		
Other	(121)			(59)		

The underfunded ABO of €3,898 (the Minimum Liability) was recorded as an accrued pension liability. Including a pension liability of €37 for principal pension benefit plans whose ABO was not underfunded at their measurement date, the total pension liability for the principal pension benefit plans as of September 30, 2003 totaled €3,935.

Excluding the AML adjustment, the Company has a net prepaid pension asset of €6,383, primarily related to the transfer of Infineon shares to the Siemens German Pension Trust in fiscal 2001 and from the supplemental funding of the Siemens German Pension Trust in fiscal 2003 and 2002. This amount together with the underfunded ABO of €3,898, resulted in an AML adjustment of €10,281. Of this amount, €10,192 (€6,291 net of tax) was recorded in accumulated other comprehensive income as a separate component of shareholders' equity and €89 was recorded as an intangible asset.

(in millions of €, except where otherwise stated and per share amounts)

Pension benefits: Components of NPPC

The components of the NPPC for the fiscal years ended September 30, 2003 and 2002 were as follows:

	Year ended September 30, 2003			Year ended September 30, 2002		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Service cost	484	212	272	487	206	281
Interest cost	1,121	767	354	1,151	772	379
Expected return on plan assets	(1,107)	(814)	(293)	(1,421)	(1,007)	(414)
Amortization of:						
Unrecognized prior service cost	12	–	12	14	–	14
Unrecognized net losses (gains)	451	392	59	208	212	(4)
Unrecognized net transition obligation (asset)	–	–	–	8	–	8
Loss due to settlements and curtailments	8	–	8	–	–	–
Net periodic pension cost	**969**	**557**	**412**	**447**	**183**	**264**
Siemens German Pension Trust	557			183		
U.S.	240			164		
U.K.	111			58		
Other	61			42		

For the Siemens German Pension Trust, the determination of the expected return on plan assets and the amortization of unrecognized losses are based on a market-related value of plan assets calculated using the average of historical market values of plan assets over four quarters. This market-related value was €11,111 as of September 30, 2003, €95 above the fair value of the plan assets of the German Pension Trust. For all other plans, the market-related value of plan assets is equal to the fair value of plan assets as of the measurement date. If any significant supplemental contributions are made after the measurement date, these contributions will be considered on a pro-rata basis when determining the total expected return on plan assets for the respective fiscal year.

Net unrecognized gains or losses in excess of 10% of the greater of the projected benefit obligation or the market-related value of plan assets are amortized over the average remaining service period of active participants (generally 15 years). Prior service costs are amortized on a straight-line basis over the average remaining service period of active participants to whom such costs relate.

The increase in NPPC compared to fiscal 2002 results from two important factors. First, the Company adjusted the expected rate of return on plan assets for the most important pension benefit plans as a result of a revised asset allocation and in expectation of lower market returns. This change resulted in an increase in the NPPC of €220. Secondly, NPPC increased in fiscal 2003 as a result of higher amortization of unrealized losses. These unrealized losses arose largely from negative developments in the international capital markets during fiscal years 2002 and 2001, as well as the effect of reductions in the discount rate assumption used to calculate the PBO. The service cost and amortization of prior service cost components of NPPC for fiscal 2003 is €496, about the same amount as in fiscal 2002 (€501). The service cost component for the Siemens German Pension Trust, €212 in fiscal 2003, is currently reported in the Segment Information table centrally under *Corporate* *items, pensions and eliminations*, whereas the service cost and amortization of prior service cost components for the foreign pension plans, €284 in fiscal 2003, are allocated to the **Operations** Groups. All other components of NPPC are reported centrally under *Corporate items, pensions and eliminations* for both the Siemens German Pension Trust and the foreign pension plans.

(in millions of €, except where otherwise stated and per share amounts)

Based on the established assumptions, the Company expects that NPPC will increase slightly in fiscal 2004, primarily due to a further increase in the amortization of unrecognized losses. Such increase is due to increases in total unrecognized losses resulting primarily from the reduction in the weighted-average discount rate from 6.0% to 5.4%. The effect on NPPC was partly offset by higher expected absolute returns on plan assets resulting from the supplemental contributions.

Pension benefits: Assumptions for the calculation of the PBO and NPPC

Assumed discount rates, compensation increase rates and pension progression rates used in calculating the PBO together with long-term rates of return on plan assets vary according to the economic conditions of the country in which the retirement plans are situated as well as capital market expectations.

The weighted-average assumptions used for the actuarial valuation of the PBO as of the respective measurement date (June 30 or September 30), were as follows:

	Year ended September 30, 2003			Year ended September 30, 2002		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Discount rate	5.4%	5.25%	5.6%	6.0%	5.75%	6.4%
Siemens German Pension Trust	5.25%			5.75%		
U.S.	6.25%			7.25%		
U.K.	5.4%			5.7%		
Rate of compensation increase	2.5%	2.25%	2.9%	3.1%	2.75%	3.9%
Siemens German Pension Trust	2.25%			2.75%		
U.S.	3.0%			4.25%		
U.K.	3.6%			4.1%		
Rate of pension progression	1.4%	1.25%	2.1%	1.4%	1.25%	2.3%
Siemens German Pension Trust	1.25%			1.25%		
U.K.	2.6%			2.5%		

The assumptions used for the calculation of the PBO as of measurement date (June 30 or September 30) of the preceding fiscal year are also valid for the calculation of interest cost and service cost of the following year. Therefore, the assumptions used for the calculation of the NPPC for fiscal 2004 are already determined except for the expected return on plan assets. Regarding the assumption of the expected rate of return on plan assets, the Company decided to maintain the same fiscal 2003 return for fiscal 2004. Accordingly, the total expected return for fiscal 2004 will be based on such expected rate of return multiplied by the market-related value of plan assets at the fiscal 2003 measurement date.

(in millions of €, except where otherwise stated and per share amounts)

The weighted-average assumptions used for determining the NPPC for the fiscal years ended September 30, 2004, 2003 and 2002 are shown in the following table:

	Year ended September 30, 2004			Year ended September 30, 2003			Year ended September 30, 2002		
	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign
Discount rate	5.4%	5.25%	5.6%	6.0%	5.75%	6.4%	6.2%	6.0%	6.7%
Siemens German Pension Trust	5.25%			5.75%			6.0%		
U.S.	6.25%			7.25%			7.5%		
U.K.	5.4%			5.7%			6.2%		
Expected return on plan assets	6.7%	6.75%	6.6%	6.7%	6.75%	6.7%	8.0%	8.25%	7.9%
Siemens German Pension Trust	6.75%			6.75%			8.25%		
U.S.	6.95%			6.95%			9.0%		
U.K.	6.85%			6.85%			7.2%		
Rate of compensation increase	2.5%	2.25%	2.9%	3.1%	2.75%	3.9%	3.3%	3.0%	4.1%
Siemens German Pension Trust	2.25%			2.75%			3.0%		
U.S.	3.0%			4.25%			4.5%		
U.K.	3.6%			4.1%			4.1%		
Rate of pension progression	1.4%	1.25%	2.1%	1.4%	1.25%	2.3%	1.6%	1.5%	2.3%
Siemens German Pension Trust	1.25%			1.25%			1.5%		
U.K.	2.6%			2.5%			2.5%		

The discount rate assumptions reflect the rates available on high-quality fixed-income investments of appropriate duration at the measurement date of each plan. The expected return on plan assets is determined on a uniform basis, considering long-term historical returns, asset allocation, and future estimates of long-term investment returns. As of October 1, 2002, Siemens reduced the expected return on plan assets for its German Pension Trust and for its principal foreign pension plans in order to represent expected investment performance and future asset allocations. Actuarial assumptions not shown in the table above, such as employee turnover, mortality, disability etc., remained primarily unchanged in 2003.

(in millions of €, except where otherwise stated and per share amounts)

Pension benefits: Sensitivity Analysis

A one-percentage-point change of the established assumptions mentioned above, used for the calculation of the NPPC for fiscal 2004, and a change of the market-related value of plan assets of €500 as of balance sheet date September 30, 2003, would result in the following impact on the fiscal 2004 NPPC:

	Effect on NPPC 2004 due to one-percentage-point/	
	€500 increase	€500 decrease
Discount rate	160	(200)
Expected return on plan assets	172	(172)
Rate of compensation increase	(90)	80
Rate of pension progression	(270)	230
Market-related value of plan assets	70	(70)

Increases and decreases in the discount rate, rate of compensation increase and rate of pension progression which are used in determining the PBO do not have a symmetrical effect on NPPC primarily due to the compound interest effect created when determining the present value of the future pension benefit. If more than one of the assumptions were changed simultaneously, the impact would not necessarily be the same as if only one assumption was changed in isolation.

Pension benefits: Additional information concerning changes of the AML and actual returns on plan assets

	Year ended September 30, 2003			Year ended September 30, 2002		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Increase of the minimum liability within the accumulated other comprehensive income	1,363	498	865	2,300	1,935	365

The reduction of shareholders' equity caused by the underfunded ABO increased by €1,363. This reduction of shareholders' equity has no effect on income and was primarily caused by the increase in the ABO amounting to approximately 1.2 billion, as a result of the decline in the weighted-average discount rate from 6.0% to 5.4%. The contributions to plan assets had no effect on the AML. In fact, the contributions resulted in a lower difference between the ABO and the fair value of plan assets and at the same time prepaid pension assets before AML adjustments increased by the same amount.

	Year ended September 30, 2003			Year ended September 30, 2002		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Actual return on plan assets	648	641	7	(1,187)	(713)	(474)

Actual investment returns for the Siemens German Pension Trust from October 1 to September 30, 2003 amounted to €641 million or 5.3%. This was less than the €814 or 6.75% that was included in the NPPC. The expected return on plan assets is based on the market-related value of plan assets at the measurement date of the respective plan considering significant supplemental contributions after the measurement date. The most significant principal foreign pension benefit plans have a measurement date of June 30. Accordingly, the expected return of our principal foreign pension benefit plans of €293 relates to the period from July 1, 2002 to June 30, 2003, during which the actual return was €7 or 0.1%, as compared to the expected return of 6.7%. Included in this actual return of €7 are losses totaling €551 incurred during the period from June 30, 2002 to September 30, 2002 by the principal foreign pension benefit plans with measurement dates of June 30. For the period from October 1, 2002 to September 30, 2003, the actual return on plan assets of our principal foreign pension benefit plans was €618 or 12.3%, and the investment return of the worldwide plan assets was €1,259 or 7.4%. Included in this amount is €60 or 5.7%, on an annualized basis, of actual returns earned during the period from June 30, 2003 to September 30, 2003 on assets of the principal foreign pension benefit plans with a measurement date of June 30. Such returns are relevant only for fiscal 2004.

(in millions of €, except where otherwise stated and per share amounts)

Pension benefits: Plan Assets

The asset allocation of the plan assets of the principal pension benefit plans as of the measurement date for fiscal 2003 and 2002 as well as the target asset allocation for fiscal year 2004, are as follows:

Asset class	Target asset allocation September 30, 2004	Asset allocation as of the measurement date					
		September 30, 2003			September 30, 2002		
		Total	Domestic	Foreign	Total	Domestic	Foreign
Equity	30 – 60%	31%	26%	41%	33%	20%	60%
Fixed income	30 – 60%	50%	54%	39%	46%	58%	22%
Real estate	5 – 15%	10%	10%	11%	8%	7%	9%
Cash	5 – 15%	9%	10%	9%	13%	15%	9%
		100%	**100%**	**100%**	**100%**	**100%**	**100%**

As of September 30, 2002, the Siemens German Pension Trust held 87.1 million shares in Infineon from the transfer which occurred in April 2001. During the first six months of 2002, the remaining holdings of the Siemens German Pension Trust in shares in Infineon were sold. While United States pension plans subject to the Employee Retirement Income Security Act (ERISA) are restricted in the amount of securities they are permitted to own in the employer or its affiliates to 10% of the plan assets, the Siemens German Pension Trust is not subject to such ERISA provisions.

Current asset allocation is biased towards high quality government and selected corporate bonds. As of September 30, 2003, the equity-portion of the pension assets of the principal pension benefit plans approximates the prior year level, despite a significant reduction during the year. The target asset allocation is based on pension asset and liability studies and is regularly reviewed with respect to market movements and also timely-adjusted based on market conditions, when necessary.

(in millions of €, except where otherwise stated and per share amounts)

Pension benefits: Pension Plan Funding

Contributions made by the Company to its principal pension benefit plans in fiscal 2003 and 2002, as well as those planned in fiscal 2004, are as follows:

	Year ended September 30, 2004 (expected)			Year ended September 30, 2003			Year ended September 30, 2002		
	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign
Regular funding	499	230	269	219	–	219	241	–	241
Supplemental contributions									
Cash	1,255	700	555	1,192	1,008	184	1,782	1,500	282
Real estate	–	–	–	377	377	–	–	–	–
	1,754	**930**	**824**	**1,788**	**1,385**	**403**	**2,023**	**1,500**	**523**

In September 2002, the Company made a supplemental cash contribution to the Siemens German Pension Trust as well as to the pension plans in the U.S. and the U.K., totaling €1,782. In addition, another supplemental funding of the Siemens German Pension Trust totaling €635, including €377 in real estate and €258 in cash was made in October 2002. Also in October 2002, Siemens made another supplemental cash contribution to the pension plan in the U.K. amounting to €184. In September 2003, Siemens made a supplemental cash contribution of €750 to the German Pension Trust. In October 2003, €1,255 in cash was contributed as follows: €700 to the Siemens German Pension Trust and €555 to the pension plan in the U.S.

Beginning in fiscal 2004, regular funding will be based generally on the level of service costs incurred. With regards to the Siemens German Pension Trust, this funding in the amount of €230 has already been contributed in October 2003. The contributions abroad will be allocated on a pro-rata basis during the fiscal year. Future funding decisions for the Company's pension plans will be made with due consideration of developments affecting plan assets and pension liabilities, taking into account minimum funding requirements abroad and local tax deductibility.

