

»We are on the right track for
ensuring our success as the
Global network of innovation.«

SIEMENS

Annual Report 2001

Siemens

Siemens is a network encompassing well over 400,000 people in 190 countries. We take pride in possessing in-depth knowledge of customers' requirements, the expertise to create innovative solutions in electrical engineering and electronics, and the experience to successfully navigate even rough economic waters. But our greatest asset is undoubtedly our people, with their unparalleled motivation and their passion for outperforming our competitors. Linked via a global network that enables them to exchange ideas with colleagues around the world, Siemens employees strive continuously to increase company value.

We at Siemens do not measure value solely in terms of short-term profitability. For us, it is just as important to be a respected corporate citizen in all the countries in which we operate. Ever since our company was founded 154 years ago, sustainability has been a top priority at Siemens. This applies to all our activities – from information and communications technology to automation, transportation, medical solutions, power and lighting. Our global network is a network of innovation – a network that draws on the best of many diverse cultures for the benefit of our customers, our investors, our employees and our partners.

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* with separate table of contents

Financial highlights

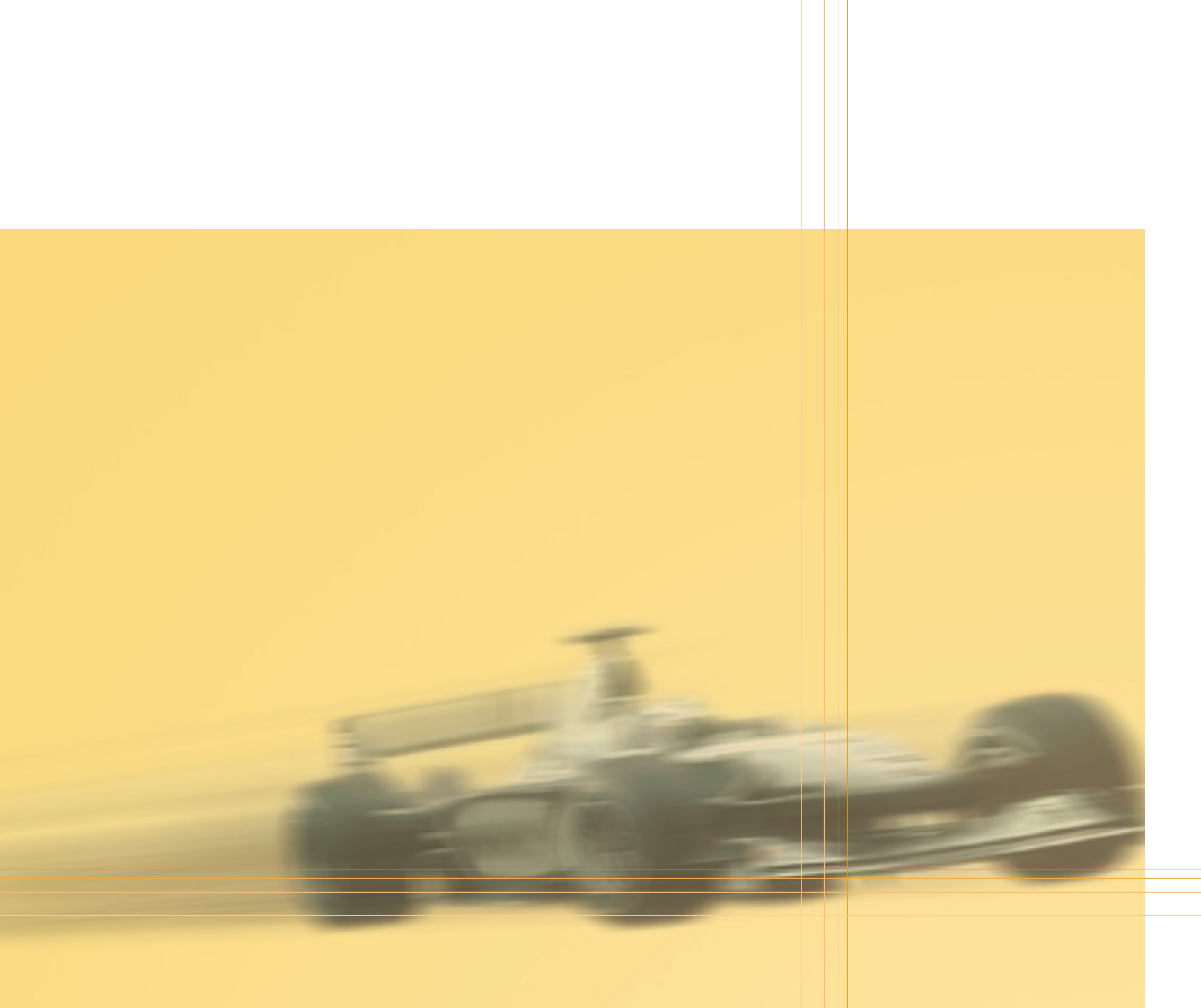
(in millions of euros)	2001 ⁽¹⁾	2000 ⁽¹⁾	1999 ⁽¹⁾
New orders	92,528	83,426	69,560
Net sales	87,000	77,484	68,069
Net income	2,088	8,860	1,209
Net cash provided by operating activities	7,016	6,154	3,640
Net cash used in investing activities	(5,886)	(435)	(2,876)
Research and development expenses	6,782	5,848	5,260
Shareholders' equity (September 30)	23,812	28,480	19,138
Employees (September 30, in thousands)	484	448	437

⁽¹⁾ Fiscal year (October 1 – September 30)


What do you think our GLOBAL NETWORK OF INNOVATION is all about?

“It’s about taking customers to the top.”





Our customers want it all: leading-edge technologies, tailor-made solutions, top-quality services. And, with our **GLOBAL NETWORK OF INNOVATION**, they get it. Our aim is to meet and even exceed our customers' expectations by continuously optimizing our business processes. To support these efforts, we created the *top⁺* business excellence program featuring flexible tools that can be applied on a business-specific basis worldwide. Our overall goal is to generate the greatest possible value for our customers. Every time we strengthen a customer, we augment our own position as a world leader in the electrical engineering and electronics industry.



Wherever people want direct lines of communication and fast access to information, we provide the basics. From rapid Internet access, high-performance networks, comprehensive e-business applications and intelligent user software to electronic supply chains and multi-functional mobile devices – we develop cutting-edge information and communication solutions for today's fast-paced world. We leverage a wealth of ideas and marketing expertise to continuously generate innovations for use at work, at home and on the road.

What do you think our GLOBAL NETWORK OF INNOVATION is all about?

“It’s about making connections.”




What do you think our GLOBAL NETWORK OF INNOVATION is all about?

“It’s about creating new possibilities.”





Innovation is the driver – whether we’re developing quality assurance software for medical solutions or new systems and solutions for complex infrastructure projects. Every year we file more than 5,000 patent applications, and we currently hold more than 120,000 patent rights around the world. We profit every day from the know-how and initiative of our employees – people whose knowledge and skills we are constantly upgrading. This dynamism is providing our customers – and us – with more opportunities than ever before in our 154 years of operation.



Siemens is one of the most international organizations on earth. Our 484,000 employees in more than 190 countries are linked via a vast network that spans the globe, providing short paths to our customers and partners and ensuring continued international growth. While Europe is our home, we are expanding very rapidly in the North American market. And we have a strong position in Asia, the world's fastest-growing economic region.

What do you think our GLOBAL NETWORK OF INNOVATION is all about?

“It’s about global growth.”





What do you think our GLOBAL NETWORK OF INNOVATION is all about?

“It’s about shaping our future.”



In today’s networked world, ideas emerging from any corner of the globe can be rapidly implemented everywhere. As a **GLOBAL NETWORK OF INNOVATION**, we aim to initiate, drive and shape key technological developments. At the same time, we are fully aware that our foremost responsibility is to benefit humankind. Our Corporate Principles embody our commitment to environmental protection and an understanding of the various cultures in which we – as citizens of the world – have made our home.





“We are facing difficult times.
But we know what we have to do.”

Dear Shareholder,

Global economic conditions for our business deteriorated from quarter to quarter throughout the year. We were hit hardest by the fundamental structural upheaval in the field of information and communications – primarily attributable to a decreasing willingness to invest on the part of network operators and enterprise customers. The transition to third-generation mobile telephony and the associated high license charges, together with the shift to Internet protocol-based technologies, often overtaxed our customers' financial reserves. Industry was further impacted by the cooling world economy as well as the direct and indirect repercussions of the horrifying terrorist attacks on New York and Washington. In a situation that clearly calls for action, we are confident that we have identified appropriate responses and will ultimately emerge stronger than ever.

We embarked on fiscal 2001 expecting to further improve on last year's record results. And we largely succeeded in the first two quarters. Beginning in the third quarter, however, the costs associated with restructuring measures and the effects of declining business activity, particularly in the Information and Communications area and at Infineon Technologies, outweighed the excellent earnings achieved by other Groups. As a result, net income for the year was substantially lower than last year. Nevertheless, we will propose a dividend of €1.00 per share. Without the special bonus and adjusted for the effects of the stock split, this would be a slight increase over last year's dividend.

Our various operating units are subject to different market cycles:

- A number of Groups operate in fields whose markets are stable over extended periods and are currently benefiting from favorable conditions. This applies particularly to power plants, rail systems and medical solutions, which comprise roughly 30 percent of our business. Our market positions and profitability in these fields are continuing to improve. An unusually high order backlog indicates that these successes will be repeated in the coming years.
- Other Groups – which also contribute about 30 percent of our sales – are subject to shorter, general business cycles. Two good examples here are Automation and Drives and Osram. Both units have sustained

high levels of earnings over many years, effectively demonstrating how a business can cope with economic cycles without significant declines in income. Their exemplary practice of continually monitoring early market indicators provides the units with early warning of economic slowdowns, giving them time to take tough and effective countermeasures.

- Around 40 percent of our sales depend on industry-specific cycles: IT markets, automotive electronics and logistics systems. The Groups involved in these businesses currently face structural problems and must make adjustments.
- This is especially true for Infineon Technologies AG, which operates in an extremely cyclical market. The company is currently facing a market slump of unprecedented magnitude. In view of this industry's volatility, we decided three years ago to withdraw step-by-step from the semiconductor business. Since December 2001, Siemens AG holds less than 50 percent of Infineon.

In my report at the last shareholders' meeting, I said that the record results of fiscal 2000 were highly encouraging. At the same time, however, I stressed that the year was only an intermediate step in our drive to continue strengthening our Company's profitability. And we are repeating this message, even though general business conditions have sharply deteriorated. In December 2000 we defined the specific margin target each Group should reach by fiscal 2003. We are focusing all our efforts on meeting these goals. The five most important action areas comprise our Operation 2003.

We are giving top priority to implementing measures to increase profitability in our Information and Communications Groups.

- Information and Communication Mobile is showing the most success to date. The Group quickly recovered from turbulent market conditions and adjusted to the new situation. Capacity adjustments in the mobile phone sector and measures to secure earnings in mobile networks are taking hold. Earnings from operations have stabilized.

- Information and Communication Networks has undertaken a basic reorientation of its business. Drawing on proven tools from our company-wide *top⁺* program for business excellence, the Group has defined concrete measures that are monitored and, if needed, fine-tuned on a monthly basis. These measures include reducing the number of production sites by half, optimizing sales channels and accelerating development activities in promising innovation fields.
- The focus at Siemens Business Services is on improving project management and adjusting capacity in the IT services sector. The necessary measures have been implemented.

We are making solid progress in our second Operation 2003 action area, the integration of Dematic and VDO, which we acquired from Mannesmann Atecs. Siemens Dematic and Siemens VDO Automotive have launched comprehensive restructuring and integration programs. These initiatives – based on our experiences with *top⁺* – are expected to generate productivity gains of one billion euros in each Group within a short time.

- Siemens Dematic is further extending its global lead as a complete provider of logistics solutions. While this field has especially strong growth potential, it is currently undergoing a reorientation phase due to weaker demand in selected customer segments. Targeted productivity and growth initiatives aim at ensuring sustainable success.
- The product portfolio of Siemens VDO Automotive is focused on the highest-growth fields in the automotive supply industry – primarily, infotainment, engine management and passenger safety systems. The merger of Siemens Automotive and VDO has created a leading company in the field of automotive electronics. Restructuring and measures to focus the product portfolio are nevertheless unavoidable due to current problems in the industry and to our integration measures.

The third action area centers on our U.S. business. As a result of organic growth and acquisitions, our business volume in the U.S. now exceeds our level in Germany. Since this is not yet the case for earnings, we have launched our *top⁺* U.S. Business Initiative to substantially increase profits. The program covers strategies and business processes at our individual U.S. operating companies as well as measures for improving company synergies.

- We are optimizing our U.S. portfolio and restructuring the operations of our U.S. companies. The strategy is focused on strengthening some companies and reevaluating the business potential of others.

- In addition, we are increasingly successful in our intensified drive to present one face to key customer groups. We are also making solid progress in setting up shared services for corporate functions used by a number of operating companies.

One overriding priority of our *top⁺* program – along with innovation and quality management – is asset management. The fourth action area of Operation 2003 is focused on further reducing our employed capital and improving our cash flow. Notable successes have already been achieved in a short time. We substantially improved our liquidity in the fourth quarter of the past fiscal year.

And finally, the fifth action area is aimed at reducing costs at corporate headquarters. In fiscal 2002 we are targeting cuts of 15 percent, with reductions of at least this magnitude planned for the following year. Similar measures are also being carried out at the headquarters of our operating Groups and in our regional companies.

The difficulties that affected major parts of our business beginning in the third and fourth quarters were largely caused by external factors. Naturally this is a cause for concern. However, we are meeting the challenges head-on, and will emerge from this phase stronger than ever. Nothing is sacred in our drive to strengthen the Company, and we are making sure that we implement not stop-gap measures but initiatives that will enable us to thrive in the long term.

In difficult times like these, it is a particular concern of mine that we don't just automatically resort to cost-cutting. We will reduce personnel only after careful consideration and only as part of a future-oriented program. Our main focus is on organizational and strategic issues and, above all, on innovations in products, systems and business processes. In fiscal 2001, our outlays for research and development reached a new high, reflecting the importance we attach to innovation.

This past year brought many disappointments for the capital markets. The illusions many harbored about the New Economy have all gone up in smoke. A creative business idea – preferably linked to the buzzword dotcom – is just not an adequate basis for the future. Unfortunately, solid companies like Siemens have also been caught in the backlash. But this will not deter us.

A year ago, I described how we are melding our industrial competencies with the advantages of e-business to transform Siemens into a New Economy company with substance. This effort is continuing. We have made great progress in networking our internal value chain electronically and in linking it to our customers, suppliers and partners. This is enabling us to accelerate processes and cut costs. We are consolidating our competencies in e-business, IT infrastructure and the worldwide standardization of business processes and combining them in the new Corporate Information and Operations unit. Our global electronic network enables us to leverage our Company's vast synergy potential across all divisions and regions better than ever before, giving us a decisive competitive advantage.

While structural problems in the field of information and communications have driven many of our competitors up against the wall, Siemens – whose competencies extend across several sectors of electronics and electrical engineering subject to different business cycles – is less exposed. As our response to the great challenges of the day attests, with our broad business portfolio we have what it takes to weather economic crises and achieve long-term success – to the benefit of our customers, our shareholders and our employees. We are poised to show that we can exploit these advantages once again to improve the bottom line.



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

At a glance

Stock market information

(in euros)	2001 ⁽¹⁾	2000 ⁽¹⁾	1999 ⁽¹⁾
Stock price range (XETRA closing prices, Frankfurt)			
High	105.77	127.67	57.53
Low	37.50	50.65	26.93
Year-end	41.89	97.33	51.60
Number of shares (year-end, in millions)			
	888	883	892
Market capitalization (year-end, in millions of euros)			
	37,208	85,939	46,037
Per-share data			
Earnings per share	2.36	9.97	1.36
Earnings per share (fully diluted)	2.36	9.96	1.36
Dividend (comparable)	1.00⁽²⁾	1.60 ⁽³⁾	0.67

Figures reflect the stock split that took effect on April 30, 2001 (one additional share issued for every two shares held).

⁽¹⁾ Fiscal year (October 1 to September 30)

⁽²⁾ To be proposed at the Annual Shareholders' Meeting

⁽³⁾ Dividend of €0.93 plus extra dividend of €0.67

Earnings trend

In fiscal 2001, Siemens earned €2.1 billion in net income including Infineon and special items as well as restructuring charges and asset write-downs. This result was considerably below last year's figure. However, in fiscal 2000 we had substantially higher special gains and lower special charges.

EBITA from Operations (excluding Infineon) was €1.3 billion. Last year, this figure was €2.8 billion.

Despite the difficult market environment, our net cash provided from Operations reached €7.0 billion, surpassing last year's high figure of €6.2 billion. Our efforts in asset management are paying off.