(in millions of €, except where otherwise stated and per share amounts)

Pension benefits: Pension benefit payments

The following overview comprises pension benefits paid out of the principal pension benefit plans during the years ended September 30, 2003 and 2002, and expected pension payments in the next five years (undiscounted):

	Total	Domestic	Foreign
Pension benefits paid			
2002	930	620	310
2003	947	686	261
Expected pension payments			
2004	1,002	713	289
2005	1,044	746	298
2006	1,083	776	307
2007	1,101	781	320
2008	1,121	786	335

As pension benefit payments for our principal funded pension benefit plans reduce the PBO and plan assets by the same amount, there is no impact on the funded status of such plans.

Other postretirement benefits

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. Certain foreign companies, primarily in the U.S., provide other postretirement benefits in the form of medical, dental and life insurance. The amount of obligations for other postretirement benefits in the form of medical and dental benefits specifically depends on the expected cost trend in the health care sector. To be entitled to such healthcare benefits participants must contribute to the insurance premiums. Participant contributions are based on specific regulations of cost sharing which are defined in the benefit plans. The Company has the right to adjust the cost allocation at any time, generally this is done on an annual basis. Premiums for life insurance benefits are paid solely by the Company.

(in millions of €, except where otherwise stated and per share amounts)

Other postretirement benefits are illustrated in detail in the subsequent sections with regard to:

- Obligations and funded status (page 160),
- Plan assets (page 161),
- Components of net periodic benefit cost for other postretirement benefits (page 161),
- Assumptions used in the calculation of the PBO and net periodic benefit cost (page 162), and
- Benefit payments (page 162).

Other postretirement benefits: Obligations and funded status
The funded status of plan assets and a reconciliation of the funded status to the amounts recognized in the Consolidated Balance Sheets is as follows:

	September 30, 2003			September 30, 2002		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Fair value of plan assets	3	–	3	13	–	13
Projected benefit obligations	1,088	482	606	1,150	534	616
Funded status (plan assets less other postretirement obligations)	(1,085)	(482)	(603)	(1,137)	(534)	(603)
Unrecognized net loss	(211)	(221)	10	(300)	(166)	(134)
Unrecognized prior service cost	(8)	–	(8)	5	–	5
Unrecognized net transition asset	1	–	1	1	–	1
Net amount recognized	**(1,303)**	**(703)**	**(600)**	**(1,431)**	**(700)**	**(731)**

The following table shows a detailed reconciliation of the changes in the projected benefit obligation for other postretirement benefits for the years ended September 30, 2003 and 2002:

	September 30, 2003			September 30, 2002		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Change in projected benefit obligations:						
Projected benefit obligation at beginning of year	1,150	534	616	1,170	587	583
Foreign currency exchange rate changes	(104)	–	(104)	(46)	–	(46)
Service cost	42	19	23	52	21	31
Interest cost	66	30	36	80	33	47
Settlements and curtailments	(29)	–	(29)	–	–	–
Plan participant’s contributions	1	–	1	–	–	–
Plan amendments	(19)	–	(19)	–	–	–
Actuarial (gains) losses	58	(62)	120	(59)	(81)	22
Acquisitions	–	–	–	61	17	44
Divestments	(24)	(22)	(2)	(49)	(22)	(27)
Benefits paid	(53)	(17)	(36)	(59)	(21)	(38)
Projected benefit obligation at end of year	**1,088**	**482**	**606**	**1,150**	**534**	**616**

(in millions of €, except where otherwise stated and per share amounts)

Other postretirement benefits: Plan assets

The following table shows the change in plan assets for fiscal 2003 and 2002:

	September 30, 2003			September 30, 2002		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Change in plan assets						
Fair value of plan assets at beginning of year	13	–	13	28	17	11
Foreign currency exchange rate changes	–	–	–	(1)	–	(1)
Divestments and other	–	–	–	(17)	(17)	–
Employer contributions	25	–	25	41	–	41
Plan participant's contributions	1	–	1	–	–	–
Benefits paid	(36)	–	(36)	(38)	–	(38)
Fair value of plan assets at year end	**3**	**–**	**3**	**13**	**–**	**13**

Other postretirement benefits: Components of net periodic benefit cost

The components of the net periodic benefit cost for other postretirement benefits for the years ended September 30, 2003 and 2002 are as follows:

	Year ended September 30, 2003			Year ended September 30, 2002		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Service cost	42	19	23	52	21	31
Interest cost	66	30	36	80	33	47
Amortization of:						
Unrecognized prior service cost	(5)	–	(5)	–	–	–
Unrecognized net gains	(13)	(7)	(6)	(9)	–	(9)
Net gain due to settlements and curtailments	(27)	–	(27)	–	–	–
Net periodic benefit cost	**63**	**42**	**21**	**123**	**54**	**69**

(in millions of €, except where otherwise stated and per share amounts)

Other postretirement benefits: Assumptions used in the calculation of the PBO and net periodic benefit cost

Discount rates and other key assumptions used for transition payments in Germany are the same as those utilized for domestic pension benefit plans.

The weighted average assumptions used in calculating the actuarial values for the postretirement healthcare and life insurance benefits, primarily in the U.S., are as follows:

	Year ended September 30,	
	2003	2002
Discount rate	6.25%	7.25%
Medical trend rates (initial/ultimate/year):		
Medicare ineligible pre-65	8.33%/5%/2007	9.17%/5%/2007
Medicare eligible post-65	8.33%/5%/2007	9.17%/5%/2007
Fixed dollar benefit	6%	6%
Dental trend rates (initial/ultimate/year)	6%/5%/2021	6%/5%/2021

The health care assumptions may be significantly influenced by the expected progression in health care expense. A one-percentage-point change in the healthcare trend rates would have the following effects on the accumulated postretirement benefit obligation and the service and interest cost as of and for the year ended September 30, 2003:

	September 30, 2003 One-percentage-point	
	increase	decrease
Effect on accumulated postretirement benefit obligation	57	(47)
Effect on total of service and interest cost components	8	(7)

Other postretirement benefits: Benefit payments

Benefit payments for other postretirement benefits for fiscal year 2003 were €53 (including €17 for domestic plans) compared to €59 in the preceding fiscal year (including €21 for domestic plans). For fiscal 2004, the Company expects benefit payments to be approximately the same as the fiscal 2003 level. Since the benefit obligations for other postretirement benefits are generally not funded, such payments will impact the current operating cash flow of the Company.

22 Other accruals and provisions

	September 30,	
	2003	2002
Asset retirement obligations	495	599
Deferred income	288	281
Product warranties	523	460
Other long-term accruals	2,112	2,061
	3,418	**3,401**

The Company is subject to asset retirement obligations related to certain tangible long-lived assets. Such asset retirement obligations are primarily attributable to environmental clean-up costs (€543 as of September 30, 2003; thereof non-current portion of €460) and to costs associated with the removal of leasehold improvements at the end of the lease term (€49 as of September 30, 2003; thereof non-current portion of €35).

Environmental clean-up costs are mainly related to remediation and environmental protection liabilities which have been accrued for the estimated costs of decommissioning facilities for the production of uranium and mixed-oxide fuel elements in Hanau, Germany (Hanau facilities) as well as in Karlstein, Germany (Karlstein facilities). According to the German Atomic Energy Act, when such a facility is closed, the resulting radioactive waste must be collected and delivered to a government-developed final storage facility. In this regard, the Company has developed a plan to decommission the Hanau and Karlstein facilities in the following steps: clean-out, decontamination and disassembly of equipment and installations, decontamination of the facilities and buildings, sorting of radioactive materials, and intermediate and final storage of the radioactive waste. This process will be supported by continuing engineering studies and radioactive sampling under the supervision of German federal and state authorities. The decontamination, disassembly and sorting activities are planned to continue in Hanau until 2007 and in Karlstein until 2009; thereafter, the Company is responsible for intermediate storage of the radioactive materials until a final storage facility is available. The final location is not expected to be available before approximately 2030. The ultimate costs of the remediation are contingent on the decision of the federal government on the location of the final storage facility and the date of its availability. Consequently, the accrual is based on a number of significant estimates and assumptions. The Company does not expect any recoveries from third parties and did not reduce the accruals for such recoveries. The Company believes that it has adequately provided for this exposure. The previously recorded liabilities for such obligations were based on estimated future cash flows discounted using a risk-free rate. Therefore, the impact of the adoption of SFAS 143 principally relates to the application of current credit-adjusted risk-free interest rates. The interest rates for the environmental liabilities relating to the decommissioning of the Hanau and Karlstein facilities, previously ranging from approximately 4% to 5%, have been adjusted to a range from approximately 3% to 6%. The rates are determined based on the differing durations of the steps of decommissioning. As of September 30, 2003 and 2002, the accrual totals €543 and €641, respectively, and are recorded net of a present value discount of €1,438 and €1,429, respectively. The total expected payments for each of the next five fiscal years and the total thereafter are €46, €48, €51, €54, €12 and €1,770 (includes €1,680 for the costs associated with final storage in 2033).

The Company recognizes the accretion of the liability for the Hanau facility using the interest method. During the years ended September 30, 2003 and 2002 the Company recognized €22 and €32 in accretion expense in *Other operating income (expense), net*.

The cumulative effect of initially applying SFAS 143 amounted to a positive €36 (net of income taxes). Had SFAS 143 been applied as of September 30, 2002 and October 1, 2001, the impact on the liability recorded, net income and earnings per share would not have been material.

The current and non-current portion of asset retirement obligations developed as follows:

	Year ended September 30, 2003
Aggregate carrying amount as of the beginning of the period	
(thereof current portion of €93)	692
Effect of adopting SFAS 143, before income taxes	(59)
Liabilities incurred in the current period	10
Liabilities settled in the current period	(93)
Accretion Expense	25
Revision in estimated cash flows	17
Aggregate carrying amount at the end of the period (thereof current portion of €97)	**592**

23 Shareholders' equity

Common stock and Additional paid-in capital

As of September 30, 2003, the Company's common stock totaled €2,673 divided into 890,866,301 shares without par value with a notional value of €3.00 per share. Each share of common stock is entitled to one vote.

As of September 30, 2002, the Company's common stock totaled €2,671 representing 888,374,001 shares.

The following table provides a summary of outstanding capital and the changes in authorized and conditional capital for fiscal years 2003 and 2002:

	Common stock (authorized and issued)		Authorized capital (not issued)		Conditional capital (not issued)	
	in thousands of €	in thousand shares	in thousands of €	in thousand shares	in thousands of €	in thousand shares
As of October 1, 2001	2,664,690	888,230	772,630	257,543	194,525	64,842
Stock options	413	138	–	–	(413)	(138)
Settlement to former SNI shareholders	19	6	–	–	(19)	(6)
Capital increases	6,000	2,000	(6,000)	(2,000)	–	–
As of September 30, 2002	2,671,122	890,374	766,630	255,543	194,093	64,698
Settlement to former SNI shareholders	1,477	492	–	–	(1,477)	(492)
New approved capital	–	–	250,000	83,334	267,000	89,000
Expired capital	–	–	(300,000)	(100,000)	–	–
As of September 30, 2003	**2,672,599**	**890,866**	**716,630**	**238,877**	**459,616**	**153,206**

Capital increases

In January 2002, €6 or 2,000,000 shares from Authorized Capital 2001/II were issued to an underwriter and subsequently offered for sale to employees with respect to the Company's employee share program (see also *Treasury stock* below).

In fiscal 2002, common stock increased by €413 thousand through the issuance of 137,576 shares, from the conditional capital to service the 1999 Siemens Stock Option Plan and the 2001 Siemens Stock Option Plan (Conditional Capital 1999).

In fiscal 2003 and 2002, common stock increased by €1,477 thousand and €19 thousand, respectively, through the issuance of 492,300 shares and 6,180 shares, respectively, from the conditional capital as settlement to former shareholders of SNI AG.

Authorized and conditional capital

On September 30, 2003 and 2002, the authorized but unissued capital of the Company totaled €717 and €767 or 238,876,668 common shares and 255,543,334 common shares, respectively.

Authorized Capital 1998 of €90 and Authorized Capital 1999 of €210 were replaced by resolution of the Annual Shareholders' Meeting on January 23, 2003. The Company's shareholders authorized the Managing Board with the approval of the Supervisory Board to increase the common stock by up to €250 through the issuance of up to 83,333,334 shares for which the shareholders' pre-emptive rights are excluded since these shares will be issued against contribution in kind (Authorized Capital 2003). The Authorized Capital 2003 will expire on January 22, 2008.

By resolution of the Annual Shareholders' Meeting on January 23, 2003, the Managing Board is authorized to issue bonds in an aggregate principal amount of up to €5 billion with conversion rights (convertible bonds) or with warrants entitling the holders to subscribe to new shares of Siemens AG. The authorization will expire on December 31, 2007. The shareholders also approved conditional share capital of €267 for the issuance of up to 89,000,000 shares to service the exercise of the conversion or option rights of holders of these convertible bonds or warrants attached to these bonds (Conditional Capital 2003).

Conditional capital of €1 provides for the settlement offered to former shareholders of SNI AG who had not tendered their SNI share certificates.

Treasury stock

On January 23, 2003, the Company's shareholders authorized the Company to repurchase up to 10% of the €2,671 common stock.

In fiscal 2003, Siemens repurchased a total of 2,903,150 shares (representing €9 or 0.3% of common stock) at an average price of €43.84 per share in addition to the 49,864 shares of treasury stock held at beginning of the fiscal year. Of these shares, 2,951,830 (representing €9 or 0.3% of common stock) were sold to employees. The majority of these shares was sold to employees at a preferential price of €29 per share during the second quarter of fiscal 2003. As of September 30, 2003, 1,184 shares of stock remained in treasury with a carrying amount of €52 thousand.

In fiscal 2002, Siemens repurchased 2,297,574 shares, including the 2,000,000 shares relating to the capital increase from Authorized Capital 2001/II and (representing €7 or 0.3% of common stock), at an average price of €72.86 per share in addition to the 1,116 shares of treasury stock held at the beginning of the fiscal year. Of these shares 2,248,826 were sold to employees, a majority of which was offered for sale to employees at a preferential price of €40.39 per share. As of September 30, 2002, 49,864 shares of stock remained in treasury with a carrying amount of €4.

During the years ended September 30, 2003 and 2002, the Company incurred compensation expense (before income taxes) of €46 and €73, respectively, related to the sale of repurchased shares to employees.

(in millions of €, except where otherwise stated and per share amounts)

Other comprehensive income (loss)

The changes in the components of other comprehensive income are as follows:

	Year ended September 30,					
		2003			2002	
	Pretax	Tax effect	Net	Pretax	Tax effect	Net
Changes in unrealized gains (losses) on securities:						
Unrealized holding gains (losses) for the period	334	(87)	247	(368)	128	(240)
Reclassification adjustments for (gains) losses included in net income	25	(4)	21	4	(3)	1
Net unrealized gains (losses) on available-for-sale securities	359	(91)	268	(364)	125	(239)
Changes in unrealized gains (losses) on derivative financial instruments:						
Unrealized gains (losses) on derivative financial instruments:	179	(68)	111	110	(43)	67
Reclassification adjustments for (gains) losses included in net income	(141)	54	(87)	(51)	20	(31)
Net unrealized gains (losses) on derivative financial instruments	38	(14)	24	59	(23)	36
Minimum pension liability	(1,477)	499	(978)	(2,324)	906	(1,418)
Foreign-currency translation adjustment	(695)	–	(695)	(533)	–	(533)
	(1,775)	**394**	**(1,381)**	**(3,162)**	**1,008**	**(2,154)**

Miscellaneous

Under the German Stock Corporation Act, the amount of dividends available for distribution to shareholders is based upon the earnings of Siemens AG as reported in its statutory financial statements determined in accordance with the German Commercial Code (Handelsgesetzbuch). During the fiscal year ended September 30, 2003, Siemens AG management distributed an ordinary dividend of €888 (€1.00 per share) of the 2002 earnings of Siemens AG as a dividend to the shareholders. During the year ended September 30, 2002, Siemens AG management distributed €888 (€1.00 per share) of the 2001 earnings of Siemens AG as a dividend to the shareholders.

24 Commitments and contingencies

Guarantees and other commitments

The following table presents the undiscounted amount of maximum potential future payments for each major group of guarantee.

	September 30,	
	2003	2002
Discounted bills of exchange	61	51
Guarantees		
Credit guarantees.	515	945
Guarantees of third-party performance	559	1,678
Other guarantees	704	1,960
	1,778	**4,583**
Collateral for third party liabilities	10	17

Credit guarantees cover the financial obligations of third parties in cases where Siemens is the vendor and/or contractual partner. These guarantees generally provide that in the event of default or non-payment by the primary debtor, Siemens will be required to pay such financial obligations. In addition, Siemens provides credit guarantees generally as credit-line guarantees with variable utilization to associated and related companies. The maximum amount of these guarantees is subject to the outstanding balance of the credit or, in case where a credit line is subject to variable utilization, the nominal amount of the credit line. These guarantees usually have terms of between one year and five years. Except for statutory recourse provisions against the primary debtor, credit guarantees are generally not subject to additional contractual recourse provisions. In connection with the formation of Infineon as a separate legal entity, Siemens had guarantees relating to business obligations of Infineon that could not be transferred to Infineon for legal, technical or practical reasons. With respect to such guarantees, as of September 30, 2002, *Credit guarantees* include €61 (that expired in fiscal 2003), for which Siemens had guaranteed the indebtedness of ProMOS, a subsidiary of Infineon. As of September 30, 2003, the Company has accrued €125 relating to credit guarantees compared to €191 at September 30, 2002.

Furthermore, Siemens issues *Guarantees of third-party performance*, which include guarantees of third-party performance and guarantees of advanced payments in cases where Siemens is the general or subsidiary partner in a consortium. In the event of non-fulfillment of contractual obligations by the consortium partner(s), Siemens will be required to pay up to an agreed-upon maximum amount. These agreements span the term of the contract, typically ranging from three months to five years. Generally, consortium agreements provide for fallback guarantees as a recourse provision among the consortium partners. In actual practice, such guarantees are rarely drawn and therefore no significant liability has been recognized in connection with these guarantees. As of September 30, 2002, *Guarantees of third-party performance* also include a guarantee of €767 (which expired in fiscal 2003) related to commitments of Siemens' formerly owned defense electronics business, which was sold in 1998.

Other guarantees include indemnifications issued in connection with dispositions of business entities. Such indemnifications protect the buyer from tax, legal and other risks related to the purchased business entity. As of September 30, 2002, *Other guarantees* also include a guarantee for Infineon totaling €313 (which expired in fiscal 2003) with respect to contingent liabilities for government grants previously received. As of September 30, 2003 and September 30, 2002, the total accruals for *Other guarantees* amounted to €196 and €284, respectively.

As of September 30, 2003, the amount recognized for the non-contingent component of guarantees entered into after December 31, 2002 (see Note 2) was not significant.

(in millions of €, except where otherwise stated and per share amounts)

As of September 30, 2003, future payment obligations under non-cancellable operating leases are as follows:

2004	473
2005	427
2006	393
2007	319
2008	277
Thereafter	945

The total operating rental expense for the years ended September 30, 2003 and 2002 was €530 and €328, respectively.

As of September 30, 2003, the Company has commitments to make capital contributions of €256 to other companies.

The Company is jointly and severally liable and has capital contribution obligations as a partner in companies formed under the German Civil Code (BGB), 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 consortiums.

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

25 Derivative instruments and hedging activities

As part of the Company's risk management program, a variety of derivative financial instruments are used to reduce risks resulting primarily from fluctuations in foreign-currency exchange rates and interest rates as well as to reduce credit risks. The following is a summary of Siemens' risk management strategies and the effect of these strategies on the Consolidated Financial Statements.

Foreign currency exchange risk management

Siemens' significant international operations expose the Company to significant foreign-currency exchange risks in the ordinary course of business. The Company employs various strategies discussed below involving the use of derivative financial instruments to mitigate or eliminate certain of those exposures.

Derivative financial instruments not designated as hedges

The Company manages its risks associated with fluctuations in foreign-currency-denominated receivables, payables, debt, firm commitments and anticipated transactions primarily through a Company-wide portfolio approach. This approach concentrates the associated Company-wide risks centrally, and various derivative financial instruments, primarily foreign exchange contracts and, to a lesser extent, interest rate and cross-currency interest rate swaps and options, are utilized to minimize such risks. Such a strategy does not qualify for hedge accounting treatment under SFAS 133. Accordingly, all such derivative financial instruments are recorded at fair value on the Consolidated Balance Sheets as either an *Other current asset* or *Other current liability* and changes in fair values are charged to earnings.

The Company also has foreign-currency derivative instruments, which are embedded in certain sale and purchase contracts denominated in a currency other than the functional currency of the significant parties to the contract, principally the U.S. dollar. Gains or losses relating to such embedded foreign-currency derivatives are reported in *Cost of sales* in the Consolidated Statements of Income.

Hedging activities

The Company's operating units applied hedge accounting for certain significant anticipated transactions and firm commitments denominated in foreign currencies. Specifically, the Company entered into foreign exchange contracts to reduce the risk of variability of future cash flows resulting from forecasted sales and purchases and firm commitments resulting from its business units entering into long-term contracts (project business) which are denominated primarily in U.S. dollars.

Cash flow hedges – Changes in fair value of forward exchange contracts that were designated as foreign-currency cash flow hedges are recorded in *Accumulated other comprehensive income (loss)* as a separate component of shareholders' equity. During the years ended September 30, 2003 and 2002, net gains (losses) of €40 and € –, respectively, were reclassified from accumulated other comprehensive income into cost of sales because the occurrence of the related hedged forecasted transaction was no longer probable. Net gains (losses) of €5 and €(3), respectively, were recognized in cost of sales representing hedge ineffectiveness of derivative contracts.

It is expected that €89 of net deferred gains in *Accumulated other comprehensive income (loss)* will be reclassified into earnings during the year ended September 30, 2004 when the hedged forecasted foreign-currency denominated sales and purchases occur.

As of September 30, 2003, the maximum length of time over which the Company is hedging its future cash flows associated with foreign-currency forecasted transactions is 65 months.

Fair value hedges – As of September 30, 2003, the Company hedged firm commitments using forward exchange contracts that were designated as foreign-currency fair value hedges of future sales related primarily to the Company's project business and, to a lesser extent, purchases. The hedging transactions resulted in the recognition of an *Other current asset* of €21 (2002: €13) and *Other current liability* of €25 (2002: €6) for the hedged firm commitments, whose changes in fair value were charged to cost of sales. Changes in fair value of the derivative contracts were also recorded in cost of sales. During the year ended September 30, 2003, a net loss of €13 was recognized in cost of sales because the hedged firm commitment no longer qualified as a fair value hedge (no such gains or losses were recorded in fiscal 2002). During the years ended September 30, 2003 and 2002 there was no hedge ineffectiveness.

Interest rate risk management

Interest rate risk arises from the sensitivity of financial assets and liabilities to changes in market rates of interest. The Company seeks to mitigate such risk by entering into interest rate derivative financial instruments such as interest rate swaps, options and, to a lesser extent, cross-currency interest rate swaps and interest rate futures.

Interest rate swap agreements are used to adjust the proportion of total debt, and to a lesser extent interest-bearing investments, that are subject to variable and fixed interest rates. Under an interest rate swap agreement, the Company either agrees to pay an amount equal to a specified variable rate of interest times a notional principal amount, and to receive in return an amount equal to a specified fixed rate of interest times the same notional principal amount or, vice-versa, to receive a variable-rate amount and to pay a fixed-rate amount. The notional amounts of the contracts are not exchanged. No other cash payments are made unless the agreement is terminated prior to maturity, in which case the amount paid or received in settlement is established by agreement at the time of termination, and usually represents the net present value, at current rates of interest, of the remaining obligations to exchange payments under the terms of the contract.

Derivative financial instruments not designated as hedges

The Company uses a portfolio-based approach to manage its interest rate risk associated with certain interest-bearing assets and liabilities, primarily interest-bearing investments and debt obligations. This approach focuses on mismatches in the structure of the interest terms of these assets and liabilities without referring to specific assets or liabilities. Such a strategy does not qualify for hedge accounting treatment under SFAS 133. Accordingly, all interest rate derivative instruments used in this strategy are recorded at fair value as either an Other current asset or Other current liability and changes in the fair values are charged to earnings.

Fair value hedges of fixed-rate debt obligations

Under the interest rate swap agreements outstanding during the years ended September 30, 2003 and 2002, the Company agrees to pay a variable rate of interest multiplied by a notional principle amount, and receive in return an amount equal to a specified fixed rate of interest multiplied by the same notional principal amount. These interest rate swap agreements offset an impact of future changes in interest rates on the fair value of the underlying fixed-rate debt obligations. The interest rate swap contracts are reflected at fair value in the Company's Consolidated Balance Sheet and the related portion of fixed-rate debt being hedged is reflected at an amount equal to the sum of its carrying amount plus an adjustment representing the change in fair value of the debt obligations attributable to the interest rate risk being hedged. Changes in the fair value of interest rates swap contracts, and the offsetting changes in the adjusted carrying amount of the related portion of fixed-rate debt being hedged, are recognized as adjustments to the line item *Income from financial assets and marketable securities*, net in the Consolidated Statements of Income. Net cash receipts and payments relating to such interest rate swap agreements are recorded to interest expense.

The Company had interest rate swap contracts to pay variable rates of interest (average rate of 2.3% and 3.3% as of September 30, 2003 and 2002, respectively) and receive fixed rates of interest (average rate of 4.9% and 5.1% as of September 30, 2003 and 2002, respectively). The notional amount of indebtedness hedged as of September 30, 2003 and 2002 was €5,153 and €6,146, respectively. This resulted in 52% and 66% of the Company's underlying notes and bonds being subject to variable interest rates as of September 30, 2003 and 2002, respectively. The notional amounts of these contracts mature at varying dates based on the maturity of the underlying hedged items. The net fair value of interest rate swap contracts used to hedge indebtedness as of September 30, 2003 and 2002 was €309 and €305, respectively. During the years ended September 30, 2003 and 2002, net gains of €13 and €2, respectively, on the interest rate swaps was recognized in *Income from financial assets and marketable securities*, net representing hedge ineffectiveness.

Credit risk management
Siemens Financial Services uses credit default swaps to protect from credit risks stemming from its receivables purchase business. The credit default swaps are classified as guarantees or as derivatives under SFAS 133.

26 Fair value of financial instruments

The fair value of a financial instrument represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. In determining the fair values of the derivative financial instruments, certain compensating effects from underlying transactions (e.g., firm commitments and anticipated transactions) are not taken into consideration.

Derivative financial instruments
The Company enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings.

Derivative interest rate contracts – The fair values of derivative interest rate contracts (e.g., interest rate swap agreements) are estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument. Interest rate options are valued on the basis of quoted market prices or on estimates based on option pricing models.

Derivative currency contracts – The fair value of forward foreign exchange contracts is based on forward exchange rates. Currency options are valued on the basis of quoted market prices or on estimates based on option pricing models.

Credit default swaps – The fair value of credit default swaps is calculated by comparing discounted expected future cash flows using current bank conditions with discounted expected future cash flows using contracted conditions.

As of September 30, 2003, the Company's derivative financial instruments had a net fair value of €757 (2002: €398) and were recorded on the Consolidated Balance Sheets as *Other current assets* of €1,020 (2002: €623) and *Other current liabilities* of €263 (2002: €225).