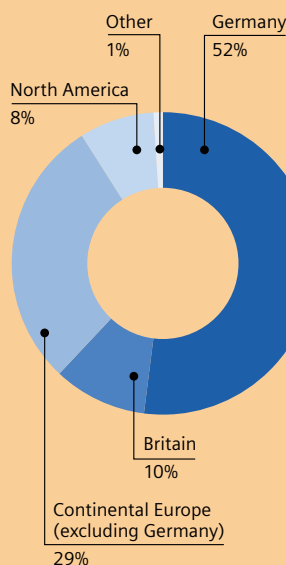
The Siemens share

As of September 30, 2001, the capital stock of Siemens AG totaled approximately €2.7 billion, representing some 888 million no-par value shares in registered form. Each share has one vote.

The shares of Siemens AG are 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.

WWW.

Shareholders by region

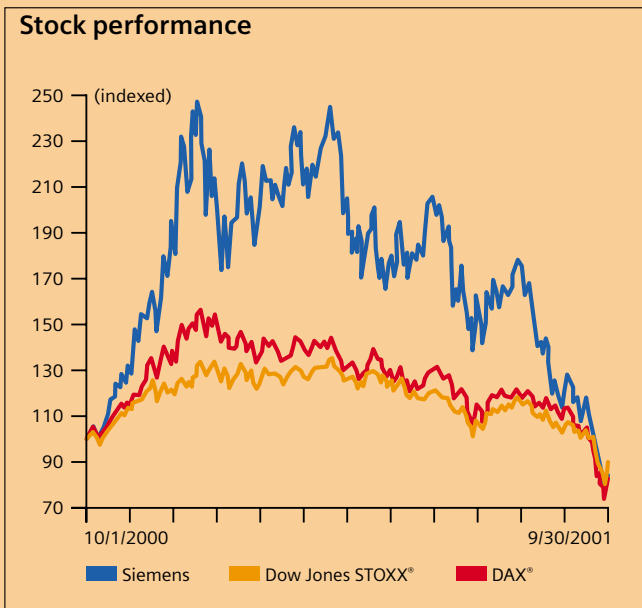


Shareholder profile

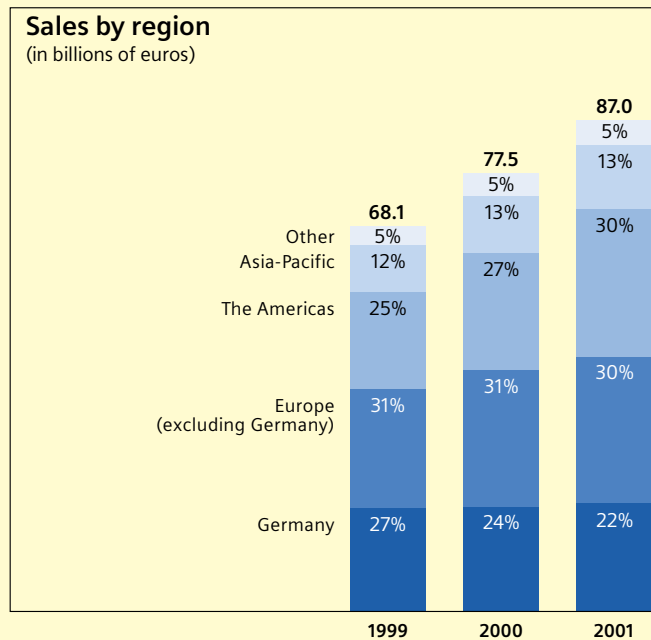
The number of Siemens shareholders increased substantially during the last fiscal year. More than one million shareholders are currently listed in our share register. According to the share register, approximately 25% of the capital stock is held by private investors and 27% is owned by investment companies and insurance companies. Credit institutes and central securities depositories are listed in the stock register as holding 48% of the capital. The majority of these shares are held for shareholders outside of Germany.

More than half of the capital stock is owned by shareholders in Germany. Most of the shareholders outside of Germany – roughly 29% – are in other continental European countries, primarily in Switzerland, Belgium and Luxembourg. Approximately 18% of the capital is held in North America and Britain.

Stock performance



Sales by region (in billions of euros)



In fiscal 2001, sales climbed 12% to €87 billion. While sales in Germany remained virtually unchanged, our business in the other regions increased 16% to €67.9 billion. Siemens generated 78% of its sales outside Germany. The U.S. made a key contribution, with sales in the region climbing nearly 24%. In Asia-Pacific, sales rose 11%, with a 43% jump in the growing Chinese market. In Europe outside Germany, sales increased 9%.

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Purchasing network

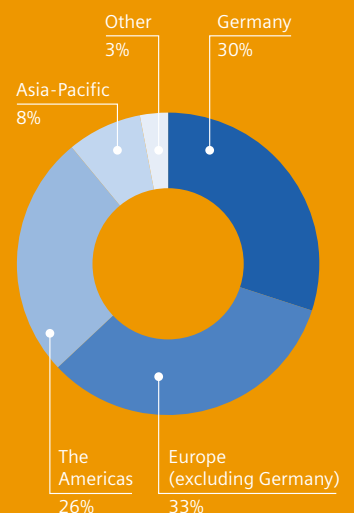
Last fiscal year, our purchasing volume totaled approximately €42 billion, or 48% of sales for the year. Nearly half of this figure is attributable to production materials, including everything from raw materials to complete modules. Outlays for products – such as systems components and software – that we sell to customers accounted for just over one-third of the total, while services ranging from maintenance to consulting comprised roughly one-fifth.

In a move to create a worldwide purchasing network, Siemens is reshaping its processes and structures both within the company and in its dealings with its more than 7,500 strategic suppliers. The aim is to join forces on the procurement markets and optimally exploit existing purchasing know-how

throughout the company. Already last year, this approach enabled us to bundle purchases worth €17.1 billion in more than 130 material fields and service segments.

With 10% of our purchasing volume already transacted electronically, our goal is to reach the 50-percent mark in the medium term. To help us reach this goal, we have established click2procure, a company-wide electronic purchasing platform. All major suppliers are currently linked to this platform. More than 30,000 Siemens users can choose from approximately one million articles in our catalogs, which include everything from office supplies to electronic components. In the next few years, click2procure will become one of the world's largest virtual purchasing marketplaces.

Purchasing by region



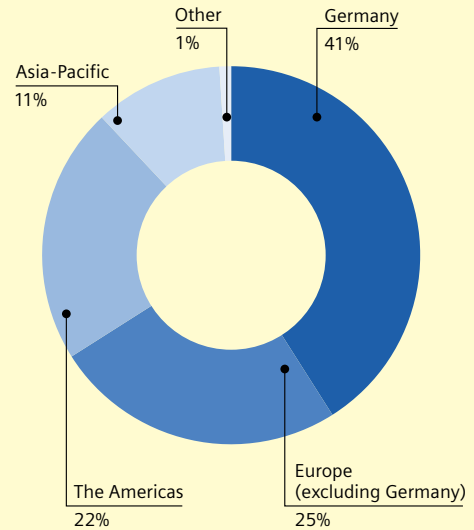
At a glance

Employees and training

Siemens had 484,000 employees at the end of fiscal 2001 – 36,000 more than a year earlier. This increase is primarily due to the integration of Mannesmann VDO and Mannesmann Dematic. While women, who make up 26% of our global workforce, currently fill just 8.5% of our nearly 70,000 management positions, they account for 21% of our new university-trained employees.

Our commitment to vocational training and continuing education is unwavering. About 40% of the €500 million we invested in this area in fiscal 2001 flowed into vocational training and 60% into continuing education. Our vocational training programs span 35 professions and courses of study. Some 13,000 young people are currently enrolled in apprenticeship and work-study programs. More than half of our employees have taken part in continuing education initiatives. The focus here is on e-business. To help employees learn to use the Web, we have developed Netracer, an online training course.

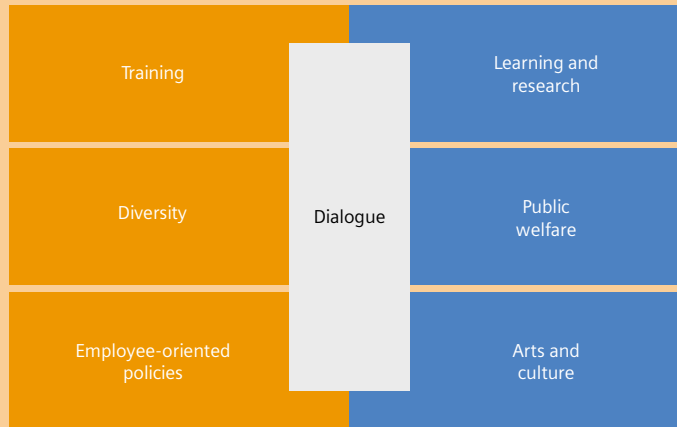
Employees worldwide



Sustainability

Our more than 150-year history is a management success story extending over generations. The principle governing all our actions was – and is – sustainability. By sustainability, we understand long-term economic growth coupled with environmental awareness and social commitment. Our global social responsibility – described in detail in our Corporate Citizenship Report – encompasses seven areas. Of these, Dialogue is the central element linking our commitment to our employees (on the left of the diagram) with our responsibilities to society (on the right of the diagram).

We are a founding member of the Econsense Forum for Sustainable Development, an initiative of the German business community. The Forum, to which more than 20 German-based multinational companies belong, is a platform for stakeholder dialogue on the concept of sustainability and its integration into busi-



Foci of our social commitment

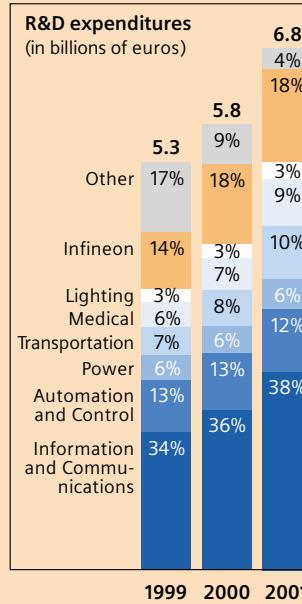
ness strategies. At Siemens, responsibility for sustainability is vested in our Sustainability Strategy Council.

Investors and the general public are also showing increasing interest in sustainable business development. This is reflected in the growing importance of the Dow Jones Sustainability Index (DJSI) which evaluates companies in terms of sustainability criteria. Siemens was listed on the DJSI for the second time in 2001, due primarily to our environmental activities, our social commitment and our long-term orientation toward profitability.

Investments in research and development

With investments of €6.8 billion, Siemens maintained its world-leading position in research and development in the electronics and electrical engineering sector. The lion's share of these outlays again flowed into our Information and Communications area, since these technologies are also vital for all our other business areas. This is reflected in the high software development costs, which account for some 60% of our R&D expenditures. Roughly 60,000 Siemens researchers in over 30 countries are at work on new products, systems and services.

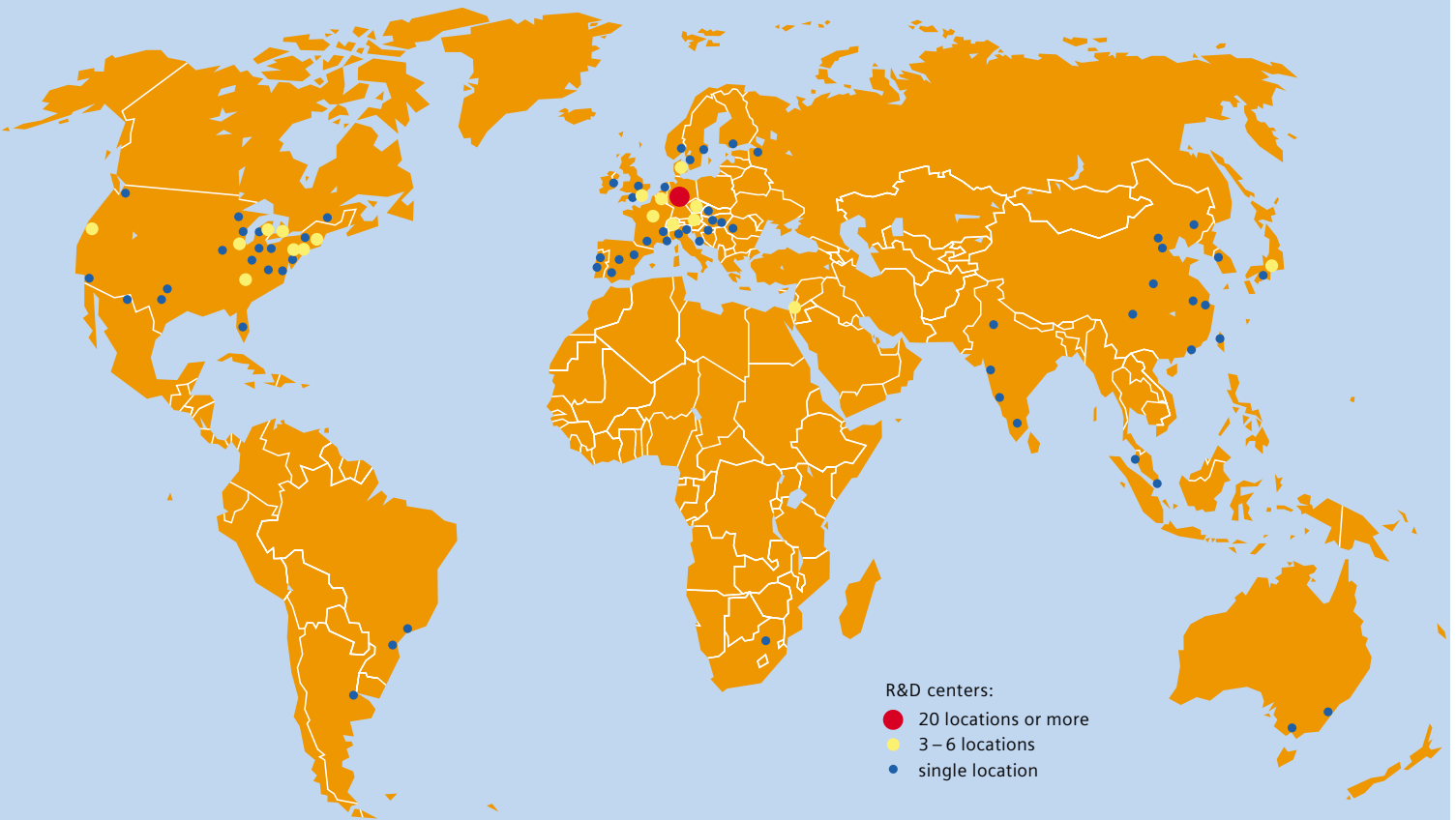
To help us systematically plan R&D strategies, we have developed Pictures of the Future, a process for generating holistic visions of tomorrow's developments in our various business areas. Proceeding from these visions, we can derive not only future technology trends and market potentials but also customer requirements, business opportunities, new ways of working and changes in value-added structures.



Inventions

In fiscal 2000, our researchers turned out 9,060 inventions. Of this total, 2,430 originated at Infineon. We filed 6,330 new patent applications (1,850 of which came from Infineon). According to the official records for 2000, Siemens AG is the largest patent applicant at both the German Patent and Trade Mark Office and the European Patent Office. The company holds sixth place at the U.S. Patent and Trademark Office.

Research and development worldwide



Corporate structure

Managing Board



Corporate Executive Committee

Heinrich v. Pierer, Dr. jur. Dr.-Ing. E. h.
President and Chief Executive Officer

Head of CD
Special responsibilities:
CC, ECR

Volker Jung, Dr. Eng. h. c.

Special responsibilities:
ICN, ICM, SBS
Africa, Middle East, C.I.S.

Edward G. Krubasik, Prof. Dr. rer. nat.

Special responsibilities:
SD, SBT, TS, SV
CT

Heinz-Joachim Neubürger

Head of CF
Special responsibilities:
SFS, SRE

Peter Pribilla, Prof.

Head of CP
Special responsibilities:
MCP

Jürgen Radomski

Special responsibilities:
Med, Osram
CIO, GPL
Europe

Uriel J. Sharef, Dr. rer. pol.

Special responsibilities:
PG, PTD
The Americas

Klaus Wucherer, Dr.-Ing.

Special responsibilities:
A&D, I&S
Asia, Australia

Operations

Information and Communications

Information and Communication Networks (ICN)

Thomas Ganswindt
Michael Kutschenreuter
Anthony Maher
Andy W. Mattes
Anton Hendrik Schaaf

Information and Communication Mobile (ICM)

Rudi Lamprecht
Joe Kaeser
Lothar Pauly

Siemens Business Services GmbH & Co. OHG (SBS)

Paul A. Stodden
Reinhart Bubendorfer
Winfried Büttner, Dr.-Ing.

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
Udo N. Wagner, Dr. rer. oec.

Siemens Dematic AG (SD)

Dietmar Straub, Dr. rer. nat.
Peter Drexel
Alfred Frank
Pete James Metros

Siemens Building Technologies AG (SBT)

Oskar K. Ronner
Hubert Ovenhausen
Rolf Renz

Power

Power Generation (PG)

Klaus Voges
Andreas Kley
Norbert König
Randy H. Zwirn

Power Transmission and Distribution (PTD)

Heinrich Hiesinger, Dr.-Ing.
Hans-Jürgen Schloß, Dr.-Ing.