(in millions of €, except where otherwise stated and per share amounts)

Non-derivative financial instruments

The fair values for non-derivative financial instruments are determined as follows: Fair value of cash and cash equivalents, short-term receivables, accounts payable, additional liabilities and commercial paper and borrowings under revolving credit facilities approximate their carrying amount due to the short-term maturities of these instruments.

Financial assets and securities

Fair values for marketable securities and publicly traded long-term equity investments are derived from quoted market prices. It is not practicable to estimate the fair value of the Company's long-term investments which are not publicly traded, as there are no readily available market prices. The following table presents the fair value (if readily available) and carrying amount of long-term investments:

	September 30,	
	2003	2002
Fair value	7,049	4,238
Carrying amount	5,992	5,092

Financing receivables

Long-term fixed-rate and variable-rate receivables are evaluated by the Company based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As such, as of September 30, 2003 and 2002, the carrying amounts of such receivables, net of allowances, approximates their fair value.

Debt

The fair value of debt is estimated by discounting future cash flows using rates currently available for debt of similar terms and remaining maturities. As of September 30, 2003 and 2002, the fair value and carrying amount of debt is as follows:

	September 30,	
	2003	2002
Fair value	13,533	12,284
Carrying amount	13,178	12,346

27 Stock-based compensation

Pursuant to SFAS 123, *Accounting for Stock-Based Compensation*, the Company has elected to apply Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* and related Interpretations in accounting for its stock-based compensation plan.

Description of plans – 1999 Siemens Stock Option Plan

As part of a stock option plan for members of the Managing Board, executive officers and other eligible employees, the Company's shareholders authorized the Managing Board on February 18, 1999 to distribute non-transferable options exercisable for up to an aggregate of 10 million common shares. The authority to distribute options under this plan would have originally expired on February 18, 2004. With the ratification by Siemens shareholders of the 2001 Siemens Stock Option Plan (further details see below), the 1999 Siemens Stock Option Plan (the 1999 Plan) has been terminated and further options have not been granted. In connection with the 1999 Plan, the shareholders originally approved an increase in conditional capital in an amount not to exceed €26, which has been increased to up to €45.

Under the 1999 Plan, the Supervisory Board decided annually after the end of each fiscal year how many options to grant to the Managing Board, and the Managing Board decided annually how many options to grant to executive officers and other eligible employees. The exercise price is equal to the average market price of Siemens' stock during the five days preceding the date the options were granted. The options are exercisable within the five years following a holding period of two years if Siemens AG stock price outperforms the Dow Jones Stoxx-Index by at least two percentage points on five consecutive days. This percentage applies to the first year of the five-year option exercise period, and increases by 0.5 percentage points in each subsequent year. As a result of such performance requirements, the plan has been accounted for as a variable plan under APB Opinion No. 25.

The options may be settled either in newly issued shares of common stock of Siemens AG from the Conditional Capital reserved for this purpose, treasury stock or cash. The alternatives offered to optionees are determined by the Managing Board in each case as approved by the Supervisory Board. Compensation in cash shall be equal to the difference between the exercise price and the average market price of the Company's stock on the five trading days preceding the exercise of the stock options.

Description of plans – 2001 Siemens Stock Option Plan

At the Annual Shareholders' Meeting on February 22, 2001, shareholders authorized Siemens AG to establish the 2001 Siemens Stock Option Plan, making available up to 55 million options. Compared to the 1999 Plan, the number of eligible recipients is significantly larger. The option grants are subject to a two-year vesting period, after which they may be exercised for a period of up to three years. The exercise price is equal to 120% of the reference price, which corresponds to the average opening market price of Siemens AG during the five trading days preceding the date of the stock option grant. However, an option may only be exercised if the trading price of the Company's shares reaches a performance target which is equal to the exercise price at least once during the life of the option. The terms of the plan allow the Company, at its discretion upon exercise of the option, to offer optionees settlement of the options in either newly issued shares of common stock of Siemens AG from the Conditional Capital reserved for this purpose, treasury stock or cash.

(in millions of €, except where otherwise stated and per share amounts)

The alternatives offered to optionees are determined by the Managing Board in each case as approved by the Supervisory Board. Compensation in cash shall be equal to the difference between the exercise price and the opening market price of the Company's stock on the day of exercising the stock options. As a result of its design, the new plan will have no income effect in the case of settlement in shares due to the fact that the exercise price is also the performance target. Any settlements in cash would be recorded as compensation expense. In connection with the 2001 Siemens Stock Option Plan, the shareholders approved an increase in conditional capital in an amount not to exceed €147.

Stock options may be granted within a period of 30 days after publication of the results for the fiscal year or quarter then ended. The Supervisory Board decides how many options to grant to the Managing Board, and the Managing Board decides how many options to grant to executive officers and other eligible employees. Option grants to members of the Managing Board may only be made once annually after the close of the fiscal year.

Additionally, Supervisory Board members receive stock appreciation rights under the same conditions as the Siemens Stock Option Plans (for further information see Note 29).

Details on option activity and weighted average exercise prices are as follows. On December 13, 2001, the Supervisory Board and the Managing Board granted options exercisable to 5,413 key executives under the 2001 Siemens Stock Option Plan for 7,357,139 shares with an exercise price of €87.19 of which options exercisable for 151,000 shares were granted to the Managing Board. On November 14, 2002, the Supervisory Board and Managing Board granted options to 5,814 key executives for 9,397,005 shares with an exercise price of €53.70 of which options for 345,000 shares were granted to the Managing Board.

	September 30, 2003		September 30, 2002	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of Period	11,648,767	€82.85	4,963,672	€76.01
Granted	9,397,005	€53.70	7,357,139	€87.19
Options exercised	–	–	(139,826)	€57.73
Options forfeited	(634,896)	€70.28	(532,218)	€85.77
Outstanding, end of period	**20,410,876**	**€69.82**	**11,648,767**	**€82.85**
Exercisable, end of period	4,573,058	€76.36	1,617,899	€57.73

(in millions of €, except where otherwise stated and per share amounts)

The following table summarizes information on stock options outstanding and exercisable at September 30, 2003:

Exercise prices	Options outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
	Options outstanding			Options exercisable	
€53.70	9,108,875	4	€53.70	–	–
€57.73	1,583,674	3	€57.73	1,583,674	€57.73
€86.23	2,989,384	4	€86.23	2,989,384	€86.23
€87.19	6,728,943	3	€87.19	–	–

Fair value information
The Company's determination of the fair value of grants is based on the Black-Scholes option pricing model. The fair value of grants made during the years ended September 30, 2003 and 2002 are as follows:

	Assumptions at grant date 2003	2002
Risk-free interest rate	3.31%	4.12%
Expected dividend yield	2.23%	1.41%
Expected volatility	53.49%	62.55%
Expected option life	3 years	4 years
Estimated weighted average fair value per option	€9.80	€23.36
Fair value of total options granted during fiscal year	€92	€172

The Black-Scholes option valuation model was developed for use in estimating the fair values of options that have no vesting restrictions. Option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options may have characteristics that vary significantly from traded options and because changes in subjective assumptions can materially affect the fair value of the option, it is management's opinion that existing models do not necessarily provide a single reliable measure of fair value.

28 Personnel costs

	Year ended September 30, 2003	2002
Wages and salaries	20,740	22,639
Statutory social welfare contributions and expenses for optional support payments	3,573	3,592
Expenses relating to pension plans and employee benefits	1,439	964
	25,752	**27,195**

(in millions of €, except where otherwise stated and per share amounts)

The average number of employees in fiscal year 2003 and 2002 was 419,300 and 445,100, respectively. Part-time employees are included on a proportionate basis rather than being counted as full units. The employees were engaged in the following activities:

	September 30,	
	2003	2002
Manufacturing	184,900	183,400
Sales and marketing	132,100	146,700
Research and development	45,700	55,700
Administration and general services	56,600	59,300
	419,300	**445,100**

29 Additional information relating to Board members

Supervisory Board

The remuneration of members of the Supervisory Board is established by the Annual Shareholder's Meeting upon the proposal of the Managing and Supervisory Boards. Details are set forth in Paragraph 17 of the Articles of Association of Siemens AG. The remuneration includes a fixed and a dividend-related component. The chairman of the Supervisory Board receives twice and each vice chairman receives 1.5 times the annual compensation rates of a simple member. On the basis of the authorization by the Annual Shareholder's Meeting on January 23, 2003, members of the Audit Committee receive an additional 50 percent while the chairman of the Audit Committee receives an additional 100 percent of the compensation rate of a simple member. In addition, each member of the Supervisory Board receives annually 1,500 stock appreciation rights (SAR's) granted on the same terms as options issued under the Siemens Stock Option Plan in effect at the time.

The remuneration of the members of the Supervisory Board amounts to €1.8 and €1.3 for the years ended September 30, 2003 and 2002, respectively.

In addition, each member of the Supervisory Board received 1,500 stock appreciation rights (SAR)'s granted under the same conditions as under the 1999 and 2001 Siemens Stock Option Plans, which had a fair value as of the grant dates in fiscal 2003 (in November 2002) and fiscal 2002 of €0.3 and €0.7, respectively. For each member of the Supervisory Board, the fair value of these SAR's was €15 thousand and €35 thousand, respectively (see Note 27).

Remuneration of the members of the Supervisory Board including stock appreciation rights at fair value as of the grant date amounts to €2.1 and €2.0 for the years ended September 30, 2003 and 2002, respectively.

During the last two fiscal years there have been no loans outstanding to members of the Supervisory Board.

After the Annual Shareholders' Meeting 2003, the Company renewed a contract with Mr. Peter von Siemens, whereas Mr. Peter von Siemens, as a representative of the founder's family, represents the Company at home as well as abroad and in various associations. The contract grants him a reimbursement of his expenses and he is entitled to a company car and secretarial services.

(in millions of €, except where otherwise stated and per share amounts)

Managing Board

The Chairman's Committee of the Supervisory Board is responsible for determining the remuneration of members of the Managing Board. The remuneration takes into consideration the Company's size and global presence, its economic and financial position, and the level and structure of managing board compensation at peer group companies in Germany and abroad. Furthermore, the remuneration is performance related and has three components: a fixed salary, a variable bonus, and a stock-based compensation. A significant portion of the goals for the members of the Corporate Executive Committee is tied to company-wide economic value added (EVA) performance while for the remaining members of the Managing Board their financial goals depend primarily on the performance of the Group led by them. For fiscal 2003, an additional achievement of an ambitious target for net cash from operating and investing activities had been set. One-half of the variable bonus is paid as an annual bonus while the other half is granted as a long-term bonus. The annual bonus is contingent upon achieving the EVA target established for the fiscal year. The long-term bonus depends on the average attainment of EVA targets over a three-year period. As stock-based compensation, members of the Managing Board receive stock options under the Siemens Stock Option Plans authorized by the Annual Shareholders' Meeting. The number of share granted for each member of the Managing Board is performance-related and determined annually. For more information relating to the conditions of the Siemens Stock Option Plans, see Note 27.

The remuneration of the members of the Managing Board comprised the following:

	Year ended September 30,	
	2003	2002
Base salary	6.5	4.9
Other fixed compensation	1.2	0.7
Annual bonus	12.6	9.8
Long-term bonus	7.9	3.0
Additional payment for the acquisition of shares of Siemens AG	–	0.1
Total cash compensation	28.2	18.5
Fair value of total options received at grant date	3.4	3.5
Total remuneration	**31.6**	**22.0**

Other fixed compensation relates to non-cash benefits for company cars, accommodation allowances, social welfare contributions subsidies (or for corresponding direct insurances of the Company) and remunerations for memberships in Supervisory Boards of affiliated companies. Additional payment for the acquisition of shares of Siemens AG for the year ended September 30, 2002 relates to the remaining amount of fiscal 2001 remuneration component for the immediate acquisition of a total of 775 shares under the condition that each board member, within a period of 18 months, buys the same number of shares on his own account, and that each board member pays any taxes and other levies associated with the initial payment. These shares are subject to a holding period until the holder leaves the Managing Board.

Also, in fiscal 2003 and 2002, the members of the Managing Board received 345,000 and 151,000, respectively, of stock options under the 2001 Siemens Stock Option Plan. The fair value per option at grant date was €9.80 and €23.36, respectively. Accordingly, the total value of stock options granted to members of the Managing Board amounted to €3.4 and €3.5, respectively (for more information relating to the conditions of the Siemens Stock Option Plans, see Note 27).

Pension commitments to current members of the Managing Board are covered by Siemens AG. As of September 30, 2003 and 2002, accruals of €42.3 and €37.0, respectively, have been recorded. Such amounts are included in the amounts disclosed in Note 21.

During the last two fiscal years, there have been no loans outstanding to members of the Managing Board.

Former members of the Managing Board and their surviving dependents received pensions and transitional payments of €12.5 and €11.2 for the years ended September 30, 2003 and 2002, respectively. Members of the Managing Board, which were appointed to the Managing Board before October 1, 2002, have the contractually accorded right to receive transitional payments after leaving the Managing Board. The transitional payments generally amount to the fixed salary of the year of resignation and the average of bonus paid for the last three fiscal years before resignation. In single cases, the transitional payments equal a one-year "target compensation." If a member of the Managing Board resigns early from office, the member has the right to receive a severance payment which amounts to the "target compensation" for the remaining period of service.

Pension commitments to former members of the Managing Board and their surviving dependents are also covered by Siemens AG. As of September 30, 2003 and 2002, accruals of €106.4 and €106.2, respectively, have been recorded. Such amounts are included in the amounts disclosed in Note 21.

Share ownership

As of October 25, 2003, the fiscal 2003 members of the Managing and Supervisory Boards hold 690,229 and 13,998, respectively, shares and options representing 0.077% and 0.002%, respectively, of Siemens' total shares outstanding. These amounts do not include 16,736,966 shares representing 2% of outstanding share capital that is held by the von Siemens-Vermögensverwaltung GmbH (vsV), and the 38,877,285 shares representing approximately 4% as to which the vSV has voting power under a power of attorney. Mr. Peter von Siemens as a representative of the founder's family has voting control over these shares.

According to §15a WpHG, members of the Supervisory and Managing Boards have to disclose acquisitions and sales of shares of Siemens AG or of rights with respect to these shares, if shares or rights are not part of the compensation and provided the transactions exceed the threshold set forth in the WpHG. In fiscal 2003, none of those transactions were reported.

Directors and officers (D&O) liability insurance

The Company provides a D&O insurance policy for all members of the Supervisory and Managing Boards of Siemens AG as well as for all board members of its subsidiaries. This worldwide group insurance policy is renewed annually and expires September 30, 2004. The insurance covers the personal liability of the insured in the case of a financial loss associated to employment functions. There is no deductible for Managing Board and Supervisory Board members in terms of Code Section 3,8, paragraph 2 of the German Corporate Governance Code. It is not considered appropriate to differentiate between board members and other high-level personnel. Furthermore, such a deductible is not common outside Germany.

Related party transactions
Certain of the board members of Siemens AG hold or in the last fiscal year have held positions of significant responsibility with other entities. The Company has relationships with almost all of these entities in the ordinary course of business, whereby it buys and sells a wide variety of products and services at arm's length. Significant are the relationships with Deutsche Bank AG. Dr. Josef Ackermann is the Spokesman of the Managing Board of Deutsche Bank AG. The Company's transactions with Deutsche Bank AG include securities underwritings, other investment banking services, and credit, money market and foreign exchange business.

The members of the Managing Board of Siemens AG are listed on page 9 and 192 of this Annual Report, and the Supervisory Board members are named on page 190.

30 Earnings per share

	Year ended September 30,	
(shares in thousands)	2003	2002
Net income	2,445	2,597
Weighted average shares outstanding – basic	889,988	889,539
Effect of dilutive stock options	–	92
Weighted average shares outstanding – diluted	889,988	889,631
Basic earnings per share	2.75	2.92
Diluted earnings per share	2.75	2.92

Fiscal 2003 earnings per share amounts are reported after cumulative effects of a change in accounting principles. Basic earnings per share and diluted earnings per share before cumulative effects of a change in accounting principle amounted to €2.71 and €2.71, respectively, for the year ended September 30, 2003.

31 Segment information

Siemens has fifteen reportable segments (referred to as "Groups") reported among the components used in Siemens' financial statement presentation (see Note 1). The Groups are organized based on the nature of products and services provided.

Within the **Operations** component, Siemens has thirteen Groups which involve manufacturing, industrial and commercial goods, solutions and services in areas more or less related to Siemens origins in the electrical business. Also included in **Operations** are operating activities not associated with a Group, which are reported under *Other operations* (see below) as well as other reconciling items discussed in *Reconciliation to financial statements* below.

The **Financing and Real Estate** component includes the Groups SFS and SRE. The **Eliminations, reclassifications and Corporate Treasury** component separately reports the consolidation of transactions among **Operations** and **Financing and Real Estate** as well as certain reclassifications and the activities of the Company's Corporate Treasury.

The results of operations of Infineon for the first two months of the fiscal year 2002 are included in **Eliminations, reclassifications and Corporate Treasury**. Siemens' at-equity share in Infineon's results is shown under **Operations** (see below *Reconciliation to financial statements*).

The accounting policies of these components, as well as the Groups included, are generally the same as those used for **Siemens worldwide** and are described in the *Summary of significant accounting policies* (Note 2). Corporate overhead is generally not allocated to segments. Intersegment transactions are generally based on market prices.

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

Operations

The Managing Board is responsible for assessing the performance of the **Operations** Groups. The Company's profitability measure for its **Operations** Groups is earnings before financing interest, certain pension costs and income taxes (Group profit) as determined by the Managing Board as the chief operating decision maker (see discussion below). The previously used term "EBIT" was retitled, however the definition remained unchanged.

Group profit excludes various categories of items which are not allocated to the Groups since the Managing Board does not regard such items as indicative of the Groups' performance. Financing interest is any interest income or expense other than interest income related to receivables from customers, from cash allocated to the Groups and interest expense on payables to suppliers. Financing interest is excluded from Group profit because decision-making regarding financing is typically made centrally by Corporate Treasury.

Similarly, decision-making regarding essential pension items is done centrally. As a consequence, Group profit includes only amounts related to the service cost of foreign pension plans, while all other pension related costs (including charges for the German pension insurance association and plan administration costs) are included in the line item *Corporate items, pensions and eliminations*.

Furthermore, income taxes are excluded from Group profit since tax expense is subject to legal structures which typically do not correspond to the structure of the **Operations** Groups.

Earnings (losses) from equity investees included in Group profit for the years ended September 30, 2003 and 2002 of **Operations** Groups were €16 and €37, respectively, at ICN; €2 and €(20), respectively, at ICM; €84 and €44, respectively, at PG; and €21 and €29, respectively, in the other **Operations** Groups.

The Managing Board also determined Net capital employed as the asset measure used to assess the capital intensity of the **Operations** Groups. Its definition corresponds with the Group profit measure. Net capital employed is based on total assets excluding intracompany financing receivables and intracompany investments and tax related assets, as the corresponding positions are excluded from Group profit (Asset-based adjustments). The remaining assets are reduced by non-interest bearing liabilities other than tax related liabilities (e.g. accounts payable) and certain accruals (Liability-based adjustments) to derive Net capital employed. The reconciliation of total assets to Net capital employed is presented below.

As a result, both Group profit and Net capital employed represent performance measures focused on operational success excluding the effects of capital market financing issues.

(in millions of €, except where otherwise stated and per share amounts)

Other operations primarily refers to operating activities not associated with a Group and certain centrally-held equity investments (such as BSH Bosch und Siemens Hausgeräte GmbH), but excluding the equity investment in Infineon, which is not considered under an operating perspective since Siemens intends to divest its remaining interest in Infineon over time.

Reconciliation to financial statements

Reconciliation to financial statements includes items which are excluded from definition of Group profit as well as costs of corporate headquarters.

Corporate items includes corporate charges such as personnel costs for corporate headquarters, the results of corporate-related derivative activities as well as corporate projects and non-operating investments including the Company's share of earnings (losses) from the equity investment in Infineon. Pensions include the Company's pension related income (expenses) not allocated to the Groups and consists of all pension related costs, other than amounts related to the service cost of foreign pension plans. Eliminations represent the consolidation of transactions within the **Operations** component.

Corporate items, pensions and eliminations in the column *Group profit* consists of:

	Year ended September 30,	
	2003	2002
Corporate items	(747)	(947)
Pensions	(828)	(250)
Eliminations	(1)	(85)
	(1,576)	**(1,282)**

In fiscal 2003, *Corporate items* include €170, representing Siemens' at-equity share in the net loss incurred by Infineon. Fiscal 2003 also includes the positive resolution of an arbitration proceeding as well as reduced corporate costs. *Corporate items* for the fiscal year ended September 30, 2002, includes negative €338 related to the Company's share in the net loss of Infineon and the gain on the sale of two centrally-held investments totaling €133 and charges of €146 related to the sale of a portfolio of businesses to KKR (see Note 3). The transaction in the fourth quarter of 2002 was effected as a sale of a portfolio of businesses that resulted in a net gain of €21. However, separate results were allocated to the operating segments where the sold businesses had previously resided. As a result, ICN and PG were allocated gains of €153 and €68, respectively, while PTD was allocated a loss of €54. The allocated values are based on amounts stated in the sales contracts and are not necessarily indicative of their actual fair values. In addition, *Corporate items* for fiscal 2002 includes charges of €70 relating to the write-off of centrally held investments.

Pensions for fiscal 2003 and 2002 were negatively affected by changes in pension trust net asset values and lower return assumptions. In addition, fiscal 2003 was impacted by increased amortization expense primarily related to the underfunding of the Company's pension trusts. For more information related to the Company's pension plans, see Note 21.

Other interest expense of Operations relates primarily to interest paid on debt and corporate financing transactions through Corporate Treasury.

(in millions of €, except where otherwise stated and per share amounts)

For fiscal 2002, *Gains on sales and dispositions of significant business interests* include gains of €936 from the sales of approximately 63.1 million Infineon shares in open market transactions.

The following table reconciles total assets of the **Operations** component to Net capital employed of the **Operations** Groups as disclosed in Segment Information according to the above definition:

	September 30, 2003	September 30, 2002
Total assets of **Operations**	64,475	67,699
Asset-based adjustments		
Intracompany financing receivables and investments	(11,931)	(14,127)
Tax related assets	(4,373)	(4,350)
Liability-based adjustments		
Pension plans and similar commitments	(5,813)	(5,299)
Accruals	(6,022)	(6,690)
Liabilities to third parties	(20,394)	(21,478)
Total adjustments (line item Other assets related reconciling items within the Segment Information table)	(48,533)	(51,944)
Net capital employed of Corporate items, pensions and eliminations	3,781	3,021
Net capital employed of Operations Groups	**19,723**	**18,776**

Financing and Real Estate

The Company's performance measurement for its **Financing and Real Estate** Groups is *Income before income taxes*. In contrast to the performance measurement used for the **Operations** Groups, interest expense and income is an important source of revenue and expense for **Financing and Real Estate**.

For the years ended September 30, 2003 and 2002, *Income before income taxes* at SFS includes interest revenue of €445 and €510, respectively, and interest expense of €253 and €310, respectively. In addition, *Income before income taxes* includes earnings from equity investees for the years ended September 30, 2003 and 2002 of €60 and €41, respectively.

For the years ended September 30, 2003 and 2002, *Income before income taxes* at SRE includes interest revenue of €9 and €13, respectively, and interest expense of €105 and €132, respectively.

Eliminations, reclassifications and Corporate Treasury

Income before income taxes consists primarily of interest income due to cash management activities, corporate finance, and certain currency and interest rate derivative instruments. For the fiscal year ended September 30, 2003, *Income before income taxes* also includes a gain of €35 from the repurchase and the retirement of €1,440 notional amount of the Siemens Nederland N.V. 1% exchangeable notes. For the fiscal year ended September 30, 2002, the results of operations from Infineon for the first two months of the fiscal year 2002 are included.

Description of business segments

The **Operations** Groups are comprised of the following businesses:

Information and Communication Networks (ICN) – ICN develops, manufactures and sells public communication systems, private business communication systems and related software, and provides a wide variety of consulting, maintenance and other services. This includes circuit switching and communication access equipment, private branch exchange systems, voice and data public telecommunication elements, and broadband network products for carrying data over the Internet. It also provides Internet core network switches, routers and related services.

Information and Communication Mobile (ICM) – ICM designs, manufactures and sells a broad range of communication devices, applications and interfaces, and mobile network products and systems including mobile, cordless and corded fixed-line telephones and radio base stations, base station controllers and switches for mobile communications networks as well as mobile and intelligent network systems.

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

Automation and Drives (A&D) – A&D produces and installs manufacturing automation systems, drives systems, low voltage controllers and distributors, and process automation products and instrument systems.

Industrial Solutions and Services (I&S) – I&S provides a range of facilities systems and services, including general contracting, to raw materials processing companies and infrastructure customers.

Siemens Dematic (SD) – SD supplies logistics and factory automation equipment. It designs, engineers, manufactures and supplies turnkey facilities and the associated components, systems and services for electronic assembly systems, logistics and factory automation equipment as well as postal automation systems. SD was formed in May 2001, following the merger of the former Group Siemens Production and Logistics Systems and Mannesmann Dematic Systems.

Siemens Building Technologies (SBT) – SBT provides products, systems and services for monitoring and regulating the temperature, safety, electricity, lighting and security of commercial and industrial property. In addition, it provides full technical facility management services within selected markets.

Power Generation (PG) – PG provides customers worldwide with a full range of equipment necessary for the efficient conversion of energy into electricity and heat. It offers a broad range of power plant technology, with activities that include: development and manufacture of key components, equipment, and systems; planning, engineering and construction of new power plants; and comprehensive servicing, retrofitting and modernizing of existing facilities.

Power Transmission and Distribution (PTD) – PTD supplies energy utilities and large industrial power users with equipment, systems and services used to process and transmit electrical power to various points along the power transmission network, including end users.

Transportation Systems (TS) – TS provides products and services for the rail industry, including signaling and control systems, railway electrification systems, complete heavy rail systems including rapid transit systems and locomotives, light rail systems and other rail vehicles.

(in millions of €, except where otherwise stated and per share amounts)

Siemens VDO Automotive (SV) – SV designs, manufactures and sells integrated electrical, electronic and electromechanical systems and modules and individual components used in automotive applications. Its product range includes components and systems used in automobile powertrains, body electronic systems, safety and chassis systems, electric motor drives, information and cockpit systems, and driver information, communication and multimedia systems. SV is the result of the merger in April 2001 of the former Siemens Automotive group with Mannesmann VDO.

Medical Solutions (Med) – Med develops, manufactures and markets diagnostic and therapeutic systems and devices such as computed tomography, magnetic resonance imagers, ultrasound and radiology devices, and hearing instruments as well as information technology systems for clinical and administrative purposes. It provides technical maintenance, professional and consulting services.

Osram – Osram designs, manufactures and sells a full spectrum of lighting products for a variety of applications such as general lighting and automotive, photo-optic and opto-semiconductor lighting.

Infineon Technologies (Infineon) – Infineon's products include discrete and integrated semiconductor circuit and systems for wireless communications, computer networks and for use in automotive and industrial applications. Effective December 2001, Infineon is no longer consolidated but instead accounted for as an investment using the equity method.

The **Financing and Real Estate** Groups are comprised of the following two businesses:

Siemens Financial Services (SFS) – SFS, the Company's international financial services segment, provides a variety of customized financial solutions both to third parties and to other Siemens business groups and their customers.

Siemens Real Estate (SRE) – SRE owns and manages a substantial part of Siemens' real estate portfolio and offers service portfolio specializing in real estate development projects, real estate disposals, asset management, and lease and service management.