Transportation

Transportation Systems (TS)

Herbert H. Steffen
Hans-Dieter Bott
Hans M. Schabert

Siemens VDO Automotive AG (SV)

Franz Wressnigg, Dr.-Ing.
Klaus Egger, Dr.-Ing.
Günter Hauptmann
Johann Löttner

Regional organization

Regional Offices, Regional Companies, Representative Offices, agencies



Rudi Lamprecht

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

Claus Weyrich,
Prof. Dr.phil.
Dr.-Ing.E.h.

Head of ICM

Head of Med

Head of CT

Financing and Real Estate

Corporate Departments

Corporate Centers

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.

**Siemens Real Estate
(SRE)**

Peter Niehaus, Prof.
Dieter Briese
Jochen Scharpe, Dr. rer. pol.

Corporate Finance (CF)

Heinz-Joachim Neubürger
Charles Herlinger
Karl Heinz Midunsky
Albrecht Schäfer, Dr. jur.

Corporate Personnel (CP)

Peter Pribilla, Prof.
Günther G. Goth

Corporate Technology (CT)

Claus Weyrich, Prof. Dr.phil. Dr.-Ing. E. h.
Horst Fischer, Dr. rer. nat.

Corporate Development (CD)

Heinrich v. Pierer, Dr. jur. Dr.-Ing. E. h.
Johannes Feldmayer
Pamela Knapp
Volkart P. Matthäus

**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, Dr. sc. pol.

**Management Consulting Personnel
(MCP)**

Karl-Heinz Sämman, Dr.-Ing.

as of January 1, 2002

Members of the Supervisory Board are listed on page 120.

Our portfolio

Siemens' business portfolio comprises the following business areas:

- **Information and Communications**
- **Automation and Control**
- **Power**
- **Transportation**
- **Medical**
- **Lighting**

The individual Groups within these areas are responsible for their own worldwide operations, with regional units around the globe supporting their efforts.

This decentralized structure gives the Groups the greatest degree of entrepreneurial responsibility and the ability to nurture the closest possible ties to their customers. Cross-Group and cross-regional cooperation is crucial for the success of our GLOBAL NETWORK OF INNOVATION. At the same time, it enables Siemens to provide comprehensive, customer-focused products, solutions and services for the global market.

SIEMENS


Global network of innovation

Information and Communications

The Information and Communications area comprises three Groups: Information and Communication Networks (ICN), Information and Communication Mobile (ICM) and Siemens Business Services (SBS). Our aim is to maintain our leading market position in the

mobile communications industry. We are the only company in the world with core competencies in the three fundamental technologies involved: next-generation Internet, wireless communications and advanced electronics. This unique combination of expertise enables us to offer

a full array of mobile business solutions from a single source, ranging from innovative voice, data and video communications equipment for end users to tailored applications and a comprehensive range of services.

Information and Communication Networks (ICN)	
Sales (in billions of euros) 12.9 EBITA (in millions of euros) (861)	<small>Thomas Ganswindt, Group President</small>

Our Group provides communication networks and solutions for converging conventional voice communications with Internet Protocol (IP) applications. We focus on attractive market segments with the greatest growth potential: Internet-based convergence technologies for network operators and enterprises, as well as broadband access technologies. Our expertise in optical networks and our integration and applications know-how also enhance our comprehensive array of solutions.

With 250 million lines installed for service providers and some 80 million lines for enterprises, we are the world's Number 1 supplier of IP convergence solutions. Our unparalleled know-how in voice communications and real-time applications enables us to provide advanced, highest-quality technologies to the IP world. Our U.S. subsidiary Unisphere Networks is Number 3 worldwide in the field of IP routers for network operators. ICN currently ranks Number 2 in infrastructure technology for DSL (Digital Subscriber Line) broadband networks, and we are world market leader for DSL equipment for end users.

In our drive to safeguard profitability in a difficult market environment, we have introduced further initiatives: We intend to give growth in earnings precedence over growth in sales; strengthen our product base; optimize our cost structures and sales channels;

improve the efficiency of our value chain; and continue expanding our leading position as an industry innovator. These measures are paving the way for our successful turnaround.

Information and Communication Mobile (ICM)	
Sales (in billions of euros) 11.3 EBITA (in millions of euros) (307)	<small>Rudi Lamprecht, Group President</small>


As a provider of end-user devices, network technology and mobile applications, we cover the entire spectrum of wireless communications. We also hold a 50% stake in Fujitsu Siemens Computers. To serve our market segments faster and more efficiently, we have reorganized our divisions. While two divisions – Solutions and Networks – remain unchanged, the former Devices Division has been divided into Mobile Phones, Cordless Products and Wireless Modules.

Our communication devices range from mobile phones and wireless modules to mobile organizers, cordless phones and products for wireless home networks with broadband Internet access. Our mobile applications focus on location-based information services as well as solutions for mobile Internet access, mobile portals, mobile shopping, mobile payment and mobile entertainment. In the infrastructure sector, we provide all GSM, GPRS and UMTS network technologies – from base stations and switching systems to intelligent networks for prepaid services. We are one

of the world's top infrastructure providers. In addition, we have an excellent setup for the third-generation mobile market. Together with our partner NEC, we are supplying Europe's first commercial UMTS networks.

One of the first UMTS applications is a location-based service – called Isle of Man on Air – that has begun operation on the Isle of Man in the Irish Sea. This service provides UMTS customers on the island with location-specific texts and videos.

Our focus is on growth through innovation. We are working intensively on combining greater miniaturization with more features for mobile products, on the convergence of information and communications technologies and entertainment, and on making Internet access even more mobile.

Siemens Business Services (SBS)	
Sales (in billions of euros) 6.0 EBITA (in millions of euros) (259)	Paul A. Stodden, Group President

As part of the Information and Communications area, Siemens Business Services offers single-source IT solutions and services.

The electronic business and mobile business segments contributed roughly one-fourth of our total sales in fiscal 2001, and we aim to grow these businesses faster than our others. Our e-business solutions and services are focused on five core areas: supply chain management, enterprise resource management, business information management, customer relationship management and electronic commerce.

Mobile business – the next stage in e-business development – has enormous market potential. Thanks to our e-business know-how and our close cooperation with ICM and ICN – specialists in mobile telephony and next-generation Internet applications – we are leaders in e-business technology. We have already implemented numerous innovative mobile solutions, including Mobile Banking, Mobile Office and Mobile Travel.

A key strategic aim is to broaden our international scope. We already generate more than half our sales outside Germany – and the trend is increasing. In the strategically vital North American market, we funneled the American IT service provider Entex – acquired in 2000 with 5,000 employees and sales of \$500 million – into our U.S. business activities to form SBS Inc. In a milestone for our mobile business activities, we teamed up with Microsoft in the middle of last fiscal year to jointly develop and market mobile business solutions worldwide.


In the e-business sector, we are working closely with SAP, Commerce One, Siebel and i2 Technologies – suppliers of best-in-class technology platforms in their fields. We are also drawing on these strategic partnerships to build up our own e-excellence in areas like electronic marketplaces, purchasing and supply chains. In our drive to further enhance our expertise, we are investing substantially in Siemens' company-wide program of knowledge management and e-learning.

Automation and Control

The Automation and Control area comprises four Groups: Automation and Drives, Industrial Solutions and Services, Siemens Dematic and Siemens Building Technologies. We are the world's largest supplier of products, systems, solutions

and services in the industrial and building technology sectors. We help our customers optimize their business and production processes, enabling them to improve their efficiency and profitability. The Groups cooperate closely using the

latest information technology and thus develop synergies for their four main automation markets: manufacturing, process, building and logistics automation.


Automation and Drives (A&D)	
Sales (in billions of euros) 8.9 EBITA (in millions of euros) 981	Helmut Gierse, Group President

We aim to expand our position as world market leader and our profitable business in automation, drives, switchgear and installation technology by focusing on innovation and growth. To achieve this, we are strengthening our activities, particularly in process automation and in software for complex system controls based on the Totally Integrated Automation platform. We expect our switchgear and installation technology business to be further boosted by innovative solutions like Safety Integrated and the new product Totally Integrated Power, which reduces energy costs by up to 25%.

We are systematically expanding our product spectrum and industry know-how and penetrating regional markets through strategic acquisitions and business partnerships. We are working with over 300 external solutions providers to tailor our comprehensive solutions to the specific needs of a wide variety of industry sectors. Our key partners within Siemens are the Automation and Control Groups and the Groups in the Power area.

To further improve the quality of our earnings, we are focusing on optimizing all our processes with the help of the asset management, quality and cost-cutting tools provided by our *top⁺* initiative. Above all, we are developing e-business applications to substantially streamline all our internal processes – from purchas-

ing to logistics. We are leaders in electronic business-to-business applications, with over ten years of experience in the field.


Industrial Solutions and Services (I&S)	
Sales (in billions of euros) 4.6 EBITA (in millions of euros) 97	Joergen Ole Haslestad, Group President

The pressure of global competition and the rapid pace of innovation in information technology present new challenges to suppliers of industrial projects. The demand today is for service providers who offer innovative ways to link automation “islands” in the systems, process and manufacturing sectors into intelligent all-inclusive solutions, thus substantially increasing value added along the entire production chain. Our reorientation, our improved offerings for the processing industry, our strengthened IT expertise and the expansion of our technical services (engineering, installation, logistics and maintenance) to cover entire plant life cycles are enabling us to join and further this market development.

Standardization, modular construction and IT-supported solutions are not the only keys to success. Our strategy is to combine these elements with specialized sector know-how in the process and manufacturing industries and in infrastructure projects. Our innovations span the entire process chain – beginning with the receipt of materials and extending beyond delivery to encompass a plant's entire life cycle.

We offer all-inclusive solutions, from the field and process control levels to the management level. Customers can access our solutions and services 24 hours a day from some 300 locations worldwide. It doesn't matter if the products, systems and technologies are from Siemens or from other suppliers, because our solutions work in multi-vendor environments. We have developed e-business solutions for customer processes as well as for our own global processes.

Our activities focus on many different industries: metal-working, coal and steel, paper, oil, gas and petrochemicals, cement, food and beverages, and water treatment. In the infrastructure sector, we concentrate on electrical equipment and energy-efficient drives for ships as well as on state-of-the-art traffic control and guidance systems.


Siemens Dematic AG (SD)	
Sales (in billions of euros) 2.5 EBITA (in millions of euros) (59)	Dr. Dietmar Straub, Group President

Siemens Dematic AG – the world's leading supplier of logistics and production automation – was formed by the merger of Siemens Production Logistics Systems AG with Mannesmann Dematic AG.

The two companies – one a specialist in logistics IT and controls and the other a leader in mechanical systems – are an ideal fit. Together, we offer a full range of comprehensive, integrated solutions – from consulting and implementation to global services, making Siemens Dematic the world's only complete provider of products, systems and solutions for logistics automation. We have an exceptionally strong market presence worldwide, with the number of employees reflecting our strength in the various markets. Siemens Dematic is especially active in North America, where we have more employees at our U.S. subsidiaries – 4,800 – than in Germany. Thanks to our strong presence in the U.S., we are the market leader in this crucial region as well. Our sales figures underscore this success: 42% of our

business is generated in the U.S., compared to 45% in Europe.

Knowledge@work – our unmatched knowledge pool – gives us an invaluable strategic advantage. We boast extensive knowledge of our industry. We own 5,000 patents, and our installed base includes 1,250 solutions for the automobile industry, 10,000 pick-and-place systems in electronics production, 380 airport logistics solutions, 800 warehouse and distribution logistics systems, and 14,600 letter sorting systems. To safeguard our future, we are networking our knowledge to create new solutions for our customers.

Siemens Building Technologies AG (SBT)	
Sales (in billions of euros) 5.5 EBITA (in millions of euros) 132	Oskar K. Ronner, Group President

We cover the systems and service markets for building security, fire protection, air conditioning and other comfort features, providing a full range of products for each of these applications. We've made solid progress in all these areas. A number of strategic acquisitions have reinforced our status as a market leader in fire protection systems and strengthened our position in electronic security solutions.

We have rigorously implemented measures to enhance performance. Programs to boost productivity, integrate IT platforms for our application areas and increase cross-selling between our divisions and other Siemens Groups are enabling us to offer our customers a broader spectrum of products and solutions while reducing sales costs. Cross-selling is also helping us to expand our regional market share.


Our new Web site for engineering software and remote access at the systems level offers additional benefits for our customers in the services market. We continue to improve our internal manufacturing and logistics processes by developing additional e-business models and joint concepts for leveraging synergies across our divisions.

Power

The Power area comprises two Groups: Power Generation and Power Transmission and Distribution. These Groups' activities cover the entire array of energy solutions. Power Generation offers effi-

cient, environmentally compatible power generation systems and services, and services for power plant projects. Power Transmission and Distribution – as product supplier, systems integrator and serv-

ice provider – ensures the safe and efficient transport of electrical energy from power plant to consumer.


Power Generation (PG)	
Sales (in billions of euros) 8.6 EBITA (in millions of euros) 634	Klaus Voges, Group President

Our acquisition of Westinghouse's fossil fuel power plant business in 1998 cemented our position as a global supplier. We are now a strong Number 2 worldwide in this sector and have expanded our lead over our nearest competitors. While our business was previously focused on Germany and Europe, today we are at home in all the world's markets. Our global organization enables us to supply our successful products and services to customers everywhere. We establish lasting partnerships with our customers, accompanying them as they move around the world. More than 90% of our orders are from outside Germany.

We have merged our nuclear and hydroelectric power generation activities into two joint ventures in which we hold minority stakes. Both new companies are now Number 1 worldwide. Our new Industrial Applications Division – formed after the takeover of the Demag Delaval Group – is a world-leading supplier of industrial energy conversion processes. We are rigorously implementing intelligent IT solutions in our instrumentation and control systems for power plants and exploiting Siemens Westinghouse's sales channels in the U.S., where we are already market leader in this field as well as in catalytic converters. The development of stationary fuel cells for commercial power generation has been very promising and marketable products should be ready within a few years.

To limit risks and again significantly increase earnings, we are pushing our components and service business and being very selective in our choice of major projects. Innovative service offerings and long-term service contracts with new orders will enable us to further grow our profitable service business. Strategic alliances and acquisitions will yield additional growth. Initial, promising e-business applications will further boost our profitability. For example, all documentation required for a typical power plant project can now be administered via a common data management system accessible to suppliers on the Internet. We offer our customers online monitoring and power plant control via central maintenance stations.

Synergies from the integration of Westinghouse are taking hold and improving our cost position. Our Group-wide quality offensive has substantially improved our products and processes and is already having a positive effect on our earnings.

Power Transmission and Distribution (PTD)	
Sales (in billions of euros) 4.1 EBITA (in millions of euros) 96	

Dr. Heinrich Hiesinger,
Group President

We have further improved our proximity to the market and to our customers by growing in the key markets of China and the U.S. and by continuing to build up our service business. In addition, we have enhanced our portfolio with products and systems employing a high proportion of electronics, communications technology and software. With a strong international orientation, we now generate over 85% of our sales outside Germany, and half that amount outside Europe.

Our service business focuses on service contracts for the operation of power grids and independent meter and energy data services. Examples here include a contract to provide all maintenance services for New Zealand's biggest power distribution grid and a contract to take over metering services for Britain's Power-Gen utility, making us the Number 1 independent provider of metering services there.

We have again improved our market position in high-voltage, direct-current (HVDC) power transmission. A world-leading supplier in this field, we provided the turnkey transformer stations at both ends of the HVDC power link between Northern Ireland and Scotland. The stations are equipped with state-of-the-art high-performance electronics. We are also providing this technology for the transformer stations on the new HVDC link connecting China's western regions with cities in its southeast.

The pace of innovation in our so-called conventional business continues to accelerate. Roughly half of our products are less than five years old. In the next two to three years, we intend to increase this share to 60%. We provide the power industry with complete solutions for power transmission and distribution as well as tailored IT solutions. Partnerships with prominent software houses enable us to offer a complete portfolio of solutions to deregulated power markets.

We are positioning ourselves in independent


online markets via a newly created e-commerce platform that enables us to offer projects and systems worldwide around the clock. E-business also supports our efforts to increase the efficiency of our business processes, further improving customer satisfaction. Technical innovations, excellent quality and outstanding reliability in our product and systems business have given us a strong position. Our goal is now to grow twice as fast as the market, especially in new business fields.

Transportation

The Transportation area comprises two Groups: Transportation Systems and Siemens VDO Automotive AG. Both Groups' products and systems are designed to satisfy our society's need for

ever greater mobility and to meet growing demands for environmental compatibility and improved performance. We are an important driver in the development of new technologies and solutions:

Transportation Systems is a world-leading systems house in the rail industry, and Siemens VDO Automotive is one of the world's largest suppliers of automotive electronics.

Transportation Systems (TS)	
Sales (in billions of euros) 4.0 EBITA (in millions of euros) 186	
<small>Herbert H. Steffen, Group President</small>	


We have reached our goals of achieving margin-oriented growth and improving EVA results. Today, we are one of the world's leading suppliers in all areas of rail transportation, renowned around the globe as an innovator, a systems integrator and a service partner. Our rigorous quality program, our test centers, our modularization and our IT expertise make us a preferred business partner for light rail and mainline rail operators.