32 Geographic information

The following table presents data by geographic region as of and for the years ended September 30, 2003 and 2002.

	Sales by location of customer		Sales by location of companies	
	2003	2002	2003	2002
Germany	17,100	18,102	27,123	28,845
Europe (other than Germany)	25,327	26,597	22,196	23,326
U.S.	15,357	20,288	15,293	21,078
Americas other than U.S.	3,206	4,389	2,683	3,229
Asia-Pacific	8,728	9,668	5,560	6,153
Other countries	4,515	4,972	1,378	1,385
Siemens worldwide	**74,233**	**84,016**	**74,233**	**84,016**

(in millions of €, except where otherwise stated and per share amounts)

	Long-lived assets	
	2003	2002
Germany	4,340	4,447
Europe (other than Germany)	3,036	3,198
U.S.	2,174	2,735
Americas other than U.S.	447	477
Asia-Pacific	718	842
Other countries	41	43
Siemens worldwide	**10,756**	**11,742**

Long-lived assets consist of property, plant and equipment.

33 Principal accountant fees and services

Fees billed to the Company for professional services by its principal accountant, KPMG, during the fiscal year 2003 were as follows:

	Year ended September 30, 2003
Audit fees	38.9
Audit-related fees	5.3
Tax fees	5.4
All other fees	1.2
	50.8

In the above table, *Audit fees* are the aggregate fees billed by KPMG for professional services in connection with the audit of the Company's consolidated annual financial statements, reviews of interim financial statements, as well as audits of statutory financial statements of Siemens AG and its affiliates. Also included in *Audit fees* are amounts billed for attestation services in relation to regulatory filings and other compliance requirements. *Audit-related fees* are fees billed by KPMG for accounting advice on actual or contemplated transactions, due diligence engagements related to acquisitions or divestments, attestation regarding compliance with certain agreements, employee benefit plan audits and other agreed-upon procedures. *Tax fees* are fees for tax advice on actual or contemplated transactions, expatriate employee tax services and transfer pricing studies.

34 Subsequent events

In October 2003, Med completed the sale of its Life Support Systems business to Getinge AB, of Sweden.

Also in October 2003, Siemens made additional supplemental cash contributions to its pension trusts of €1,255.

Statement of the Managing Board

The Managing Board of Siemens AG is responsible for preparing the following consolidated financial statements and management's discussion and analysis.

Siemens employs extensive internal controls, company-wide uniform reporting guidelines and additional measures, including employee training and continuing education, to ensure that its financial reporting is conducted in accordance with accepted accounting principles. The presidents and chief financial officers (CFOs) of the Groups as well as the presidents and CFOs of the Siemens companies have confirmed to us both the correctness of the financial data they have reported to Siemens' corporate headquarters and the functionality of the related monitoring systems. We continually monitor the compliance with these measures and guidelines, and also the functionality and reliability of our internal control system, through a company-wide internal audit process. In addition, we have established a Disclosure Committee that has evaluated all documents to be disclosed as to their completeness and conformity with both the provisions of the Securities and Exchange Act and the rules of the Securities and Exchange Commission (SEC) in the U.S. and reported the results of this evaluation to us.

Our risk management system complies with the requirements of the German Corporation Act (AktG). Our risk management system is designed to enable the Managing Board to recognize potential risks early on and initiate timely countermeasures.

In accordance with the resolution made at the Annual Shareholders' Meeting, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft has audited the consolidated financial statements prepared in accordance with U.S. GAAP and management's discussion and analysis, and approved them without qualification.

Together with the independent auditors, the Supervisory Board has thoroughly examined the consolidated financial statements, management's discussion and analysis, and the independent auditors' report. The result of this examination is included in the Report of the Supervisory Board which begins on page 40 of this Annual Report.

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

Heinz-Joachim Neubürger
Chief Financial Officer
of Siemens AG

Independent auditors' report

The Supervisory Board of Siemens AG:

We have audited the accompanying consolidated balance sheets of Siemens AG and subsidiaries as of September 30, 2003 and 2002, and the related consolidated statements of income, cash flow and changes in shareholders' equity for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Siemens AG and subsidiaries as of September 30, 2003 and 2002, and the results of their operations and their cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, Siemens AG adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" effective October 1, 2002 and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" effective October 1, 2001.

Munich, Germany
November 21, 2003

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Wiedmann Berger
Wirtschaftsprüfer Wirtschaftsprüfer
(independent auditors)

	2003	2002	2001	2000	1999
Sales and earnings (in millions of euros)					
Net sales	74,233	84,016	87,000	77,484	68,069
Gross profit on sales	20,883	23,206	23,105	21,535	17,909
Research and development expenses	5,067	5,819	6,782	5,848	5,260
as a percentage of sales	6.8	6.9	7.8	7.5	7.7
Net income	2,445	2,597	2,088	8,860	1,209

Assets, liabilities and shareholders' equity (in millions of euros)					
Current assets	43,489	44,062	51,013	49,091	44,850
Current liabilities	32,028	34,712	44,524	36,855	31,049
Debt	13,178	12,346	12,610	9,338	7,492
Long-term debt	11,433	10,243	9,973	6,734	4,753
Net debt[1]	(379)	(751)	(4,017)	841	6,103
Pension plans and similar commitments	5,843	5,326	4,721	2,473	11,540
Shareholders' equity	23,715	23,521	23,812	28,480	19,138
as a percentage of total assets	31	30	26	35	27
Total assets	77,605	77,939	90,118	81,654	71,720

Cash flows (in millions of euros)					
Net cash provided by operating activities	5,712	5,564	7,016	6,154	3,640
Amortization, depreciation and impairments	3,334	4,126	6,264	4,652	3,594
Net cash used in investing activities	(3,939)	(810)	(5,886)	(435)	(2,876)
Additions to intangible assets, property, plant and equipment	(2,852)	(3,894)	(7,048)	(5,544)	(3,998)
Net cash used in financing activities	(487)	(859)	(95)	(1,174)	(1,111)
Net increase (decrease) in cash and cash equivalents	953	3,394	940	4,725	(292)

Employees					
Employees[2] (in thousands)	417	426	484	448	437
Employee costs (in millions of euros)	25,752	27,195	27,102	26,601	23,126

(1) Net debt includes four positions from the Consolidated Balance Sheets: Cash and cash equivalents, Marketable securities, Short-term debt and current maturities of long-term debt and Long-term debt.
(2) Without temporary student workers and trainees.
(3) Data reflect stock split (one additional share for two existing shares) effective April 30, 2001.
(4) To be proposed at the Annual Shareholders' Meeting.
(5) XETRA closing prices, Frankfurt.

Key capital market data[3] (in euros, unless otherwise indicated)	2003	2002	2001	2000	1999
EVA (in millions of euros)	449	617	(743)	7,095	–
Earnings per share	2.75	2.92	2.36	9.97	1.36
Diluted earnings per share	2.75	2.92	2.36	9.96	1.36
Dividend per share	1.10[4]	1.00	1.00	1.60	0.67
Siemens stock price[5]					
High	58.32	78.52	105.77	127.67	57.53
Low	32.05	34.00	37.50	50.65	26.93
Year-end (September 30)	51.14	34.00	41.89	97.33	51.60
Siemens stock performance over prior year (in percentage points)					
Compared to DAX index	+ 36.34	+ 18.25	– 19.84	+ 57.88	+ 63.23
Compared to Dow Jones STOXX index	+ 44.81	+ 7.87	– 28.30	+ 63.95	+ 47.85
Number of shares (in millions)	891	890	888	883	892
Market capitalization (in millions of euros)	45,559	30,273	37,208	85,939	46,037
Credit rating of long-term debt					
Standard & Poor's	AA–	AA–	AA	AA	AA
Moody's	Aa3	Aa3	Aa3	Aa3	Aa3

Quarterly data (in millions of euros)	2003	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Net sales	74,233	19,778	17,380	18,230	18,845
Net income	2,445	724	632	568	521

Quarterly data (in millions of euros)	2002	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Net sales	84,016	21,290	20,482	21,258	20,986
Net income	2,597	53	725	1,281	538

Siemens AG – Statement of income and balance sheet*
(condensed version) (in billions of euros)

Years ended September 30	2003	2002
Net sales	27.1	27.7
Cost of sales	(19.9)	(21.1)
Gross profit on sales	7.2	6.6
Other functional costs	(8.0)	(9.0)
Other income and expense, net	1.9	3.1
Income before income taxes	1.1	0.7
Income taxes	(0.1)	0.3
Net income	1.0	1.0
Profit available for distribution	1.0	0.9

* Prepared in accordance with the German Commercial Code (HGB).

As of September 30	2003	2002
Property, plant equipment	1.5	1.7
Investments	37.6	26.4
Noncurrent	39.1	28.1
Inventories	–	–
Accounts receivable	14.5	19.2
Marketable securities, liquid assets	10.9	10.6
Total assets	64.5	57.9
Shareholders' equity	14.6	14.1
Accrued liabilities and special reserves	17.4	17.4
Debt	0.4	0.3
Other liabilities	32.1	26.1
Total shareholders' equity and liabilities	64.5	57.9

Supervisory Board

Karl-Hermann Baumann, Dr. rer. oec.
Chairman
Date of birth: 7/22/35
First elected: 2/19/98

Additional positions
German Supervisory Board positions:
Deutsche Bank AG, Frankfurt/Main
E.ON AG, Düsseldorf
Linde AG, Wiesbaden
Schering AG, Berlin
ThyssenKrupp AG, Düsseldorf
Wilhelm von Finck AG, Grasbrunn

Ralf Heckmann
First Deputy Chairman
Chairman of the Central Works Council, Siemens AG
Date of birth: 7/19/49
First elected: 3/24/88

Josef Ackermann, Dr. oec.
Second Deputy Chairman
Spokesman of the Board of Managing Directors, Deutsche Bank AG
Date of birth: 2/7/48
First elected: 1/23/03

Additional positions
German Supervisory Board positions:
Bayer AG, Leverkusen
Linde AG, Wiesbaden
Deutsche Lufthansa AG, Cologne

Lothar Adler
Deputy Chairman of the Central Works Council, Siemens AG
Date of birth: 2/22/49
First elected: 1/23/03

Gerhard Bieletzki
Member of the Combine Works Council, Siemens AG
Date of birth: 5/16/47
First elected: 1/23/03

Group positions
German Supervisory Board positions:
Siemens VDO Automotive AG, Munich (Deputy Chairman)

John David Coombe
Chief Financial Officer, GlaxoSmithKline plc
Date of birth: 3/17/45
First elected: 1/23/03

Gerhard Cromme, Dr. jur.
Chairman of the Supervisory Board, ThyssenKrupp AG
Date of birth: 2/25/43
First elected: 1/23/03

Additional positions
German Supervisory Board positions:
Allianz AG, Munich
Axel Springer Verlag AG, Berlin
E.ON AG, Düsseldorf
Deutsche Lufthansa AG, Cologne
Ruhrgas AG, Essen
Volkswagen AG, Wolfsburg
Comparable positions outside Germany:
BNP Paribas S.A., France
SUEZ S.A., France

Rolf Dittmar
Member of the Works Council, Munich/Perlach facility, Siemens AG
Date of birth: 10/25/43
First elected: 1/23/03

Bertin Eichler
Executive Member of the Board of Management, Finance, IG Metall
Date of birth: 8/27/52
First elected: 11/13/96

Additional positions
German Supervisory Board positions:
Allgemeine Deutsche Direktbank AG, Frankfurt/Main
BGAG Beteiligungsgesellschaft der Gewerkschaften AG, Frankfurt/Main (Chairman)
BauBeCon Holding AG, Hanover
BHW Holding AG, Hameln

Birgit Grube
Office clerk
Date of birth: 8/21/45
First elected: 3/11/93

Heinz Hawreliuk
Head of the Company Codetermination Department, IG Metall
Date of birth: 3/23/47
First elected: 4/1/85

Additional positions
German Supervisory Board positions:
Astrium GmbH, Munich
DaimlerChrysler Aerospace AG, Munich
DaimlerChrysler Luft und Raumfahrt Holding AG, Munich
Eurocopter Deutschland GmbH, Munich
Infineon Technologies AG, Munich

Walter Kröll, Prof. Dr. rer. nat.
President of Helmholtz-Gemeinschaft Deutscher Forschungszentren e.V.
Date of birth: 5/30/38
First elected: 1/23/03

Additional positions
German Supervisory Board positions:
MTU Aero Engines GmbH, Munich

Wolfgang Müller
Head of the Siemens Team, IG Metall
Date of birth: 1/14/48
First elected: 1/23/03

Additional positions
Infineon Technologies AG, Munich

Georg Nassauer
Steel casting constructor
Date of birth: 3/8/48
First elected: 3/11/93

Albrecht Schmidt, Dr. jur.
Chairman of the Supervisory Board, Bayerische Hypo- und Vereinsbank AG
Date of birth: 3/13/38
First elected: 3/11/93

Additional positions
German Supervisory Board positions:
HVB Real Estate Bank AG, Munich (Chairman until 9/30/03)
Münchener Rückversicherungs-Gesellschaft AG, Munich

Henning Schulte-Noelle, Dr. jur.
Chairman of the Supervisory Board, Allianz AG
Date of birth: 8/26/42
First elected: 2/13/97

Additional positions
German Supervisory Board positions:
E.ON AG, Düsseldorf
ThyssenKrupp AG, Düsseldorf

Peter von Siemens
Industrial manager
Date of birth: 8/10/37
First elected: 3/11/93

Additional positions
German Supervisory Board positions:
Münchener Tierpark Hellabrunn AG, Munich

Jerry I. Speyer
President, TishmanSpeyer Properties
Date of birth: 6/23/40
First appointed: 7/14/03

Sir Iain Vallance
Vice Chairman, The Royal Bank of Scotland Group
Date of birth: 5/20/43
First elected: 1/23/03