We offer our customers innovative solutions and systems in fields like families of modular vehicles for light rail and mainline systems, technology for driverless subways and computer-controlled electronic interlockings, optical sensor systems and GPS-based service and diagnostic concepts. Our expanding service business confirms that our innovations are meeting the needs of the market. We are leveraging synergies throughout Siemens to develop individual products and provide turnkey solutions. We remain far ahead of our competitors in the use of e-business applications for services, maintenance and online marketplaces.

In the past fiscal year, we further developed our business through well-focused portfolio optimizations. Our acquisition of parts of the Czech rail vehicle manufacturer CKD Dopravni Systemy further strengthened our position in Eastern Europe. Locomotive leasing has been transferred to a new company established especially for this purpose, Siemens Dispolok GmbH. Siemens-Duewag-Schienenfahrzeuge GmbH

and Siemens-Krauss Maffei-Lokomotiven-GmbH, both Siemens subsidiaries, are being integrated into our Group. The French subsidiary Matra Transport International was completely taken over and merged with our Rail Automation Division.

Southeast Asia's growing market potential is reflected by the geographic distribution of our sales. Although we are continuing to grow in Europe at the previous high level, expansion is even faster in Asia-Pacific and the Americas.

Siemens VDO Automotive AG (SV)	
Sales (in billions of euros) 5.7 EBITA (in millions of euros) (261)	
<small>Dr. Franz Wressnigg, Group President</small>	

Activities at Siemens Automotive in fiscal 2001 were focused on the merger with VDO. Following U.S. antitrust approval in April 2001, the two companies were merged to form Siemens VDO Automotive AG. Despite an industry-wide slowdown, we again boosted sales and improved our position in all key automotive markets – particularly in the NAFTA and Asia-Pacific regions.

Our competitive advantages include combined expertise in automotive electronics, electrical systems and mechatronics, coupled with a portfolio of innovative products that make vehicles safer, more comfortable, more powerful, more environmentally friendly and more efficient. In the powertrain sector, the merger with VDO has completed our range of products in the areas of engine, transmission and exhaust man-

agement as well as fuel tank systems. The start of series production for common-rail diesel fuel injectors was this year's highlight. With our information, communication and cockpit systems – which enable drivers to manage the flood of data provided in today's cars – we have set industry standards. We will continue to push the strategic reorientation of our development and product portfolio in both the injection and driver information sectors as well as in car body, safety and chassis electronics, concentrating on products that put us in Number 1 or Number 2 market positions worldwide.


A rigorous portfolio review is part of our WIP (World Class Improvement Program) restructuring initiative. The program focuses on tapping additional synergies in research, development and purchasing and on improving capacity utilization at our worldwide production facilities. Besides helping us to achieve a turnaround, WIP will provide the basis for sustainable profitable growth, enabling us to continue expanding our leading position on the world market.

Medical

The Medical area offers a broad spectrum of products, solutions and services for integrated health care. Its offerings

range from innovative technologies for accurate diagnoses and therapies which minimize patient discomfort to services

that optimize processes and increase efficiency in hospitals and doctors' offices.

<p>Medical Solutions (Med)</p>	
<p>Sales (in billions of euros) 7.2 EBITA (in millions of euros) 808</p>	<p>Prof. Dr. Erich R. Reinhardt, Group President</p>

New orders have doubled in the past three years, increasing 60% in fiscal 2001 alone. Our goal is to be the world's most successful solutions provider in the health care industry.

Current trends demand more efficient health care systems. To improve the quality of patient care and reduce costs, we are creating integrated solutions combining innovative products, state-of-the-art information technology and process-oriented services. This strategy is reflected in our new name: Siemens Medical Solutions.

Innovations are crucial for success. Two-thirds of our products are less than three years old. The acquisition of Shared Medical Services and Acuson has helped make our spectrum of products and services unique in the industry. The rigorous implementation of our P³ Program – People, Processes, Products – is continuing to boost our productivity and profitability.

Information technology is opening up additional market segments. Our e.health programs are being extended into the home care sector. At our processing center in Malvern, Pennsylvania, we manage the data of some 1,500 customers and handle over 100 million transactions a day – making us the largest application service provider in the world market.


We have undergone a major transformation – from a product-oriented to a process-oriented enterprise. We now do over 90% of our business outside Germany, gaining substantial market share especially in imaging systems like computed and magnetic resonance tomography and angiography as well as in hearing instruments.

Lighting

The Lighting area specializes in lighting sources and the associated electronic control gear. We focus on general light-

ing solutions, automotive lighting, special photo-optic lamps and display lighting. Owing to our international orienta-

tion, we now generate nearly 90% of our sales outside Germany.

<p>Osram GmbH</p>	
<p>Sales (in billions of euros) 4.5 EBITA (in millions of euros) 462</p>	<p>Dr. Wolf-Dieter Bopst, President</p>

With our lamps, electronic control gear and opto-semiconductors, we have captured a leading position in the world lighting market. We focus on innovative products because – despite higher up-front costs – they generate above-average earnings. Our drive for innovation includes a well-focused expansion of our business in opto-semiconductors, which led us to acquire Infineon Technologies' stake in our joint venture Osram Opto Semiconductors in August 2001. We see the greatest growth potential for light-emitting diodes (LEDs) in the fields of automotive lighting and mobile communications, where miniaturization and long product life are key factors. We have high expectations for the low-power, light-weight organic LEDs used for tiny, easy-to-read displays. Since the special features of most innovative lamps require customized


electronic control devices, our systems business – which combines both elements – is strategically vital for us.

Through strong expansion, we have captured a solid position in all regional markets. We are now focusing on further building up our business in Asia-Pacific and Eastern Europe, where we expect the biggest market growth. At the same time, we are continuing to improve our structures in our traditional markets. We see e-business as an opportunity to optimize our business processes and adapt them to the technical requirements of the Internet. Our North American subsidiary OSRAM Sylvania* is the trailblazer for our e-business activities, already transacting roughly one-third of its business electronically.

Ongoing productivity programs and restructuring measures in manufacturing are the result of our efforts to achieve cost leadership in all product areas via benchmarking. To help optimize our cost structures, we will continue to expand our production activities in China, India, Indonesia, Mexico, Brazil and Eastern Europe. Our acquisition of the Czech components manufacturer HMZ in the fall of 2000 is part of this strategy.

* In the areas of automobile lamps and special products, OSRAM has worldwide rights to the Sylvania trademark. In the area of general lighting solutions, OSRAM owns the rights to the Sylvania trademark in the U.S., Canada and Mexico. SLI, in Europe, owns the trademark rights in all other countries.

Financing

Siemens Financial Services GmbH (SFS)	
Sales (in billions of euros) 0.5 Earnings before taxes (in millions of euros) 158	Dr. Herbert Lohneiß, President and CEO


With 1,500 employees in 30 countries, we specialize in innovative offerings for corporate financing as well as in related risk management. We offer customers an extensive spectrum of financing solutions, including sales and investment financing, treasury and financial services, fund management and insurance services. While our customers are chiefly international industrial and service companies and clients in the public sector, we also serve private customers, especially company employees.

As an international service Group at Siemens, our main focus is on profitable growth with an emphasis on expanding our business with customers outside of Siemens, as well as providing financial services for the Siemens Groups.

Our strategy is based on five key elements: creating and expanding a balanced portfolio of financing and consulting services; concentrating on completely Web-based processes; focusing on existing competencies; emphasizing profitability and efficient risk management; and rigorously orienting ourselves toward customers.

E-finance is one of our most important growth drivers. The focus here is on cash flow in payment transactions, in payment processing and in financing. In factoring, too, we have established SFS as a leading company in the e-finance solutions market with our first integrated B2B financing solution. In addition, we now provide a finance portal for the private investments of Siemens employees.

Real Estate


Siemens Real Estate (SRE)	
Sales (in billions of euros) 1.5 Earnings before taxes (in millions of euros) 213	Prof. Peter Niehaus, Managing Director

In early 2001, we reorganized our activities into three business fields. Our services now comprise real estate development and utilization, portfolio management, and leasing and real estate services. With our new, customer-oriented organization, we intend to achieve sustainable growth in profitability by concentrating more strongly on the external real estate market. Siemens locations in Frankfurt, Munich and Berlin provide good examples of our special focus on real estate development. With our redesign of these locations, we have initiated major urban construction projects.

Our earnings, which reflect our dynamic development, were once again fueled primarily by asset reductions. Our portfolio comprises offices and commercial property covering 47 million square meters of land as well as 19 million square meters of floor space at more than 800 locations. As part of the *top⁺* U.S. Business Initiative, we are implementing a consolidation project in the U.S. with two primary objectives: to concentrate locations in major urban business areas and to raise our market profile.

We are also exploring new approaches to leasing. We have responded to growing demand for short-term property leases by providing flexible lease contracts, offering such arrangements, for example, at our new Siemens Real Estate Office Center near Munich Airport. We are focusing on e-business-supported solutions in the service sector. With our wide range of offerings, we rank among the world's leading corporate real estate companies.

Affiliates


Infineon Technologies AG	
Sales (in billions of euros) 5.7 EBIT (in billions of euros) (1.0)	Dr. Ulrich Schumacher, President and CEO

The strongly cyclical semiconductor industry is currently facing an extremely difficult market situation. Global market volume has declined roughly 30% since last year. The precipitous slump in all technology industries also impacted sales at Infineon in fiscal 2001, resulting in a negative EBITA.

Nevertheless, Infineon remains a company with substance. We were more successful at further cutting costs than our international competitors. We continue to be a leading innovator in many technologies. Current examples of our innovations include the fastest xDSL products on the market, the smallest chips for mobile phones, the most secure smart card ICs, the first switches for 42-volt automotive electrical systems and the most cost-effective memory chips.

During the past fiscal year, we acquired two development companies for network components and sold three non-core businesses. We maintained our market share in memory chips and gained market share in individual segments of the communications and automotive industries.

Our primary focus is now on safeguarding our liquidity and competitiveness through a sweeping cost-saving and restructuring program. Measures will inevitably include workforce reductions and cuts in our investment budget. However, our future-oriented investments in 300-millimeter silicon wafer technology will continue. We will remain focused on our core competencies and are prepared to expand our strategic partnerships if necessary. Our goal is to have Infineon in good shape for the next upswing in the chip market and the future that follows.

BSH Bosch und Siemens Hausgeräte GmbH	
	Dr. Kurt-Ludwig Gutberlet, President

Despite a difficult market environment, BSH Bosch und Siemens Hausgeräte GmbH had a good year. Rigorous cost management, productivity-boosting programs and innovative products helped us increase sales and earnings and gain market share in many European countries. Outside Europe, we profited from strong growth in demand for household appliances, particularly in China and Southeast Asia.

Thanks to its highly innovative and extremely reliable products, BSH is a pacesetter in the household appliance industry. We will continue expanding our business on this basis, with a focus on Internet-ready appliances for the smart house of the future. Many of our products have electronic controls which make possible a greater array of features while substantially cutting operating costs. We will further increase the share of electronics in our products, particularly since our Electronics, Drives and Systems unit gives us a solid position in this sector.

The development of advanced communications technologies is a further focus of our activities. Our e-commerce platform is enabling us to accelerate and optimize communication processes with our commercial partners in Europe.

With a worldwide network of sales and customer service companies, 39 production facilities in 14 countries, and some 36,000 employees, BSH is market leader in Germany and Europe. We also rank among the world's leading suppliers in our market. As the benchmark in our industry, we intend to consolidate and expand this position.

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“The world has changed.
It has seldom been so difficult to make
reliable statements about the future.”

Dear Shareholder,

The Supervisory Board's main task this past year was to focus intensively on the effects the structural and economic changes taking place in the world electrical markets were having on the Company. At five meetings during the course of the year, the Managing Board informed us about the Company's general situation, its key events and corporate plans. Between these meetings, the Managing Board kept us informed about important developments. In addition, as Chairman of the Supervisory Board, I was always kept up-to-date on major topics and decisions.

Upheaval in Information and Communications

Since sales in the Information and Communications segment account for a high percentage of the Company's total sales, we concentrated on these activities at all our meetings. The Information and Communication Networks Group and the Information and Communication Mobile Group, which were earnings leaders in fiscal 2000, were especially hard hit by turbulence on the markets. As a result, the Groups initiated comprehensive reorganization programs, key portions of which have already been implemented.

At our meeting in November 2001, we received a report summarizing once again the current trends on the I&C markets as well as concrete measures to increase profitability and the Managing Board's strategic plans. We are convinced that the correct steps have been taken.

Integration of Atecs Mannesmann underway

We also reviewed the Siemens-Bosch takeover of Atecs Mannesmann AG on several occasions. Following regulatory approval, implementation of the deal was begun in April 2001:

- Bosch is responsible for the Atecs company Rexroth.
- To round off its own activities, Siemens has funneled Dematic into Siemens Dematic AG and VDO into Siemens VDO Automotive AG, and integrated Demag Delaval into the Power Generation Group.

- Zahnradfabrik Friedrichshafen has acquired Sachs. The contractually agreed-upon sale of Mannesmann Plastics Machinery to the investment firm APAX could not be implemented.
- With new partnerships outside of Siemens being sought for the remaining Atecs activities, there are still some items on the agenda.

We are convinced that the companies held by Bosch and Siemens have a promising future despite current problems in their sectors and that partners offering good perspectives will be found for the remaining companies and minority holdings.

Additional areas of focus

At our meeting in November 2000, we received a report on progress at the Transportation Systems Group, previously a loss-maker. Due to favorable market developments but, above all, to an outstanding management performance, a “classic” turnaround has been achieved. Measures at the Group have focused on improving project management, optimizing processes along the entire value chain, significantly reducing costs and, above all, concentrating on innovative projects. Today, Transportation Systems is one of the Siemens Groups with a stable market cycle and prospects for increased profitability.

At our meetings in December 2000 and April 2001, we focused on the development of Siemens Financial Services and Siemens Real Estate. Both units, which were spun off from Corporate Departments to form separate legal entities, are showing solid growth and making increasing contributions to Siemens’ earnings.

In July 2001, the president of Automation and Drives presented an overview of this Group’s activities, which are highly contingent on sector developments. Nevertheless, Automation and Drives has captured an excellent market position in the area of industrial automation through its rigorous innovation initiatives and the successful restructuring of weak divisions. The Group is now better positioned than most of its competitors to weather an economic slowdown.

Company-wide topics and other major issues

The electronic networking of the Company and the full-scale leverage of e-business opportunities were examined at the meeting in November 2000. Substantial progress in these areas has resulted in faster processes and reduced costs.

At our meeting in November 2001, the Managing Board reported on the consolidation of corporate responsibility for e-business, IT infrastructure and the standardization of worldwide business processes in the new Corporate Information and Operations unit.

At our meeting in Budapest in April 2001, we received a report on the outlook in the Central and Eastern European markets. Firmly anchored in these markets, Siemens is participating in their generally positive development with increasing success.

The U.S. is the Company's most important regional market. The Managing Board has launched a sweeping initiative to strengthen the profitability of our American activities. In view of the information presented at our meeting in July 2001, we are convinced that systematic efforts are being made to transform our market success in the U.S. into an earnings success. Due to the recessionary trends in the American economy and the uncertainties arising from the recent terrorist attacks in New York and Washington, further efforts will be required. We will continue to monitor developments closely.

At our meeting in November 2000, we examined the documents provided to the SEC in preparation for listing Siemens stock on the New York Stock Exchange. The conversion of the Company's accounting procedures to the U.S. GAAP standard, the listing in New York in March 2001 and the subsequent adaptation of Siemens' financial reporting were prepared and implemented with a high degree of professionalism.

Supervisory Board meetings

We held five regular Supervisory Board meetings during the fiscal year. Between these meetings, the Presidency of the Supervisory Board maintained close contact with the Managing Board. As one of the three constituted committees on our Board, the Presidency met four times to address matters involving Managing Board personnel and remuneration, Group personnel, corporate strategy and business development, key processes and major issues relating to the final audit and the appointment of independent auditors.

Last fiscal year marked the first time that the Supervisory Board has dealt extensively with quarterly reporting. At our meetings in November and December 2001, we also reviewed in detail the Company's economic development and – together with the independent auditors – the financial statements for fiscal 2001.

The mediation committee, formed pursuant to Article 27, paragraph 3, of the German Codetermination Act, had no occasion to meet during the year. The committee responsible for exercising participation rights, defined in Article 32 of the Act, voted on resolutions circulated to each member and notified the Board of the outcome at subsequent meetings.

Financial statements

Siemens' accounting principles, the annual financial statements of Siemens AG and the consolidated financial statements as of September 30, 2001, as well as the management's discussion and analysis of Siemens AG and of Siemens worldwide consolidated, have been audited and approved without qualification by KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt am Main. The financial statements were prepared according to U.S. GAAP. The independent auditor has confirmed that the financial statements and the management's discussion and analysis fulfill the conditions for exemption from compliance with the rules of reporting stipulated by German law.

We received and examined the above-mentioned documents and the Managing Board's proposal for the use of the net income available for distribution. 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 – discussed them thoroughly at our balance sheet meeting. At this meeting, the Managing Board presented a comprehensive report on the scope and cost of the audit. 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 €1.00 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. Adjusted for the stock split in April 2001 (one additional share issued for every two shares held), last year's dividend was €0.93.

Changes in the Supervisory Board and Managing Board

There were no changes in the Supervisory Board's composition in fiscal 2001, since its members had been elected to a five-year term at the Annual Shareholders' Meeting in 1998. In July 2001, Roland Koch, President of the Information and Communication Networks Group and Member of the Managing Board of Siemens AG, left the Company after nearly 30 years of service. We acknowledged his work in an increasingly difficult environment. At our meeting on November 14, 2001, Prof. Dr. Erich R. Reinhardt, head of the Medical Solutions Group, was appointed to the Managing Board of Siemens AG.

Berlin and Munich, December 5, 2001

For the Supervisory Board



Dr. Karl-Hermann Baumann

Chairman

Preliminary Note

The accompanying consolidated financial statements were prepared for the first time in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP).

In order to comply with § 292a 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 Register and published in the Federal Gazette (Bundesanzeiger), comply with the Fourth and Seventh Directives of the European Community. For the interpretation of these directives we 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, 2001 prepared in accordance with § 292a HGB are being filed with the Commercial Registries of the Berlin-Charlottenburg District Court under the number, HRB 12300, and Munich District Court under the number, HRB 6684.

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, enterprise-wide uniform reporting guidelines and additional

measures, including employee education and training, to ensure that its financial reporting is conducted in accordance with accepted accounting principles. We continually monitor the compliance with these measures and guidelines, and also the functionality and reliability of our internal control system, through an enterprise-wide internal audit process.

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 issued an unqualified opinion.

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	Heinz-Joachim Neubürger
President and Chief Executive	Chief Financial Officer
Officer of Siemens AG	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, 2001 and 2000, and the related consolidated statements of income, cash flow, and changes in shareholders' equity for 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 manage-

ment, 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, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Munich, Germany
November 29, 2001

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Wiedmann	Berger
Wirtschaftsprüfer	Wirtschaftsprüfer

Management's discussion and analysis

To help our shareholders follow our growth and progress, our financial results are prepared in accordance with U.S. GAAP principles using a component model that presents the results for (i) our Operating Groups separately from the results for (ii) the activities of Infineon Technologies AG, (iii) our Financial and Real Estate activities, and (iv) the effects of Eliminations, reclassifications and Corporate Treasury activities.

The four components of Siemens worldwide are as follows:

- **Operations**

This component is defined as Siemens' Operating Groups including corporate headquarters and excluding the other components.

- **Infineon**

Infineon Technologies AG, Munich, is a consolidated subsidiary whose shares are listed on the stock exchanges in Frankfurt and New York. As we have announced, we intend to reduce our holding in Infineon over time.

- **Financing and Real Estate**

Siemens' Financing and Real Estate segments are responsible for the Company's international leasing, finance, credit, and real estate management activities.

- **Eliminations, reclassifications and Corporate Treasury**

The fourth component included in Siemens' financial statements enhances the transparency of the other components by separately presenting the elimination of transactions among Operations, Infineon and Financing and Real Estate and certain reclassifications. This component also includes Siemens' Corporate Treasury activities, excluding those for Infineon.

Previously, eliminations of intracompany transactions plus certain reclassifications were included in Operations, while Corporate Treasury activities were included in Financing and Real Estate. All prior-period financial information has been reclassified to conform with the current-period presentation.

We measure the profitability of our Operations component by EBITA and our Infineon component by EBIT. EBITA is measured as earnings before financing interest, certain pension costs, income taxes, amortization of goodwill and purchased in-process R&D expenses and certain one-time items. We measure the profitability of our Financing and Real Estate component by income before income taxes since interest expense and income is an important source of revenue and expense for this component.

Management's discussion and analysis presents results for fiscal year 2001 and the prior fiscal year. Following a discussion of joint ventures and acquisitions completed in fiscal 2001, we discuss economic value added (EVA) performance and provide an analysis of operating results and income. Also included in Management's discussion and analysis are separate sections concerning our dividend, liquidity and capital resources, customer financing, stock option plans, risk management, and outlook for the period ahead.

Highlights

Fiscal 2001 compared to fiscal 2000

Despite a weakening economic environment throughout fiscal 2001, many of our Operating Groups delivered strong earnings. These include Automation and Drives (A&D), Power Generation (PG), Transportation Systems (TS), Medical Solutions (Med), and Osram. Financing and Real Estate also contributed positive results. Other Operating Groups in key technology sectors were adversely affected by rapidly deteriorating business conditions in their particular industries. These include Information and Communication Networks (ICN), Information and Communication Mobile (ICM), Siemens Business Services (SBS), and Infineon. We took aggressive action to address these conditions by restructuring the capacities of these Groups, which resulted in significant charges. These effects contributed to a negative earnings development for Operations as a whole compared to the previous fiscal year. In this difficult environment, we initiated successful asset management measures and significantly improved our cash flow, particularly in the fourth quarter.

- Siemens earned €2.088 billion in net income in fiscal 2001 including Infineon, special items as well as restructuring and asset write-downs. Prior-year earnings of €8.860 billion included substantial gains from divestments implemented as part of the Ten-Point Program we adopted in mid-1998. As a result, earnings per share were €2.36 compared to €9.97 in the previous year. For all periods presented, earnings per share reflect a stock split, at a ratio of one additional share for every two shares owned, which took effect on April 30, 2001.

- EBITA from Operations was €1.329 billion including restructuring charges and asset write-downs of €1.863 billion. Excluding these charges and write-downs, EBITA from Operations was €3.192 billion. Prior year EBITA was €2.799 billion.
- Net cash from operating activities of Siemens worldwide was €7.016 billion for the year, sharply up from the previous year's level of €6.154 billion despite increasingly difficult market conditions.
- The proposed dividend of €1 per share is comparable on a post-split basis to the prior-year dividend of €0.93 excluding the prior-year bonus dividend.
- Sales for Siemens worldwide increased 12% compared to fiscal 2000, to €87.000 billion. Excluding Infineon, sales increased 15% to €82.256 billion. Positive currency translation effects contributed 1 percentage point to this increase. Setting aside the effect of acquisitions, sales at continuing businesses excluding Infineon grew 11%.
- Infineon, in which we held a 50.4% economic interest at the end of fiscal 2001, recorded a net loss for the fiscal year of €591 million compared to net income of €1.126 billion in fiscal 2000.
- Fourth-quarter net income of Siemens worldwide was a negative €1.098 billion impacted by special items of negative €532 million after taxes. Net income in the fourth quarter of fiscal 2000 was €562 million. EBITA from Operations for the fourth quarter of fiscal 2001 was a negative €130 million including restructuring charges and asset write-downs of €959 million. Excluding these effects, EBITA from Operations was a positive €829 million. Prior-year fourth quarter EBITA was €840 million. Also in the fourth quarter, operating activities provided net cash of €5.857 billion, compared to net cash provided of €2.757 billion in the fourth quarter of fiscal 2000.

Twelve months ended September 30 in millions of €	Siemens worldwide		Siemens excluding Infineon	
	2001	2000	2001	2000
Net income	2,088	8,860	2,351	7,989
Less: Special items (net of taxes)	(2,003)	(6,221)	(2,003)	(6,221)
Net income excluding special items	85	2,639	348	1,768

Net income excluding special items – Fiscal 2001 compared to fiscal 2000

Net income excluding special items adjusts reported net income by removing certain one-time items from results in our Operations segments and Financing and Real Estate segments. We adjust net income in this way to provide a more meaningful comparison between the periods under review. All figures for Siemens worldwide include the results of Infineon.

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

Our largest special item in fiscal 2001 was a €3.459 billion pretax gain as a result of the irrevocable transfer of 93,825,225 shares of Infineon to our domestic pension trust. We also recorded a €484 million gain resulting from Infineon's sale of 60 million of its shares in a capital increase in the fourth quarter. In addition, Infineon increased its capital in connection with acquisitions which resulted in an aggregate gain of €122 million. Siemens did not participate in these capital increases. These items are recorded on our income statement as gains on sales and dispositions of significant business interests. Taken together, these transactions had the effect of reducing Siemens' economic interest in Infineon from approximately 71% as of the end of last fiscal year to 50.4% as of September 30, 2001.

Offsetting these gains are charges totaling €927 million taken in the fourth quarter of 2001 for impairment of goodwill relating to acquisitions made by ICN and A&D. These charges are not included in EBITA from Operations. They include a charge resulting from the impairment of goodwill associated with the acquisition by ICN of Efficient Networks, Inc, a provider of DSL equipment in the U.S. Shortly after the acquisition of Efficient, worldwide demand for DSL products contracted sharply. Additionally, the total charges include an impairment of goodwill primarily associated with the acquisition by A&D of Milltronics, Ltd.

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

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

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

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

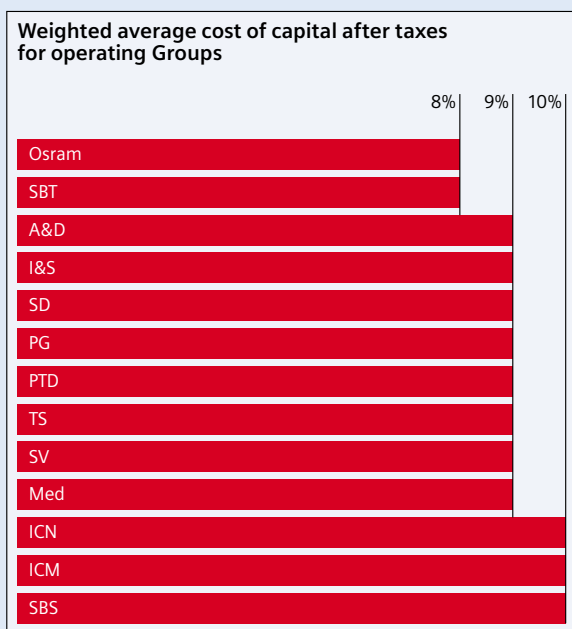
Joint ventures and acquisitions

We completed the following transactions in fiscal 2001:

- In November 2000, Med acquired Acuson Corporation of the U.S. for a purchase price of approximately U.S.\$700 million.
- In January 2001, PG transferred its nuclear power operations into a joint venture with Framatome ANP in exchange for a 34% interest in the joint venture. This investment is accounted for under the equity method.
- In April 2001, Siemens completed the acquisition of a controlling interest of 50% plus two shares in Atecs Mannesmann AG (Atecs), an automotive and automation technology company. In accordance with the purchase agreement, prior to closing we paid €3.1 billion to Mannesmann AG. As of the date of closing, Siemens made a capital contribution to Atecs. The purchase agreement also provides for our acquisition of Mannesmann AG's remaining interest in Atecs, either at the option of Mannesmann during the period from the date of closing through September 30, 2002, or at the option of Siemens during the period from April 1, 2002 through December 31, 2003. We plan to exercise this latter option. The purchase price for the remaining interest in Atecs is between €3.7 and €3.8 billion under both options. We have accounted for the Atecs transaction as a purchase of a 100% interest, at a price of €9.6 billion, using the purchase method of accounting. The purchase price, including the assumption of €2.8 billion of financial debt and pension liabilities, was allocated to the assets acquired and liabilities assumed based on estimated fair values. In connection with the Atecs transaction, we entered into a put option contract giving Siemens the right to sell Rexroth AG (Rexroth), a wholly-owned subsidiary of Atecs, to Bosch GmbH for €2.7 billion. The put option is exercisable from January 2002 through December 31, 2002. We plan to exercise this option.

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

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



EVA performance

During fiscal 2001, Siemens continued to drive its entire management system enterprise-wide to focus on economic value added (EVA). This includes benchmarking all our businesses against their top competitors worldwide and linking management compensation directly to the EVA performance of the Operating Groups as well as Siemens as a whole.

EVA is defined as net operating profit after taxes minus cost of capital, which represents the minimum return on net operating assets. According to this concept, a business creates value only when it recovers at least its cost of capi-

EVA calculation (in millions of €)	Fiscal 2001	Fiscal 2000
Operations		
EBITA from Operations	1,329	2,799
Taxes and other	(332)	(952)
Net operating profit after taxes	997	1,847
EBITA assets	19,670	24,065
Financial adjustments/average calculation ⁽¹⁾	7,744	(4,495)
Average net operating assets	27,414	19,570
Capital cost	(2,524)	(1,796)
EVA for Operations	(1,527)	51
Financing and Real Estate		
Income before income taxes	371	279
Taxes and other	(110)	(94)
Net operating profit after taxes	261	185
Equity	1,790	1,600
Capital cost	(172)	(140)
Financing and Real Estate⁽²⁾	148	213
Siemens excluding Infineon	(1,379)	264
EVA for Infineon	(1,368)	609
Siemens worldwide excluding special items	(2,746)	874
Special items, net of taxes	2,003	6,221
Siemens worldwide	(743)	7,095

⁽¹⁾ The term "net operating assets" is generally the same as EBITA assets for Operations except for the effects of financial adjustments and the fact that full-year net operating assets are calculated as the average total of four fiscal quarters with a time lag of one quarter.

⁽²⁾ Includes EVA for eliminations, reclassifications and Corporate Treasury

tal and furthermore delivers EVA improvements in line with capital market requirements. Because the three major components of Siemens – Operations, Infineon, and Financing and Real Estate – are fundamentally different from each other, we adjust our calculations of EVA accordingly. We use an “Operations Concept” for Operations and Infineon, and a finance concept known as RORAC (return on risk-adjusted capital) for Financing and Real Estate. This enables us to use EVA as a consistent management metric while leaving business-specific value drivers transparent. The EVA for Siemens worldwide is the sum of the EVA for the three components.

Siemens worldwide excluding special items realized negative EVA of €2.746 billion in fiscal 2001 compared to positive EVA of €874 million in fiscal 2000. Excluding Infineon, the comparable numbers are a negative €1.379 billion and a positive €264 million, respectively. Including the effects of special items, EVA was a negative €743 million compared to a positive €7.095 billion in the prior year.

Segment information analysis – Fiscal 2001 compared to fiscal 2000

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

Operations

Information and Communications

Information and Communication Networks (ICN) was affected by substantial cut-backs in capital spending by telecom operators for telecommunications and networking products due to financial difficulties in these sectors. In this challenging environment, ICN's EBITA for the fiscal year was a negative €861 million, including restructuring charges and asset write-downs of €1.059 billion. Excluding these effects, EBITA at ICN was €198 million. EBITA in fiscal 2000 was €686 million, which included €204 million in nonrecurring gains from the sales of investments and real estate. Both fiscal 2000 and fiscal 2001 included approximately €120 million in gains on shares of start-up companies.

The restructuring charge is part of an overall plan to cut approximately 10,000 positions in manufacturing, sales and other functions and significantly reduce the number of production facilities. In fiscal 2001, the plan resulted in charges primarily for an employee severance charge of €387 million which is expected to be paid out in fiscal 2002. ICN expects to incur additional charges to complete this plan during the first half of fiscal 2002. Asset write-downs unrelated to the restructuring plan involved accounts receivable, inventories, and venture capital investments. Write-downs of accounts receivable totaled €330 million, partly related to a major U.S. customer, Winstar Communications. Inventory write-offs were €173 million and the Group also wrote down €169 million primarily in venture capital investments.

Margin erosion and pricing pressures impacted earnings throughout the Group. While the Wireline Networks Division remained strongly profitable, ICN's other major

divisions posted losses involving the charges and write-downs noted above. Unisphere Networks Division substantially narrowed its loss compared to fiscal 2000.

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

Information and Communication Mobile (ICM)

increased profitability in its infrastructure business and addressed sharply slower market growth in its mobile phone business with a rapid realignment in the second half of the fiscal year. EBITA of negative €307 million includes asset write-downs of €441 million, which were largely confined to the Mobile Phones Division in the third quarter. Excluding the write-downs, EBITA was a positive €134 million compared to €718 million a year earlier. The largest item within the €441 million was an inventory write-off of €213 million. Other asset write-downs totaled €228 million, including a €69 million write-down of ICM's investment in the German mobile commerce software company, Brokat AG, and a €71 million write-down incurred in connection with the closing of ICM's U.S. Opuswave operation.

The Mobile Networks Division strongly increased its EBITA contribution to €435 million for the year, and increased sales by 52% despite a slowing market. The Mobile Phones Division had EBITA of negative €540 mil-

lion, approximately half of which relates to asset write-down charges compared to positive EBITA of €632 million a year earlier. The Division sold more than 28.7 million units compared to 23.9 million units in the previous fiscal year. Rigorous cost-cutting initiated in the third quarter helped the Division reduce its loss to €22 million in the fourth quarter. ICM's Fujitsu Siemens joint venture contributed a modest profit and thus reversed its loss in fiscal 2000. Sales for ICM in the fiscal year grew 27%, to €11.299 billion. Orders of €11.866 billion were 14% higher than fiscal 2000. EBITA assets decreased to €2.623 billion from €2.876 billion, despite significant sales growth principally due to successful asset management initiatives which led to a reduction in working capital. Due to negative earnings, however, EVA was negative for the year.