Klaus Wigand
Industrial manager
Date of birth: 11/19/45
First elected: 2/19/98

Members whose term of office expired on January 23, 2003:

Rolf-E. Breuer, Dr. jur.
Second Deputy Chairman
Chairman of the Supervisory Board, Deutsche Bank AG
Date of birth: 11/3/37
First elected: 2/19/98

Additional positions
German Supervisory Board positions:
Bertelsmann AG, Gütersloh
Deutsche Bank AG, Frankfurt/Main (Chairman)
Deutsche Börse AG, Frankfurt/Main (Chairman)
E.ON AG, Düsseldorf
Comparable positions outside Germany:
Compagnie de Saint-Gobain S.A., France

Comparable positions in Germany:
Kreditanstalt für Wiederaufbau, Frankfurt/Main
Landwirtschaftliche Rentenbank, Frankfurt/Main

Helmut Cors
Head of Industrial Services and Production, Vereinte Dienstleistungsgewerkschaft (ver.di)
Date of birth: 12/2/46
First elected: 2/19/98

Additional positions
German Supervisory Board positions:
Framatome ANP GmbH, Erlangen

Jean Gandois
Member of the Supervisory Board, SUEZ S.A.
Date of birth: 5/7/30
First elected: 2/13/97

Additional positions
Comparable positions outside Germany:
Air Liquide Italie S.p.A., Italy
Danone S.A., France
Eurazéo, France
Société Générale de Belgique S.A., Belgium
SUEZ S.A., France

Robert M. Kimmitt
Executive Vice President, Time Warner
Date of birth: 12/19/47
First elected: 2/19/98

Additional positions
Comparable positions outside Germany:
Allianz Life Insurance Co., USA
Xign Corporation, USA

Heinz Kriwet, Dr. rer. pol.
Chairman of the Supervisory Board, ThyssenKrupp AG
Date of birth: 11/2/31
First elected: 3/11/93

Additional positions
German Supervisory Board positions:
Dresdner Bank AG, Frankfurt/Main
ThyssenKrupp AG, Düsseldorf

Members whose term of office expired on January 23, 2003 (cont.):

Hubert Markl, Prof. Dr. rer. nat.
Date of birth: 8/17/38
First elected: 2/19/98

Additional positions

Germany Supervisory Board positions:
Bayerische Motoren Werke AG, Munich
Münchener Rückversicherungs-Gesellschaft AG, Munich

Comparable positions outside Germany:
Aventis S.A., France
Royal Dutch Petroleum Company, The Netherlands

Werner Mönius
Chairman of the European Works Council of Siemens
Chairman of the Works Council, Siemens Medical Solutions, Erlangen
Date of birth: 5/16/54
First elected: 3/1/02

Georg Seubert
Fitter
Date of birth: 7/27/41
First elected: 2/19/98

Daniel L. Vasella, Dr. med.
President and Delegate of the Board of Administration, Novartis AG
Date of birth: 8/15/53
First elected: 2/19/98

Additional positions

Comparable positions outside Germany:
PepsiCo, Inc., USA

Erwin Zahl
Telecommunications installer
Date of birth: 11/18/39
First elected: 10/1/94

Member who resigned from the Supervisory Board on July 12, 2003:

Dr. Hans-Dieter Wiedig
Dipl.-Kaufmann
Date of birth: 6/27/36
First elected: 1/23/03

The Supervisory Board of Siemens AG has 20 members. As stipulated by the German Codetermination Act, half of the members represent Company shareholders, and half represent Company employees. The shareholders' representatives were elected at the Annual Shareholders' Meeting on January 23, 2003, and the employee representatives were elected by an assembly of employee delegates on December 5, 2002. The Supervisory Board is elected for five years.

As of September 30, 2003

Supervisory Board committees

The Supervisory Board of Siemens AG has established four standing committees. Information on their activities in fiscal 2003 is provided on page 44 of this Report.

Committee	Meetings in FY 2003	Duties and responsibilities	Members as of Sept. 30, 2003
Chairman's Committee of the Supervisory Board	7 plus 9 decisions by notational voting using written circulations	The Chairman's Committee of the Supervisory Board is responsible for reviewing basic issues of business policy and management, especially in matters concerning the Managing Board. The Committee makes recommendations to the Supervisory Board on the appointment and dismissal of Managing Board members and determines the Managing Board's employment and remuneration framework. The Committee executes the contracts of employment with Managing Board members and determines their remuneration as well as the annual amounts of the variable and stock-based components of their compensation. The Committee makes recommendations to the Supervisory Board on the composition of Supervisory Board committees and – through representatives of the shareholders – proposes shareholder candidates for appointment to the Supervisory Board. The Committee decides whether to approve business transactions with Managing Board members and related parties. The Committee's duties include a regular review of the Company's corporate governance principles and formulating proposals to improve the Company's approach to corporate governance issues.	**Dr. Karl-Hermann Baumann (Chairman)** **Ralf Heckmann** **Dr. Josef Ackermann**
Audit Committee	5	The Audit Committee's duties include preparing Supervisory Board reviews of the annual financial statements of Siemens AG and of the consolidated financial statements of Siemens worldwide. The Committee also reviews the quarterly reports and liaises with the internal Financial Audit Department and with the independent auditors (particularly with regard to awarding the audit contract, defining the focal points of the audit, determining the auditors' fee, and monitoring their independence).	**Dr. Karl-Hermann Baumann* (Chairman)** **Ralf Heckmann** **Dr. Josef Ackermann*** **Heinz Hawreliuk** **Dr. Henning Schulte-Noelle***
Mediation Committee, § 31 (3), (5) of the German Codetermination Act	0	The Mediation Committee, as stipulated by German law, makes recommendations to the Supervisory Board regarding the appointment or revocation of appointment of Managing Board members, if the required two-thirds majority of the Supervisory Board member votes is not obtained on the first ballot.	**Dr. Karl-Hermann Baumann (Chairman)** **Ralf Heckmann** **Dr. Josef Ackermann** **Heinz Hawreliuk**
Investment Committee, § 32 of the German Codetermination Act	0 4 decisions by notational voting using written circulations	The Committee is responsible for decisions relating to the exercise of ownership rights resulting from interests in other companies.	**Dr. Karl-Hermann Baumann (Chairman)** **Dr. Josef Ackermann** **Dr. Albrecht Schmidt**

* Audit Committee financial experts

Further information on corporate governance at Siemens is available at:
www.siemens.com/corporate_governance

Managing Board

Heinrich v. Pierer, Dr. jur. Dr.-Ing. E. h.
President and Chief Executive Officer, Siemens AG
Date of birth: 1/26/41
First appointed: 10/1/89
Term expires: 9/30/04

Outside positions
German Supervisory Board positions:
Bayer AG, Leverkusen
Hochtief AG, Essen
Münchener Rückversicherungs-Gesellschaft AG, Munich
Volkswagen AG, Wolfsburg

Company positions
Comparable positions outside Germany:
Siemens Aktiengesellschaft Österreich, Austria (Chairman)

Johannes Feldmayer
Date of birth: 10/16/56
First appointed: 5/1/03
Term expires: 9/30/07

Company positions
German Supervisory Board positions:
Siemens Dematic AG, Munich
Comparable positions outside Germany:
Siemens AB, Sweden (since 10/1/03)
Siemens A.E., Greece (Chairman; since 10/1/03)
Siemens A/S, Denmark (since 10/1/03)
Siemens A.Ş., Turkey
Siemens Building Technologies AG, Switzerland (Chairman)
Siemens Holdings plc, UK (since 10/1/03)
Siemens Rt., Hungary (Chairman; since 10/1/03)
Siemens S.A., Belgium (since 10/1/03)
Siemens S.A., Spain (Deputy Chairman; since 10/1/03)
Siemens S.p.A., Italy (Deputy Chairman; since 10/1/03)
Siemens s.r.o., Czech Republic (Chairman)

Thomas Ganswindt
Date of birth: 11/18/60
First appointed: 12/1/02
Term expires: 9/30/07

Company positions
German Supervisory Board positions:
Siemens VDO Automotive AG, Munich
Comparable positions outside Germany:
Efficient Networks, Inc., USA (Chairman)
Siemens Information and Communication Networks, Inc., USA (Chairman)
Siemens Network Convergence LLC, USA (Chairman)
Siemens Ltd., Thailand (Chairman)
Siemens Osakeyhtiö, Finland (Deputy Chairman)
Siemens Rt., Hungary
Siemens S.A., Belgium (Chairman)

Volker Jung, Dr. Eng. h. c.
(until 9/30/03)
Date of birth: 8/28/39
First appointed: 7/2/91
Term expired: 9/30/03

Outside positions
German Supervisory Board positions:
DAB bank AG, Munich
MAN AG, Munich (Chairman)

Company positions
Comparable positions outside Germany:
Siemens A.E., Greece (Chairman)
Siemens Ltd., South Africa (Chairman)

Klaus Kleinfeld, Dr. rer. pol.
Date of birth: 11/6/57
First appointed: 12/1/02
Term expires: 9/30/07

Outside positions
Comparable positions outside Germany:
Alcoa Inc., USA (since 11/14/03)
The Turner Corporation, USA

Company positions
Comparable positions outside Germany:
Osram Sylvania, Inc., USA
Siemens Building Technologies, Inc., USA
Siemens Business Services, Inc., USA
Siemens Corporate Research, Inc., USA
Siemens Dematic Corp., USA
Siemens Energy & Automation, Inc., USA
Siemens Information and Communication Mobile LLC, USA
Siemens Information and Communication Networks, Inc., USA
Siemens Medical Solutions USA, Inc.
Siemens Power Transmission & Distribution, Inc., USA
Siemens Transportation Systems, Inc., USA
Siemens VDO Automotive Corp., USA
Siemens Westinghouse Power Corp., USA

Edward G. Krubasik, Prof. Dr. rer. nat.
Date of birth: 1/19/44
First appointed: 1/1/97
Term expires: 9/30/06

Outside positions
German Supervisory Board positions:
Dresdner Bank AG, Frankfurt/Main
STINNES AG, Mülheim/Ruhr

Company positions
German Supervisory Board positions:
Siemens Dematic AG, Munich (Chairman)
Siemens VDO Automotive AG, Munich (Chairman)
Comparable positions outside Germany:
Siemens A/S, Norway
Siemens France S.A., France

Rudi Lamprecht
Date of birth: 10/12/48
First appointed: 4/26/00
Term expires: 9/30/04

Company positions
German Supervisory Board positions:
BSH Bosch und Siemens Hausgeräte GmbH, Munich
Comparable positions outside Germany:
Fujitsu Siemens Computers B.V., The Netherlands (Deputy Chairman)
Siemens Information and Communication Mobile LLC, USA
Siemens France S.A., France
Siemens S.A., Belgium

Heinz-Joachim Neubürger
Date of birth: 1/11/53
First appointed: 11/5/97
Term expires: 9/30/07

Outside positions
German Supervisory Board positions:
Allianz Versicherungs-AG, Munich
Bayerische Börse AG, Munich

Comparable positions outside Germany:
Merrill Lynch & Co., Inc., USA

Company positions
Comparable positions outside Germany:
Siemens Corp., USA

Peter Pribilla, Prof.
(died on 8/9/03)
Date of birth: 6/11/41
First appointed: 4/1/94
Term was to expire: 9/30/03

Outside positions
German Supervisory Board positions:
Deutsche Krankenversicherung AG, Cologne (until 8/9/03)

Jürgen Radomski
Date of birth: 10/26/41
First appointed: 6/29/94
Term expires: 9/30/06

Outside positions
German Supervisory Board positions:
Deutsche Krankenversicherung AG, Cologne
Dräger Medical AG, Lübeck

Company positions
German Supervisory Board positions:
BSH Bosch und Siemens Hausgeräte GmbH, Munich (Deputy Chairman)
Osram GmbH, Munich (Chairman)
Comparable positions outside Germany:
Siemens Aktiengesellschaft Österreich, Austria
Siemens Osakeyhtiö, Finland
Siemens Nederland N.V., The Netherlands
Siemens Schweiz AG, Switzerland (Chairman)

Erich R. Reinhardt, Prof. Dr.
Date of birth: 10/3/46
First appointed: 12/1/01
Term expires: 9/30/06

Outside positions
German Supervisory Board positions:
Bio[M] AG, Munich
Dräger Medical AG, Lübeck

Comparable positions outside Germany:
Siemens AB, Sweden
Siemens Medical Solutions USA, Inc. (Chairman)

Uriel J. Sharef, Dr. rer. pol.
Date of birth: 8/19/44
First appointed: 7/26/00
Term expires: 9/30/04

Company positions
Comparable positions outside Germany:
Siemens Canada Ltd., Canada
Siemens Corp., USA (Chairman)
Siemens Israel Ltd., Israel (Chairman)
Siemens Ltda., Brazil
Siemens Power Transmission & Distribution, Inc., USA

Claus Weyrich, Prof. Dr. phil. Dr.-Ing. E. h.
Date of birth: 1/6/44
First appointed: 10/1/96
Term expires: 9/30/06

Outside positions
German Supervisory Board positions:
HERAEUS Holding GmbH, Hanau

Company positions
Comparable positions outside Germany:
Siemens Corporate Research, Inc., USA (Chairman)

Klaus Wucherer, Prof. Dr.-Ing.
Date of birth: 7/9/44
First appointed: 8/1/99
Term expires: 3/31/08

Outside positions
German Supervisory Board positions:
Deutsche Messe AG, Hanover
Infineon Technologies AG, Munich

Company positions
Comparable positions in Germany:
BSH Bosch und Siemens Hausgeräte GmbH, Munich
Comparable positions outside Germany:
Eviop-Tempo A.E., Greece
Siemens Building Technologies AG, Switzerland
Siemens Energy & Automation, Inc., USA (Chairman)
Siemens K.K., Japan (Chairman)
Siemens Ltd., India
Siemens S.A., Portugal (Chairman)

As of September 30, 2003

The Siemens corporate structure is shown on the foldout inside the back cover.

Managing Board committees

Committee	Meetings in FY 2003	Duties and responsibilities	Members as of Sept. 30, 2003
Corporate Executive Committee	57	The Corporate Executive Committee currently comprises the Chairman of the Managing Board, the heads of Corporate Finance and Corporate Personnel, and five other Managing Board members elected by the Managing Board. The Corporate Executive Committee has full authority to act for and on behalf of the Managing Board between meetings of the Managing Board.	**Dr. Heinrich v. Pierer** **Johannes Feldmayer** **Dr. Volker Jung** **Prof. Dr. Edward G. Krubasik** **Heinz-Joachim Neubürger** **Jürgen Radomski** **Dr. Uriel J. Sharef** **Prof. Dr. Klaus Wucherer**
Committee Responsible for the Issuance of Employee Stock	1	The Committee oversees the utilization of authorized capital in connection with the issuance of employee stock.	**Dr. Heinrich v. Pierer** **Heinz-Joachim Neubürger** **Jürgen Radomski**
Equity Committee	2 plus 1 decision by notational voting using written circulations	The Equity Committee is responsible for implementing various capital measures.	**Dr. Heinrich v. Pierer** **Heinz-Joachim Neubürger** **Jürgen Radomski**

Further information on corporate governance at Siemens is available at:
www.siemens.com/corporate_governance

Glossary

A

Accumulated benefit obligation (ABO)	A measure to determine a company's pension-related "additional minimum liability." The ABO is based on the same computational methodologies as the projected benefit obligation (PBO), except for compensation levels. The ABO applies to past and current compensation levels. It does not incorporate compensation increases.
Asset management	The process of managing corporate assets in order to enhance operational efficiency while minimizing costs and associated risks.

B

Backstop facility	Bank line of credit to provide liquidity support to an organization in the event of unfavorable capital markets.
Benchmarking	A technique used to compare the products, services, processes and financials within an organization, in relation to "best of practice" in other similar organizations.
Business portfolio	The aggregate total of business areas in which Siemens is active.

C

Captive finance unit	A financial services unit organized as a business within an industrial enterprise that offers financial solutions primarily to customers of the operating groups of that enterprise.
Cash flow	The net cash inflow or outflow for a specific time period.
Cash management	The management of cash and cash equivalents within an organization to optimize financial activities.
Consolidated financial statements	Financial statements that bring together all assets, liabilities, net worth, and operating figures of two or more affiliated companies, as though the business were in fact a single economic entity. Duplications in items are eliminated so that the combined figures do not show more assets and equities than actually exist.
Corporate Treasury	A corporate function responsible for ensuring the availability of company-wide financing and cash management, including consulting services involving issues of corporate finance, interest rates and currencies, liquidity management and all other questions related to the financial management of operations.
Cost of capital	The rate that a company must pay for its capital.

D

Debt-to-equity ratio	Total long-term debt divided by total shareholders' equity. This is a measure of leverage – the use of borrowed money to enhance the return on shareholders' equity. The higher the ratio, the greater the leverage.
Deferred taxes	Assets and liabilities in the balance sheet arising from the different treatment of transactions for financial and tax reporting purposes.
Derivative	A financial instrument that derives its value from the price or expected price of an underlying asset (e.g. a security, currency or bond).

E

Equity method	Valuation method used to account for holdings in companies whose business policy can be significantly influenced (associated companies).
EVA	Short for "economic value added." As a measure, EVA is equal to net operating profit after taxes (NOPAT) less a charge for the capital employed in the business (cost of capital).
Expected long-term rate of return on pension plan assets	Represents the average rate of earnings expected on plan assets.

F

Financing and Real Estate	The worldwide leasing, lending, financing and real estate activities of Siemens Financial Services (SFS) and Siemens Real Estate (SRE).
Fully diluted	Earnings per share are fully diluted when they reflect the effects of exercising stock options or warrants or converting convertible securities.
Functional costs	Functional costs include cost of sales, R&D expenses, marketing and selling expenses, and general administration expenses.
Funded status of a pension plan	The difference between a pension plan's projected benefit obligation (PBO) and the fair market value of assets designated to the pension plan (plan assets) as of a specific date.

G

GASC	Short for "German Accounting Standards Committee." An independent registered association to develop, among other things, accounting standards for application in the area of consolidated financial reporting.
German GAAP	Short for "Generally Accepted Accounting Principles in Germany." The accounting concepts, measurements, techniques and standards of presentation used in financial statements in Germany pursuant to the German Commercial Code (HGB).

Goodwill	The excess of the fair value of net assets acquired over cost resulting from a business combination accounted for as a purchase.
Group profit	Measure of individual Group profit or loss. Earnings before financing interest, certain pension costs and income taxes.
Hedging	A strategy used to minimize exposure to changes in prices, interest rates or exchange rates by means of derivative financial instruments (options, swaps, forward contracts, etc.).
Joint venture	A form of business partnership between two or more companies to engage in a commercial enterprise with mutual sharing of profits and losses.
Medium Term Note Program	Flexible financing framework providing for the issuance of notes in rotation in the context of a program unrestricted in time (constant issue). The notes may be issued in several tranches, with terms and conditions and time of issue being determined in accordance with then current goals and prevailing market conditions.
Moody's Investors Service	Independent rating agency that provides evaluation of securities investment and credit risk.
Net capital employed	Consists of long-term assets plus excess of current assets over current non-interest-bearing liabilities.
Net cash from operating and investing activities	Total of cash provided by (used in) operating and investing activities as determined in the statement of cash flow.
Net periodic pension cost	The amount of pension costs recorded in the statement of income. Net periodic pension cost components include service cost, interest cost, expected return on plan assets, amortization of unrecognized prior service cost (if any), gains or losses recognized and amortized after exceeding a certain corridor (if any), amortization of unrecognized initial net obligation and/or initial net asset.
Operations	The most important of the three major components of Siemens. Operations comprises all activities of the Siemens organization worldwide with the exception of Financing and Real Estate and Corporate Treasury.
Projected benefit obligation (PBO)	A measure to determine pension liabilities. The PBO is the actuarial present value as of a specific date of employees' vested and non-vested pension benefits incorporating compensation increases, attributable to employee services performed as of that date.
R&D	Short for "research and development."
Rating	Standardized evaluation of issuers' credit standing and debt instruments, carried out by specialized agencies (such as Standard & Poor's or Moody's Investors Service).
Risk management	Systematic process of identifying, assessing and monitoring various financial risk factors and of selecting and implementing measures to handle them.
SEC	Short for "Securities and Exchange Commission." The primary federal agency in the U.S. responsible for regulating the financial reporting practices of most publicly owned corporations in connection with the buying and selling of stocks and bonds.
Standard & Poor's	Independent rating agency that provides evaluation of securities investment and credit risk.
Stock options	Form of employee incentive and compensation. The employee is given an option to purchase a company's shares if certain targets are met under specified conditions.
UMTS	Short for "Universal Mobile Telecommunications System." Third-generation mobile communications standard that will provide broadband services optimized for high-speed data, mobile Internet and applications based on intranets, extranets and mobile multimedia.
U.S. GAAP	Short for "United States Generally Accepted Accounting Principles." The accounting concepts, measurements, techniques and standards of presentation applicable to financial statements in the U.S.
Volatility	The degree of fluctuation for a given price or rate, such as a stock price or currency exchange rate.

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Siemens financial calendar*

Jan. 22, 2004	**First-quarter financial report**
Jan. 22, 2004	**Annual Shareholders' Meeting** – Olympiahalle, Munich, 10:00 a.m.
Jan. 23, 2004	**Ex-dividend date**
Apr. 28, 2004	**Second-quarter financial report and Semiannual Press Conference**
July 29, 2004	**Third-quarter financial report**
Nov. 11, 2004	**Preliminary figures for fiscal year / Press conference**
Jan. 27, 2005	**Annual Shareholders' Meeting for fiscal 2004**

* Provisional. Updates will be posted at: **www.siemens.com/financial_calendar**

Information resources

Information on contents

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This Annual Report is also available in French, German and Spanish. An abridged Japanese version will be available as of January 2004 at www.siemens.co.jp
The German and English versions can be downloaded at www.siemens.com

Additional copies of this Report are available from:

E-mail	siemens@bek-gmbh.de
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In addition to an Annual Report at the end of each fiscal year, Siemens publishes quarterly consolidated financial statements in the form of press releases. Conference calls with journalists and analysts supplement these reports. Two major press conferences – one at mid-year and one at year-end – as well as an annual analyst conference give journalists and analysts additional opportunities to review developments in our businesses. The financial reports for the first three quarters are also complemented by an extensive interim report comprising management's discussion and analysis as well as the consolidated financial statements (with notes). These reports are submitted to Deutsche Börse and the U.S. Securities and Exchange Commission (SEC), among other organizations. Siemens also provides the SEC with the annual report on Form 20-F. All of these financial reports are available on the Internet at: www.siemens.com/financial_reports

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Also available:
Corporate Responsibility Report 2003
Copies of this Report may be ordered at the above address.
Employees may also place orders at the LZF order center:

German:	Order no. A19100-F-V93
English:	Order no. A19100-F-V93-X-7600

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Corporate structure

Managing Board of Siemens AG*

Corporate Executive Committee

Heinrich v. Pierer, Dr. jur. Dr.-Ing. E. h., President and Chief Executive Officer
Head of CD
Special responsibilities: CC, CT, ECR

Heinz-Joachim Neubürger
Head of CF
Special responsibilities: SFS, SRE

Jürgen Radomski
Head of CP
Special responsibilities: Med, Osram, MCP

Johannes Feldmayer
Special responsibilities: SBT, CIO, GPL
Europe

Klaus Kleinfeld, Dr. rer. pol.
Special responsibilities: ICM, ICN, SBS
Africa, Middle East, C.I.S.

Edward G. Krubasik, Prof. Dr. rer. nat.
Special responsibilities: SD, SV, TS

Uriel J. Sharef, Dr. rer. pol.
Special responsibilities: PG, PTD
The Americas

Corporate Departments

Corporate Development (CD)
Heinrich v. Pierer, Dr. jur. Dr.-Ing. E. h.
Klaus Kleinfeld, Dr. rer. pol.**
Pamela Knapp
Volkhart P. Matthäus

Corporate Finance (CF)
Heinz-Joachim Neubürger
Karl Heinz Midunsky
Albrecht Schäfer, Dr. jur.

Corporate Personnel (CP)
Jürgen Radomski
Günther G. Goth

Corporate Technology (CT)
Claus Weyrich, Prof. Dr. phil. Dr.-Ing. E. h.
Winfried Büttner, Prof. Dr.-Ing.

Operations

Information and Communications

Information and Communication Mobile (ICM)
Rudi Lamprecht
Joe Kaeser
Lothar Pauly

Information and Communication Networks (ICN)
Thomas Ganswindt
Michael Kutschenreuter
Andy W. Mattes
Anton Hendrik Schaaf

Siemens Business Services GmbH & Co. OHG (SBS)
Paul A. Stodden
Jürgen Frischmuth
Bernd Regendantz

Automation and Control

Automation and Drives (A&D)
Helmut Gierse
Anton S. Huber
Alfred Ötsch

Industrial Solutions and Services (I&S)
Joergen Ole Haslestad
Bernd Euler
Joachim Möller

Siemens Dematic AG (SD)
Johann Löttner
Peter Drexel, Dr.-Ing. E. h.
Alfred Frank

Siemens Building Technologies AG (SBT)
Heinrich Hiesinger, Dr.-Ing.
Vincenzo Giori
Hubert Ovenhausen
Rolf Renz

Power

Power Generation (PG)
Klaus Voges
Andreas Kley
Norbert König
Randy H. Zwirn

Power Transmission and Distribution (PTD)
Udo Niehage, Dr.-Ing.
Hans-Jürgen Schloß, Dr.-Ing.

Transportation

Transportation Systems (TS)
Hans M. Schabert
Hans-Dieter Bott
Friedrich Smaxwil

Siemens VDO Automotive AG (SV)
Wolfgang Dehen
Klaus Egger, Dr.-Ing.
Günter Hauptmann
Reinhard Pinzer

Regional organization

Regional Offices, Regional Companies, Representative Offices, agencies

* see also page 9
** temporarily assigned

Klaus Wucherer, Prof. Dr.-Ing.
Special responsibilities: A&D, I&S
Asia, Australia

Thomas Ganswindt
Head of ICN

Rudi Lamprecht
Head of ICM

Erich R. Reinhardt, Prof. Dr.-Ing.
Head of Med

Claus Weyrich, Prof. Dr. phil. Dr.-Ing. E. h.
Head of CT

Financing and Real Estate

Medical

Medical Solutions
(Med)

Erich R. Reinhardt, Prof. Dr.-Ing.
Hermann Requardt, Dr. phil. nat.
Götz Steinhardt

Lighting

Osram GmbH

Wolf-Dieter Bopst, Dr. oec. publ.
Jörg Schaefer, Dr.-Ing.
Thomas Seeberg, Dr. rer. pol.

Siemens Financial Services GmbH
(SFS)

Herbert Lohneiß, Dr. rer. nat.
Johannes Schmidt

Siemens Real Estate
(SRE)

Jochen Scharpe, Dr. rer. pol.
Karl-Heinz Seibert

Corporate Centers

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

Corporate Information and Operations
(CIO)
Friedrich Fröschl, Dr. rer. nat.

Global Procurement and Logistics
(GPL)
Erich Hautz, Dr. rer. comm.

Chief Economist/Corporate Relations
(ECR)
Bernd Stecher, Prof. Dr. sc. pol.

Management Consulting Personnel
(MCP)
Karl-Heinz Sämann, Dr.-Ing.

As of January 1, 2004

Members of the Supervisory Board are listed on page 190–91.

"Our aim is to continually increase the value of the Company – your Company."

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Global network of innovation

Siemens Aktiengesellschaft

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