EBITA at **Siemens Business Services (SBS)** was a negative €259 million including fourth-quarter restructuring charges and asset write-downs totaling €242 million. Excluding these effects, EBITA was a negative €17 million compared to a positive €70 million a year earlier. Restructuring charges totaling €196 million in employee severance costs arose from the elimination of 2,200 positions primarily in Europe, as part of a program to address deteriorating economic conditions in the region. The Group expects to pay out substantially all of this charge in fiscal 2002. Asset write-downs of €46 million related to accounts receivable and venture capital investments. Fiscal 2001 EBITA includes loss provisions relating to two significant business process outsourcing contracts totaling €192 million. Results in fiscal 2001 and 2000 include gains on investments of €44 million and 54 million, respectively.

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

Automation and Control

Automation and Drives (A&D) delivered strong double-digit growth in earnings, sales and orders, based on excellent performance by the Group's three largest divisions: Industrial Automation Systems, Low Voltage Controls and Distribution, and Motion Control Systems. EBITA increased to €981 million, €116 million higher than in fiscal 2000, and EBITA margin reached 11%. Acquisitions and higher business volume in existing businesses pushed EBITA assets up slightly, but the faster growth in earnings enabled A&D to further increase its positive EVA. In fiscal 2001, sales rose 13% to €8.947 billion and orders climbed 11% to €9.065 billion, compared to €7.943 billion and €8.163 billion in fiscal 2000. Slowing market demand began having an effect in the fourth quarter, as new orders slid 5% compared to the comparable quarter of fiscal 2000.

EBITA at **Industrial Solutions and Services (I&S)** fell to €97 million from €111 million in fiscal 2001. EBITA margin declined slightly to 2.1%. Mid-year weakness in the Group's project-related divisions and lower margins in its petrochemical business and its industrial services business were the primary factors in reducing the Group's profitability year-over-year. Sales rose 8% to €4.563 billion from €4.226 billion a year earlier, while orders rose 11% to €4.881 billion from €4.401 billion on increased volume at the Industrial Services Division. EBITA assets increased by €118 million, due to higher receivable and contract inventories, to €493 million. Coupled with reduced earnings, this resulted in a lower EVA.

Siemens Dematic (SD) was formed during the year via a third-quarter merger of the existing businesses of Siemens Production and Logistics Systems (PL) and Dematic AG (part of the Atecs acquisition). EBITA was a negative €59 million compared to a positive €196 million for PL in fiscal 2000. Profitability at the Electronics Assembly Division was reduced by a sharp slow-down in the

telecommunications and other electronics manufacturing industries. Negative results at the Postal Automation Division and contract loss provisions of €66 million primarily at the Material Handling Automation Division combined with €29 million in integration and other costs to further reduce EBITA. EBITA margin moved from 11% for PL in fiscal 2000 to a negative 2.3% for SD in fiscal 2001.

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

Siemens Building Technologies (SBT) recorded EBITA of €132 million, compared to €297 million in fiscal 2000. EBITA margin fell to 2.4%, and the Group's EVA turned negative. Margin erosion and certain one-time charges primarily at the Fire and Safety Division in the U.S., together with rationalization costs at the Building Automation and Fire and Safety Divisions, combined to reduce the Group's profitability. Acquisitions in Europe, the U.S. and Brazil helped increase sales and orders by 12% and 10%, respectively, to €5.518 billion and €5.549 billion. However, SBT's EBITA assets remained flat at €2.276 billion.

Power

EBITA at **Power Generation (PG)** surged from €66 million in fiscal 2000 to €634 million in fiscal 2001. EBITA margin rose 6.5 points, to 7.4%, and the Group's positive EVA increased substantially. The Fossil Power Generation Division drove the Group's profitability, primarily on strong demand for its gas turbines in the U.S. Sales grew 10% to €8.563 billion and orders jumped 30% to €12.219 billion, also reflecting the robust gas turbine business in the U.S. In the second quarter, the Group's nuclear power business was contributed to a joint venture with Framatome in exchange for a 34% interest in the venture. This interest is accounted for using the equity method. In the third quarter, PG acquired Demag Delaval as part of the Atecs acquisition. On a comparable basis, sales grew 24% compared to fiscal 2000, including a positive currency translation

effect of 4%, and orders grew 40%. The Group's order backlog reached €26 billion at year-end including €11 billion of reservations. Higher customer prepayments enabled the Group to reduce its EBITA assets to a negative €1.003 billion, compared to a positive €178 million at the end of fiscal 2000.

Power Transmission and Distribution (PTD)

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

Transportation

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

Siemens VDO Automotive AG (SV) is the new name of Siemens' automotive businesses, which merged with the VDO automotive operations of Atecs in the third quarter. SV recorded an EBITA of negative €261 million, including €90 million in asset write-downs split between losses on the divestment of the Group's wiring harness business and write-downs of investments. EBITA excluding these charges was a negative €171 million compared to a positive €89 million a year earlier due to pricing pressures and continued significant development costs for innovative new technologies including advanced diesel injection systems as well as communications and multimedia systems. Sales and orders rose 49%, to €5.702 billion, compared to fiscal 2000, primarily due to the merger. The VDO Automotive businesses contributed €1.686 billion to both sales and orders for the year, while sales and orders grew slowly for the former Siemens Automotive businesses. EBITA assets, which include goodwill from the VDO acquisition, jumped to €3.691 billion from €937 million at the end of fiscal 2000, pushing EVA further into negative territory.

Medical

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

Lighting

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

Corporate, eliminations (Operations) and Reconciliation to Financial Statements

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

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

Corporate headquarter expenses increased to €910 million in fiscal 2001 from €827 million in 2000, reflecting an increase of €252 million relating to activities in

various central projects, particularly the Company's e-business initiatives, partly offset by a decline in central personnel-related expenses associated with the Company's employee stock purchase program.

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

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

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

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

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

Reconciliation to Financial Statements. Other interest expense increased in fiscal 2001 as a result of higher borrowings to fund Operations. Goodwill amortization and IPR&D expenses increased as a result of acquisitions in fiscal 2000 and 2001, primarily Atecs and SMS. Gains on sales and dispositions of significant business interests and other special items are discussed on page 48 under "Net income excluding special items."

Infineon

Infineon's EBIT was a negative €1.024 billion in fiscal 2001, compared to a positive €1.670 billion last year. Sales decreased to €5.671 billion from €7.283 billion in fiscal 2000. Net capital employed increased to €6.471 billion compared to €5.709 billion at the end of the preceding fiscal year.

Additional financial information is available from Infineon Technologies AG in its Annual Report and at www.infineon.com under Investor Information/Reports & Financials.

Financing and Real Estate

Siemens Financial Services (SFS) increased its income before income taxes €80 million year-over-year, to €158 million. Gains on the sale of equity stakes held by Siemens Project Ventures in India and the U.S. contributed €45 million of the increase. These gains helped further improve the Group's positive EVA. Higher interest income from the factoring of receivables and the Group's growing leasing business was offset by higher loan provisions and increased administrative expense, resulting in part from the acquisition of Schroder Leasing Ltd. in the prior year. Sales climbed to €481 million, 36% higher than in fiscal 2000. Sales primarily represent lease revenues from operating leases, and do not reflect the bulk of the Group's business in capital leases and other financing activities. Total assets increased to €9.363 billion, 10% higher than at the end of fiscal 2000, due to increased receivables in the leasing business of the Equipment Sales Financing Division.

Income before income taxes at **Siemens Real Estate (SRE)** increased 6% to €213 million. As in fiscal 2000, a significant part of the earnings resulted from gains on the dispositions of real estate assets, amounting to €117 million as compared to €111 million in fiscal 2000. The Group generated most of its remaining pretax earnings from rental income related to its real estate management and lease administration activities. Of the total sales of €1.542 billion in fiscal 2001, more than 75% relates to rental income, with the balance composed primarily of sales from facilities services. The 9% increase in total sales results in part from increased rentals following SRE's assumption of control over additional Siemens real estate and increased demand. Total assets declined 3%.

Consolidated statements of income – Fiscal 2001 compared to fiscal 2000

The following discussion adheres to our component model of reporting and includes an analysis of the income statement organized by component: Operations, Financing and Real Estate, and Eliminations, reclassifications and Corporate Treasury. A detailed discussion of Infineon's income statement is available in the Infineon AG Annual Report for fiscal 2001 and at www.infineon.com under Investor Information/Reports & Financials.

Operations

Net sales in fiscal 2001 totaled €82.427 billion, an increase of 15% compared to fiscal 2000. The acquisitions of Shared Medical Systems Corp. (SMS), Acuson, Efficient Networks, Atecs Mannesmann AG and other businesses contributed approximately €3.5 billion in additional sales. Every business area contributed to the positive sales trend, with ICN, ICM, A&D and PG leading the Group contributions. Revenues were also affected positively by foreign currency effects of 1%.

As a percentage of revenue, gross profit on sales decreased slightly to 27.0% from 27.5%. Higher margins at PG, TS and Med were offset by restructuring charges and asset write-downs including severance charges and inventory write-downs as well as by contract loss accruals primarily at ICN, ICM, SBS and SD, and margin erosion at ICN and ICM. See the analysis above for further comments on the individual Groups.

Research and development expenses for the Operations component exclude purchased IPR&D. These expenses are reported together with goodwill amortization as a line item below EBITA from Operations. R&D increased 17.5% to €5.427 billion in fiscal 2001. R&D spending represented 6.6% of sales, 0.1 percentage points more than in the prior fiscal year. The increase reflects our ongoing R&D efforts in a wide variety of areas, including higher spending on the development of network products for UMTS wireless technologies at our ICM Group and continued spending on IP convergence products at ICN. Expansion of research and development programs at SV and Med also contributed to the increase.

Marketing, selling and general administrative expenses totaled €15.559 billion, a 16.7% increase compared to fiscal 2000. This figure represents 18.9% of sales, an increase of 0.3 percentage points over the prior year. The majority of the increase was contributed by ICN and ICM, reflecting higher accounts receivable provisions, including those related to Winstar Communications, as well as increased advertising costs at ICM.

Other operating income (expense), net from operations decreased to a negative €118 million compared to a negative €13 million in fiscal 2000. The current period includes higher amortization expense of intangibles primarily related to the Atecs acquisition and losses on the divestment of a business at SV.

Income from investments in other companies decreased by €334 million to an expense of €24 million, due primarily to a €209 million loss on the sale of a centrally managed investment. Also included in fiscal 2001 are additional charges and expenses resulting from the write-down of venture capital and equity investments at ICN and SV. In contrast, fiscal 2000 includes €161 million in gains on the sale of investments at ICN.

Income from financial assets and marketable securities in fiscal 2001 was a positive €263 million. This includes principally €420 million in gains on sales of available for sale securities offset by €184 million of write-downs of marketable securities, particularly Brokat AG, that suffered a material decline in value which we have determined to be other than temporary. Income from financial assets and marketable securities in fiscal 2000 was a positive €832 million. This includes principally €692 million in income on marketable securities classified as trading and €174 million of gains on sales of available for sale securities. Subsequent to the contribution in March 2000 of the trading portfolio to the domestic pension trust, the Company no longer maintains a trading portfolio.

EBITA from Operations in fiscal 2001 decreased to €1.329 billion from €2.799 billion in fiscal 2000, reflecting in large part charges for restructuring and asset write-downs. As a result, EBITA margin decreased to 1.6% compared to 3.9% in fiscal 2000.

Other interest income (expense), net increased to an expense of €304 million compared to an expense of €220 million in fiscal 2000, due primarily to interest on a liability relating to our acquisition of Atecs and interest on other financial indebtedness.

Goodwill amortization and purchased IPR&D expenses of Operations totaled €665 million in fiscal 2001 compared to €253 million in fiscal 2000. The increase reflects the goodwill amortization and IPR&D expenses relating to Acuson, acquired in November 2000, and Atecs and Efficient, acquired in April 2001.

Gains on sales and dispositions of significant business interests include the gain resulting from the irrevocable transfer of Infineon shares into our domestic pension trust, as well as a gain from an additional capital offering by Infineon as described below in "Siemens Worldwide." Other special items include goodwill impairments related to Efficient and Milltronics, and the write-down of inventories and assets associated with the contract cancellation in Argentina discussed above in "Net income excluding special items."

Financing and Real Estate

Sales from Financing and Real Estate increased 14% to €2.016 billion compared to fiscal 2000. The increase is predominantly attributable to the Equipment Sales Financing Division at SFS and additional real estate property leases at SRE.

Other operating income (expense), net was €143 million in fiscal 2001 compared to €245 million in 2000. Both years included gains on the disposal of real estate. For fiscal 2001, interest income was €68 million, which represents an increase of €65 million as compared to 2000. This increase resulted from higher volumes in equipment leasing and from sales of receivables. As a result, income before income taxes increased to €371 million compared to €279 million in fiscal 2000.

Eliminations, reclassifications and corporate treasury

This component of Siemens worldwide includes eliminations of activity conducted between the other three components: Operations, Infineon, and Financing and Real Estate. (For definitions of these components, see page 47). In practical terms, these eliminations primarily concern transactions between the Operations and Financing and Real Estate components. To the extent that Infineon provides products or services to Operations, that activity is eliminated here as well.

This component also includes reclassification of financial items, which are associated with Operations but not included in EBITA of Operations. We make these reclassifications in our Consolidated Statements of Income to enable increased transparency in reporting results for Operations. Examples of such reclassifications in fiscal 2001 include €258 million into cost of goods sold related to a write-down of assets associated with a centrally managed project in Argentina, €126 million in IPR&D related to the acquisitions of Acuson, Atecs and Efficient which was reclassified as research and development expenses for Siemens worldwide, and €927 million in goodwill impairments primarily related to the acquisitions of Efficient and Milltronics reclassified as other operating expense for Siemens worldwide.

Finally, this component also reflects the results of intra-Siemens activity by our Corporate Treasury, which provides corporate finance and treasury management services to our Operations component (excluding Infineon Technologies AG) and to our Financing and Real Estate component.

Siemens worldwide (including Infineon)

New orders in fiscal 2001 rose to €92.528 billion, 11% or €9.102 billion higher than in fiscal 2000. Orders in Germany increased 5% to €18.921 billion from €18.043 billion in fiscal 2000. International orders rose faster, from €65.383 billion a year ago to €73.607 billion in fiscal 2001, an increase of 13%. Sales for the fiscal year climbed 12% to €87.000 billion. Sales in Germany increased by 1% to €19.144 billion, while international sales rose 16% to €67.856 billion. International business now accounts for almost 80% of Siemens' total volume.

Gross profit decreased by 1.2 percentage points to 26.6% in fiscal 2001. The effects of Operations, Financing and Real Estate and Eliminations, reclassifications and Corporate Treasury on gross profit are discussed above. In addition, gross profit for Siemens worldwide was negatively affected by the significant decrease in gross profit at Infineon.

Gains on sales and dispositions of significant business interests for the fiscal year were €4.238 billion. Included in this amount was a €3.459 billion pre-tax gain as a result of the irrevocable transfer of 93,825,225 shares of Infineon to our domestic pension trust. We also recorded a €484 million gain resulting from Infineon's sale of 60 million of its shares in a capital increase in the fourth quarter. In addition, Infineon increased its capital in connection with acquisitions which resulted in a gain of €122 million. Siemens did not participate in these capital increases. Taken together, these transactions had the effect of reducing Siemens' economic interest in Infineon from approximately 71% as of the end of last fiscal year to 50.4% as of September 30, 2001.

As described in "Liquidity and Capital Resources" below, with the worldwide decline in equity markets, Siemens' worldwide pension plans experienced a significant change in their funding status in fiscal 2001. Primarily as a result of the decline in funding status, net periodic pension cost in fiscal 2002 will increase.

The effective tax rate on income for fiscal 2001 was 29%, which was positively impacted by the tax-free sale of a part of our interest in Infineon. In fiscal 2001, lower tax rates mandated by the tax reform passed in Germany in October 2000 resulted in an one-time reduction of €222 million in income tax expense after adjustment of Siemens' deferred tax balances at October 1, 2000.

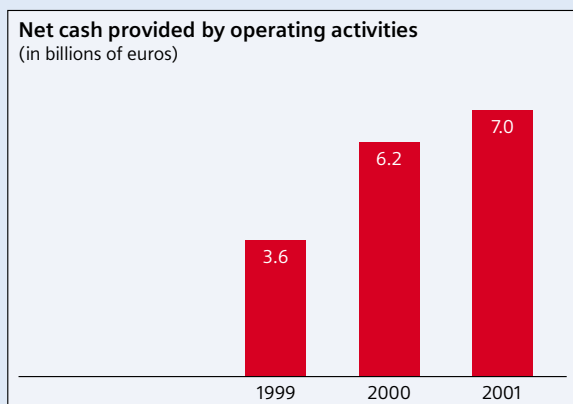
Dividend

Siemens AG, the parent company of all businesses discussed in this report, recorded a net income under German accounting principles of €899 million for fiscal 2001, compared to €1.927 billion in the previous year.

At the Annual Shareholders' Meeting scheduled for January 17, 2002, the Managing Board, in agreement with the Supervisory Board, will submit the following proposal: to pay €1.00 per share as a dividend, which aggregates to a total payout of €888 million. This proposed dividend is comparable in amount to the prior year dividend of €0.93 on a post-split basis excluding the prior-year bonus dividend.

Liquidity and capital resources

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.



Cash Flow

Net cash provided by the operating activities of the **Operations** component for fiscal 2001 totaled €5.885 billion compared to €4.555 billion for fiscal 2000. Significant improvements in asset management, particularly management of receivables and other working capital elements especially in the fourth quarter, increased cash flow despite the decrease in net income. Net income in both years includes gains on sales and dispositions of significant business interests, described above. These gains, along with the proceeds of the sales, are eliminated from net cash provided by operating activities and included in net cash provided by investing activities. The increase in depreciation and amortization reflects primarily the goodwill impairments described above. The prior year includes adjustments for non-cash gains on trading securities. The increase in inventories was significantly lower than in the prior year, while accounts receivable decreased more than in fiscal 2000 and accounts payable increased. In addition, other current liabilities increased significantly as a result of higher billings in excess of costs and related advances.

Net cash used in investing activities within Operations was €4.519 billion, compared to net cash provided of €1.670 billion in fiscal 2000. The prior year included proceeds from sales and dispositions of significant business interests totaling €9.562 billion. Cash used in acquisitions in the current year includes a repayment of approximately €1 billion to Robert Bosch GmbH as a result of the revised acquisition structure for Atecs, €1.6 billion for the acquisition of Efficient Networks, and €780 million for the acquisition of Acuson. Investments in property, plant and equipment also increased. The prior year includes €2.449 billion used in the purchase of investments, primarily the initial payment for the acquisition of Atecs. The prior year includes cash used in acquisitions for the purchase of SMS. Cash was provided in the current year from the sale of marketable securities as well as the sale of an investment in a domestic equity and debt security fund, the latter of which generated proceeds of approximately €2.6 billion.

Net cash provided by the operating activities of **Infineon** was €211 million, compared to €2.080 billion in the prior year, primarily due to the net loss of €591 million in fiscal 2001 compared to net income of €1.126 billion in the prior year. Net cash used in investing activities of Infineon was €1.813 billion, compared to €2.327 billion in fiscal 2000 reflecting an increase in investments in property, plant and equipment offset by sales of investments and marketable securities in the current year.

Net cash provided by the operating activities of our **Financing and Real Estate** component was €654 million compared to €1.155 billion in fiscal 2000. This reflects a net increase in working capital, primarily due to an increase in other current assets.

Net cash used in investing activities in Financing and Real Estate was €870 million compared to €2.367 billion in the prior year, reflecting reduced incremental sales of receivables to SFS by Operations. Net proceeds from the

sale of trade receivables of €866 million includes the sale of approximately €750 million in accounts receivable via the issuance of asset-backed commercial paper in a market standard transaction to third party financial market participants under our SieFunds program (discussed below). This transaction further enhances SFS's ability to manage its overall funding position. These sales of receivables were largely offset by an increase in third-party financing receivables at SFS. For Siemens worldwide, proceeds from the sale of trade receivables are reclassified from investing activities to operating activities. Proceeds generated from the sale of accounts receivable to SFS by our Operating Groups are eliminated for Siemens worldwide under (increase) decrease in accounts receivable.

Net cash provided by operating activities of **Siemens worldwide** totaled €7.016 billion compared to €6.154 billion for fiscal 2000. Net working capital (defined as the change in current assets and liabilities) provided €4.490 billion in fiscal 2001 compared to €1.868 billion in fiscal 2000. This increase was driven primarily by a reduction in accounts receivable and the sale of trade receivables.

Net cash used in investing activities of Siemens worldwide reflects €1.475 billion in proceeds from the issuance of Infineon shares in July 2001. This issuance additionally resulted in a decrease in Siemens' ownership percentage in Infineon.

Net cash used in financing activities for Siemens worldwide was €95 million compared to net cash used of €1.174 billion in fiscal 2000. The decrease in cash used was driven by the June 2001 issuance of two bonds with a total volume of €4.0 billion shown in Corporate Treasury primarily associated with refinancing in the Financing and Real Estate businesses. This was partially offset by repayment of short-term debt of €976 million and the payment of dividends of €1.412 billion, which included an amount of €823 million in regular dividends and an amount of €589 million as a bonus dividend. For more information on the bond issuance, see the discussion in "Capital Resources and Capital Requirements" below.

For Siemens worldwide, total net cash provided by operating activities of €7.016 billion, less net cash used in investing and financing activities of €5.981 billion, plus currency translation effects, resulted in a €940 million increase in cash and cash equivalents, to €7.802 billion.

Capital Resources and Capital Requirements

Siemens' overall financing policy reflects its commitment to a strong financial profile. We maintain a range of funding sources and high-volume backup facilities with a number of banks which operate on an international basis. For example, we have available commercial paper programs of U.S.\$1.6 billion and €1.5 billion in the U.S. dollar and euro markets, respectively, as well as a medium-term note program of €3.5 billion in Europe. At the close of fiscal 2001, the amount outstanding under the commercial paper and medium-term note programs totaled approximately €2.0 billion. The backstop facilities at our disposal include U.S.\$2.0 billion provided by a syndicate of international banks and an aggregate of €1.4 billion provided by three domestic banks.

Siemens constantly monitors funding options available in the capital markets as well as trends in the availability and cost of such funding, with a view to ensuring an appropriate overall funding situation. In June 2001, we issued bonds with a total volume of €4 billion. These bonds were issued in two tranches of €2 billion each, with a 5-year and 10-year maturity, respectively. The annual coupon for the five-year tranche is 5%, and for the ten year tranche, 5.75%. The five-year tranche matures on July 4, 2006 and the ten-year tranche matures on July 4, 2011. A portion of the borrowed funds was used to repay short-term liabilities and refinance outstanding debt due in the current and following calendar year.

Our Financing and Real Estate businesses are also key contributors to our financial management activities. In fiscal 2001, SFS successfully established structures that allow Siemens to raise funding either by issuing asset-

backed securities via the multi-seller, multi-currency SieFunds conduit sponsored by SFS, or alternatively by selling receivable portfolios to banks or other financial market participants. Siemens provides liquidity lines for SieFunds. Liquidity lines are provided for internal and external transactions. In external transactions, liquidity is generally syndicated up to a certain percentage.

In view of weakening economic growth in many of our regional and global markets, we initiated a series of measures in the third quarter of fiscal 2001 to improve working capital management and increase our cash flows. While asset management is already a fundamental component of our company-wide emphasis on EVA, we have implemented an additional management incentive program to further improve working capital management and increase liquidity.

As a separate, publicly listed company, Infineon manages its capital resources separately from Siemens and, as a consequence, according to its own independent requirements and business objectives.

Standard & Poor's and Moody's Investors Service rate our long-term corporate credit AA and Aa3, respectively. Their ratings for our short-term corporate credit and commercial paper are A-1+ and P-1, respectively.

We believe that cash and cash equivalents as well as our overall funding options give us adequate flexibility to meet both our short-term and long-term financial obligations and to execute our spending programs as planned in line with current market conditions. A final net payment of approximately €1 billion for the Atecs acquisition is scheduled for calendar year 2002 upon the purchase of the remaining interest. We have approximately €2.6 billion of debt including commercial paper that is scheduled to become due within the next year.

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

In fiscal 2001, Siemens' pension plans experienced significant changes in their funding status as a result of the significant declines in the value of plan assets resulting from a worldwide decline in equity markets. The funding status at September 30, 2001 has resulted in the recognition of a minimum pension liability of €3.994 billion (net of tax) that has been recorded against accumulated other comprehensive income as a reduction of shareholders' equity and may result in future funding requirements.

Shareholders' equity was €23.812 billion on September 30, 2001, down from €28.480 billion on September 30, 2000. This is mainly due to the charge taken to other comprehensive income described above. In the first quarter of fiscal 2001, we issued and repurchased 3 million shares (4.5 million after stock split) to be used for issuance under the stock purchase plan and the special bonus program for our employees. These shares were reissued to our employees in Germany in the third quarter. On February 22, 2001 Siemens shareholders approved a stock split (one additional share for two existing shares) of the common stock. This stock split was effective on April 30, 2001.

Our shareholders have given us authorization to repurchase up to 10% of our outstanding shares at any time until August 22, 2002. We have no immediate plans to exercise this authorization.

Customer financing

The following table presents our customer financing commitments at September 30, 2001 (in billions):

in billions of €	At September 30, 2001		
	Total loans and guarantees	Loans	Guarantees
Approved commitments			
Utilized	1.7	1.0	0.7
Not utilized	0.8	0.6	0.2
Commitments under negotiation	0.8		
Total	3.3		

Market demand and industry practices, particularly in the telecommunications equipment area, require Siemens increasingly to assist customers in arranging financing from various third-party sources, including export credit agencies, in order to be awarded supply contracts. The Company also provides direct vendor financing and grants guarantees to banks in support of loans to Siemens customers. Siemens may enter into a combination of the above arrangements. Siemens evaluates such financing requirements on a very selective basis and has forgone and will continue to forgo new business contracts if the financing risks are not justifiable.

According to our credit approval process, the Corporate Executive Committee of the Managing Board must approve all customer financing projects of the Operating Groups that exceed €25 million. In certain countries we use an even lower threshold of €5 million. In reviewing requests for such financings, which generally carry a substantially higher risk element than is incurred in the ordinary course of our business, we take into account various business aspects as well as financial risk factors. The financial risk factors are analysed under a comprehensive standard risk assessment model comparable to those used by international banks. Such models are primarily driven by the rating of the customer. Absent a rating, we internally assess the credit-worthiness of the customer and the feasibility of the particular project, provided the cash flow of the project will be the primary source for the debt service. Independent of the Operating Groups, SFS conducts this risk assessment in support of the decision-making role of the Corporate Executive Committee. The Operating Groups retain overall business responsibility for such financing arrangements, which impact their EBITA asset base.

Currently approved and contractually committed financing totals approximately €2.5 billion relating primarily to projects at ICN and ICM. For comparison, current and noncurrent accounts and loans receivable totaled €23.7 billion on September 30, 2001. Of the total of €2.5 billion, €1.7 billion has been utilized either by providing supplier credits (approximately €1.0 billion) or in the form of guarantees extended by Siemens to banks in support of their loans to Siemens' customers (approximately €700 million). The largest exposures before taking provisions into account are financings to Telecom Asia Corp. Public Company Ltd., Thailand (€338 million), which was rescheduled in 1999, and a financing to Winstar Communications, Inc., U.S. (€218 million) which is in Chapter 11 proceedings. We have established sufficient provisions related to the Winstar financing.

Also included in the €2.5 billion total is approximately €800 million which has been approved for customer financing but has not yet been utilized. Included in this amount are commitments to provide financing for two UMTS wireless network projects along with NEC Corp., Japan: Retevisión Móviles S.A., Spain, (Amena) (approximately €152 million); Hutchison 3G Limited, Great Britain (approximately €178 million). Also included is a commitment related to Telemar Brazil (approximately €175 million).

Additionally, €0.8 billion of customer financing projects are approved in principle but are still under negotiation, including UMTS financing of approximately €350 million to companies associated with Deutsche Telekom AG.

Revenue and income for projects financed directly or indirectly by Siemens are recognized if the credit quality as evidenced by the customer's rating or by the credit analysis performed by SFS meets certain parameters. Such parameters are equivalent to a minimum of single B rating category as awarded by rating agencies or based upon the ability to sell the financing without recourse to Siemens in the financial markets. Provisions are also established considering the specific credit risks of certain countries. Additionally, provisions are established on an individual basis taking into account the credit-worthiness of the customer and the characteristics of the project being financed. The provision levels are regularly reviewed. As a result of such review activity, we believe we have established appropriate provisions for the above financings.

Stock option plans

At the Annual Shareholders' Meeting in 2001, shareholders authorized Siemens to establish the 2001 Siemens Stock Option Plan. The new plan makes available up to 55 million options representing approximately 6.2% of the total shares outstanding. Compared to the 1999 Siemens Stock Option Plan, the number of eligible recipients is significantly larger. The options grants are subject to a two-year vesting period, after which they may be exercised for up to three years. The exercise price is equal to 120% of the reference price, which corresponds to the average opening market price of trading in the stock of Siemens AG during the five trading days preceding the date of stock option grant. The exercise price is also the performance target. The design of the plan allows Siemens the option to determine whether to settle the options in shares or in cash. 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.

In fiscal 2001, we made option grants under the existing 1999 Siemens Stock Option Plan to approximately 1,513 key executives, totaling 3,260,391 shares reflecting the three-for-two stock split approved by shareholders effective April 30, 2001, setting the strike price at €86.23 per share and the commencement of the vesting period at November 24, 2000. The strike price before reflecting the stock split is €129.35.

Risk management

Within its worldwide activities in the electrical engineering and electronics industry, Siemens is exposed to a number of risks that arise in the ordinary course of its business. We have described our risk management system and all the risks that we consider material below.

Our risk management policy is to take advantage of opportunities while taking on only those risks that are necessarily associated with creating economic value. Risk management is therefore an integral part of our business processes and decisions.

The risk management policy is governed by the Managing Board and executed by the Groups' management in line with our organizational and accountability structure. Each operating unit or business entity is accountable for managing the risks associated with its regional or worldwide business.

To measure, monitor and manage our exposure to risk, we use a variety of management and control systems, including an enterprise-wide strategy and planning process. The business targets and risk control measures are monitored during the year through our existing control systems and processes. In this manner, the Managing Board and the Supervisory Board are kept informed of material risks on a timely basis.

Our internal auditors regularly review the adequacy and efficiency of our risk management and control systems.

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

Business risks

The worldwide markets for our products are highly competitive in terms of pricing, product and service quality, development and introduction time, customer service and financing terms. Siemens faces downward price pressures and aggressive competitive pricing, especially in the businesses of the Information and Communications Groups (I&C), and is exposed to market downturns or slower

growth, particularly in the highly volatile semiconductors business of Infineon, the mobile communications market of ICM, and the automotive supplier market of SV. The current weak economic situation has already influenced our business perspectives, as shown by the significant cost-cutting, restructuring, and asset write-down measures taken in the third and fourth quarters of fiscal 2001. Future success will therefore depend also on our success with such programs. From a technological perspective, we experience rapid and significant changes due to the introduction of new technologies.

To maintain a high level of innovation and competitiveness, we continue to 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. To counter these risks, we employ defined M&A and post-merger processes. We also have to face the risk that acquired technologies may become obsolete due to unforeseen business or market developments.

Operational risks

Within many areas of Operations, including the businesses of PG, PTD, TS, the I&C Groups and I&S, we are engaged in large and complex infrastructure projects. In such projects, the risks include unexpected technological problems, unforeseen developments at project sites, problems at our partner companies or logistic difficulties. This may lead to the Company to incur significant cost overruns or penalties.

We also have production facilities all over the world with a high degree of organizational and technological complexity. Therefore, we face risks of problems within our value chain processes such as operational failures, quality problems and potential product safety, labor safety or environmental risks.

To prevent operational failures, we have established a comprehensive set of policies and procedures relating to project and quality management, product safety, labor safety, and environmental protection. We also continuously develop and refine our production processes and technologies, as well as 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. Using third parties to manufacture, assemble and test our products reduces our control over manufacturing yields, quality assurance, delivery schedules and costs. Also, the unexpected rise of purchasing prices due to market shortages or currency fluctuations can affect the performance of certain of our operating units. We try to counter these risks by monitoring our supply markets, working closely with our suppliers and using long-term supplier agreements.

Human resources risks

Competition for highly qualified management and technical personnel is intense in the industries in which our business units operate. This is especially relevant in connection with employees with scientific, technical or industry-specific knowledge for developing new technologies and products.

Therefore, our future success depends in part on our continued ability to recruit, assimilate and retain qualified management and other technical personnel. To attract and retain our personnel, we maintain intensive contact with universities and provide internal qualification programs, attractive remuneration systems and new-hire integration programs.

Credit risks

We are exposed to credit risks because we provide various forms of direct or indirect financing to our customers, as described above. This includes both large projects and smaller orders, such as equipment leasing. Infrastructure projects often require supplier financing, which involve credit and country risk. Additionally, vendor financing of projects such as GSM or UMTS wireless network equipment for customers who lack established credit histories may cause special credit risks. Aside from specific risks associated with project financing, we may experience general financial risks, including delayed payments from customers or difficulties in the collection of receivables, especially given the deteriorating economic conditions in several markets, in emerging markets or when customers are start-up companies. To monitor and administer these credit risks, we have a defined project financing and credit assessment process, and we emphasize the importance of effective receivables management on an enterprise-wide basis.

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.

Equity Price Risk: We have investments in publicly traded companies, which are held for purposes other than trading. The market value of these investments as of September 30, 2001 was €480 million, with our 12.5% interest in EPCOS AG representing the largest share. This material decrease from €2.7 billion at September 30, 2000 is due principally to a substantial decline in market prices as well as significant sales of marketable securities during the last fiscal year. An adverse move in equity prices of 20% would reduce the value of these investments by €96 million. The change in the valuation of equity securities associated with our pension trusts has an impact in determining net periodic pension cost.

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. We use TFS on an internal service basis as a centralized link between our Operating Groups and third-party financial institutions in our financial risk management activities. TFS enters into derivative financial instruments with third-party financial institutions to offset all pooled exposures using a value-at-risk model. The derivative 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, TFS has in place appropriate functional and organizational separation of duties between transaction initiation, processing and accounting.

Our foreign currency transactions arise mainly from our business groups and to a lesser extent from investments and financing activities of Siemens as a whole. Foreign exchange risks are partly offset through our production facilities abroad, as well as through procurement and financing activities conducted in foreign currencies. We define foreign currency exposure as foreign-currency-denominated cash inflows and cash outflows from anticipated transactions for the next three months, firm commitments, and balance sheet items. The foreign currency exposure is determined from the point of view of the respective functional currencies of the Siemens' entity where the exposure exists.

Because our foreign currency inflows exceed our outflows, a weakening of foreign currencies against the euro would have a negative financial impact. For example, at September 30, 2001, we had a net long U.S. dollar exposure; therefore, if the dollar weakened against the euro, we would have been able to convert it into fewer euros.

At September 30, 2001, a parallel 10% alteration of 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 €14 million at September 30, 2000.

Our fair-value interest risk results primarily from our long-term fixed-rate debt obligations. We seek to limit this risk through the use of derivative instruments which allow us to hedge changes in fair value by swapping fixed rates of interest into variable rates of interest. Assuming a 100-basis-point decrease in interest rates, our fair-value interest risk was €222 million and €103 million at September 30, 2001 and 2000, respectively. The significant increase over the prior year is due primarily to the issuance of the €4.0 billion bond program, only a part of which has been swapped into variable rates of interest.

Our cash-flow interest rate risk on our variable-rate portfolio was €37 million at September 30, 2001 and €18 million at September 30, 2000, 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.

Outlook

We are confident of our capabilities to successfully execute the various restructuring programs, especially at our I&C Groups, and therefore look forward to improved earnings from Operations. Before commenting more specifically on our outlook, however, we want to continue to monitor our business performance, particularly the trend in sales and order intake, to better assess the effects of September 11. While many telecom operators have announced sharply reduced capital expenditures, directly affecting business at the I&C Groups, other businesses such as Power Generation, Medical Solutions and Transportation Systems are expected to continue their positive development, particularly due to their considerable order backlog.

Siemens remains committed to its Operation 2003 program, aimed at achieving previously communicated medium-term margin targets. Some Groups should be able to meet their targets earlier than planned or exceed them, while for the I&C Groups it might take longer. Siemens has demonstrated that it can handle difficult times better than many of its competitors, based on a broader business portfolio, solid capital structure, and exceptional strength in innovation as well as technical expertise. These advantages, combined with a global presence and successful asset management throughout the company, are the pillars upon which Siemens continues to build its business.

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, 2001 and September 30, 2000 (in millions of €, per share amounts in €)

	Note	Siemens worldwide	
		2001	2000
Net sales		87,000	77,484
Cost of sales		(63,895)	(55,949)
Gross profit on sales		23,105	21,535
Research and development expenses		(6,782)	(5,848)
Marketing, selling and general administrative expenses		(16,640)	(14,173)
Other operating income (expense), net	4	(1,476)	(277)
Income from investments in other companies, net	5	49	299
Income from financial assets and marketable securities, net	6	173	2,732
Interest income (expense) of Operations, net	7	(32)	(35)
EBITA ⁽¹⁾ from Operations / EBIT Infineon			
Other interest (expense) income, net	7	43	180
Goodwill amortization and purchased in-process R&D expenses of Operations			
Gains on sales and dispositions of significant business interests (therein gain on issuance of subsidiary and associated company stock €617 and €534, respectively)	3	4,238	7,826
Other special items			
Income (loss) before income taxes		2,678	12,239
Income taxes ⁽²⁾	8	(781)	(3,017)
Minority interest		191	(362)
Net income (loss)		2,088	8,860
Basic earnings per share	28	2.36	9.97
Diluted earnings per share	28	2.36	9.96

⁽¹⁾ EBITA is measured as earnings before financing interest, income taxes, amortization of goodwill and purchased in-process R&D expenses and certain one-time items. Interest income related to receivables from customers, cash allocated to the segments and interest expense on payables to suppliers are part of EBITA. EBITA differs from income before income taxes and should not be considered to be the same. Other companies that use EBITA may calculate it differently, and their figures may not be comparable to ours.

⁽²⁾ The income taxes of Eliminations, reclassifications and Corporate Treasury, Operations, and Financing and Real Estate are based on the consolidated effective corporate tax rate (excluding Infineon) applied to income before income taxes.

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

Eliminations, reclassifications and Corporate Treasury		Operations		Infineon		Financing and Real Estate	
2001	2000	2001	2000	2001	2000	2001	2000
(3,114)	(3,176)	82,427	71,603	5,671	7,283	2,016	1,774
2,899	1,656	(60,192)	(51,946)	(5,021)	(4,111)	(1,581)	(1,548)
(215)	(1,520)	22,235	19,657	650	3,172	435	226
(166)	(204)	(5,427)	(4,619)	(1,189)	(1,025)		
2	31	(15,559)	(13,333)	(786)	(670)	(297)	(201)
(1,701)	(511)	(118)	(13)	200	2	143	245
	(175)	(24)	310	36	154	37	10
(140)	1,867	263	832	65	37	(15)	(4)
9		(41)	(35)				
		1,329	2,799	(1,024)	1,670		
280	323	(304)	(220)	(1)	74	68	3
665	253	(665)	(253)				
173		4,065	7,826				
1,185	280	(1,185)	(280)				
92	344	3,240	9,872	(1,025)	1,744	371	279
(30)	(79)	(1,058)	(2,262)	428	(612)	(121)	(64)
		185	(356)	6	(6)		
62	265	2,367	7,254	(591)	1,126	250	215

Consolidated Balance Sheets

As of September 30, 2001 and September 30, 2000 (in millions of €)

	Note	Siemens worldwide	
		9/30/2001	9/30/2000
Assets			
Current assets			
Cash and cash equivalents		7,802	6,862
Marketable securities	9	791	3,317
Accounts receivable, net	10	18,928	19,228
Intracompany receivables			
Inventories, net	11	13,406	12,422
Deferred income taxes	8	1,113	1,596
Other current assets	12	8,973	5,666
Total current assets		51,013	49,091
Long-term investments	13	3,314	5,402
Intangible assets, net	14	9,771	6,446
Property, plant and equipment, net	14	17,803	15,720
Deferred income taxes	8	3,684	485
Other assets	15	4,533	4,510
Other intracompany receivables			
Total assets		90,118	81,654
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt and current maturities of long-term debt	18	2,637	2,604
Accounts payable		10,376	9,458
Intracompany liabilities			
Accrued liabilities	16	10,864	9,913
Deferred income taxes	8	754	1,086
Other current liabilities	17	19,893	13,794
Total current liabilities		44,524	36,855
Long-term debt	18	9,973	6,734
Pension plans and similar commitments	19	4,721	2,473
Deferred income taxes	8	111	662
Other accruals and provisions	20	2,957	4,068
Other intracompany liabilities			
		62,286	50,792
Minority interests		4,020	2,382
Shareholders' equity	21		
Common stock, no par value			
Authorized: 1,145,773,579 and 1,078,130,900 shares, respectively			
Issued: 888,230,245 and 882,930,900 shares, respectively		2,665	1,505
Additional paid-in capital		4,901	5,547
Retained earnings		19,762	19,280
Accumulated other comprehensive income		(3,516)	2,150
Treasury stock, at cost. 1,116 and 23,100 shares, respectively			(2)
Total shareholders' equity		23,812	28,480
Total liabilities and shareholders' equity		90,118	81,654

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

Consolidated Statements of Cash Flow

For the fiscal years ended September 30, 2001 and September 30, 2000 (in millions of €)

	Siemens worldwide	
	2001	2000
Cash flows from operating activities		
Net income	2,088	8,860
Adjustments to reconcile net income to cash provided		
Minority interest	(191)	362
Depreciation and amortization	6,264	4,652
Deferred taxes	36	585
Gains on sales and disposals of property, plant and equipment, net	(151)	(116)
(Gains) losses on sales and disposals of investments, net	(61)	(288)
Gains on sales and dispositions of significant business interests and gain from issuance of subsidiary and associated company stock	(4,238)	(7,826)
Gains on sales of marketable securities, net	(209)	(280)
(Income) loss from equity investees, net of dividends received	27	51
Write-off of acquired in-process research and development	195	165
Change in trading securities		(2,175)
Change in current assets and liabilities		
(Increase) decrease in inventories, net	(716)	(984)
(Increase) decrease in accounts receivable, net	1,797	(1,374)
Sale of trade receivables	866	
(Increase) decrease in other current assets	(1,397)	503
Increase (decrease) in accounts payable	467	1,760
Increase (decrease) in accrued liabilities	791	957
Increase (decrease) in other current liabilities	2,682	1,006
Change in other assets and liabilities	(1,234)	296
Net cash (used in) provided by operating activities	7,016	6,154
Cash flows from investing activities		
Additions to intangible assets and property, plant and equipment	(7,048)	(5,544)
Acquisitions, net of cash acquired	(3,898)	(3,299)
Purchases of investments	(710)	(2,901)
Purchases of marketable securities (other than trading)	(436)	(491)
Increase in receivables from financing activities	(619)	(258)
Proceeds from sale of trade receivables		
Proceeds from sales of long-term investments, intangibles and property, plant and equipment	4,207	1,287
Proceeds from sales and dispositions of significant business interests, net of cash sold	1,475	10,383
Proceeds from sales of marketable securities (other than trading)	1,143	388
Net cash (used in) provided by investing activities	(5,886)	(435)
Cash flows from financing activities		
Proceeds from issuance of capital stock	514	
Purchase of common stock of Company	(514)	(1,001)
Proceeds from issuance of treasury shares	233	
Proceeds from issuance of debt	4,141	2,600
Repayment of debt	(976)	(1,156)
Change in short-term debt	(1,828)	(1,057)
Proceeds from issuance of redeemable interest in associated companies		169
Change in restricted cash	45	(67)
Dividends paid	(1,412)	(593)
Dividends paid to minority shareholders	(298)	(69)
Intercompany financing		
Net cash (used in) provided by financing activities	(95)	(1,174)
Effect of exchange rates on cash and cash equivalents	(95)	180
Net (decrease) increase in cash and cash equivalents	940	4,725
Cash and cash equivalents at beginning of period	6,862	2,137
Cash and cash equivalents at end of period	7,802	6,862
Supplemental disclosure of cash paid for:		
Interest	779	901
Income taxes	1,098	1,910

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

Eliminations, reclassifications and Corporate Treasury		Operations		Infineon		Financing and Real Estate			
		2001	2000	2001	2000	2001	2000	2001	2000
62	265	2,367	7,254	(591)	1,126	250	215		
		(186)	356	(5)	6				
		4,684	3,428	1,122	834	458	390		
13	16	463	464	(494)	91	54	14		
		(40)	(3)		(2)	(111)	(111)		
		207	(288)	(235)		(33)			
(162)		(4,065)	(7,826)	(11)					
		(203)	(260)	(1)	(20)	(5)			
1		56	152	(25)	(101)	(5)			
		126	139	69	26				
			(2,175)						
		(746)	(900)	(36)	(108)	66	24		
(38)	(1,475)	1,021	550	755	(683)	59	234		
866									
(229)	(100)	(848)	398	(139)	(13)	(181)	218		
(43)	(59)	428	1,364	58	469	24	(14)		
185	5	974	441	(322)	467	(46)	44		
(100)	(125)	2,694	1,095	27	103	61	(67)		
(289)	(163)	(1,047)	366	39	(115)	63	208		
266	(1,636)	5,885	4,555	211	2,080	654	1,155		
		(4,044)	(3,375)	(2,364)	(1,614)	(640)	(555)		
		(3,898)	(3,299)						
		(419)	(2,449)	(214)	(302)	(77)	(150)		
(11)		(329)	(39)	(82)	(452)	(14)			
714	1,762					(1,333)	(2,020)		
(866)						866			
4	4	3,511	885	373	41	319	357		
1,475	821		9,562						
	2	660	385	474		9	1		
1,316	2,589	(4,519)	1,670	(1,813)	(2,327)	(870)	(2,367)		
(1,495)	(821)	514		1,495	821				
		(514)	(1,001)						
		233							
4,141	100		2,500						
(921)	(320)	2	(733)	(20)	(78)	(37)	(25)		
281	(139)	(2,354)	(1,005)	114	73	131	14		
					169				
				45	(67)				
407		(1,412)	(593)	(407)					
(119)		(179)	(69)						
(2,865)	4,717	2,122	(5,728)	619	(199)	124	1,210		
(571)	3,537	(1,588)	(6,629)	1,846	719	218	1,199		
(13)	36	(82)	129	2	9	(2)	6		
998	4,526	(304)	(275)	246	481		(7)		
5,105	579	1,211	1,486	511	30	35	42		
6,103	5,105	907	1,211	757	511	35	35		

Consolidated Statements of Changes in Shareholders' Equity

For the fiscal years ended September 30, 2001 and September 30, 2000 (in millions of €)

	Capital Stock	Additional Paid-in Capital	Retained Earnings
Balance at October 1, 1999	1,521	5,605	11,887
Net income			8,860
Change in currency translation adjustment			
Change in unrealized gains and losses			
Total comprehensive income			8,860
Dividends paid			(593)
Purchase of capital stock			
Re-issuance of treasury stock			
Other changes			51
Purchase and retirement of capital stock	(16)	(58)	(925)
Balance at September 30, 2000	1,505	5,547	19,280
Net income			2,088
Change in currency translation adjustment			
Change in unrealized gains and losses			
Total comprehensive income			2,088
Dividends paid			(1,412)
Issuance of capital stock	10	504	
Purchase of capital stock			
Re-issuance of treasury stock			
Recapitalization and stock split	1,150	(1,150)	
Other changes			(194)
Balance at September 30, 2001	2,665	4,901	19,762

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
(126)	251				19,138
					8,860
1,059					1,059
	1,002	(30)	(6)		966
1,059	1,002	(30)	(6)		10,885
					(593)
				(224)	(224)
				222	222
					51
					(999)
933	1,253	(30)	(6)	(2)	28,480
					2,088
(532)					(532)
	(1,199)	53	(3,988)		(5,134)
(532)	(1,199)	53	(3,988)		(3,578)
					(1,412)
					514
				(514)	(514)
				516	516
					(194)
401	54	23	(3,994)		23,812

Segment information

As of and for the fiscal years ended September 30, 2001 and September 30, 2000 (in millions of €)

	New orders (unaudited)		External sales		Intersegment sales	
	2001	2000	2001	2000	2001	2000
Operations						
Information and Communication Networks (ICN)	12,639	11,648	12,189	11,129	693	194
Information and Communication Mobile (ICM)	11,866	10,420	11,151	8,790	148	120
Siemens Business Services (SBS)	6,303	5,857	4,261	4,390	1,773	1,492
Automation and Drives (A&D)	9,065	8,163	7,843	6,889	1,104	1,054
Industrial Solutions and Services (I&S)	4,881	4,401	3,398	3,173	1,165	1,053
Siemens Dematic (SD)	2,281	1,913	2,381	1,589	139	197
Siemens Building Technologies (SBT)	5,549	5,066	5,094	4,504	424	428
Power Generation (PG)	12,219	9,409	8,487	7,726	76	31
Power Transmission and Distribution (PTD)	3,887	3,566	3,818	2,969	235	182
Transportation Systems (TS)	5,647	3,722	4,000	3,706	21	4
Siemens VDO Automotive (SV)	5,702	3,839	5,694	3,828	8	5
Medical Solutions (Med)	8,444	5,253	7,199	4,901	20	23
Osram	4,522	4,327	4,200	4,038	322	288
Corporate, eliminations	(6,890)	(4,759)	1,945	3,229	(5,361)	(4,329)
Total Operations	86,115	72,825	81,660	70,861	767	742
Reconciliation to financial statements						
Other interest expense						
Goodwill amortization and purchased in-process R&D expenses						
Gains on sales and dispositions of significant business interests						
Other special items						
Operations income before income taxes / total assets / total amortization, depreciation and write-downs						
Infineon Technologies (Infineon)						
Infineon Technologies (Infineon)	4,390	8,837	4,744	6,200	927	1,083
Reconciliation to financial statements						
Infineon income (loss) before income taxes / total assets						
Financing and Real Estate						
Siemens Financial Services (SFS)	481	354	373	242	108	112
Siemens Real Estate (SRE)	1,542	1,410	223	181	1,319	1,239
Eliminations					(7)	
Total Financing and Real Estate	2,023	1,764	596	423	1,420	1,351
Eliminations, reclassifications and Corporate Treasury					(3,114)	(3,176)
Siemens worldwide	92,528	83,426	87,000	77,484		

⁽¹⁾ Intangible assets, property, plant and equipment, acquisitions, and investments.

⁽²⁾ Includes amortization of intangible assets, depreciation of property, plant and equipment, and write-downs of investments.

⁽³⁾ Represents only goodwill amortization.

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

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 millions of euros (“€”), except where otherwise stated and per share amounts.

Per share information – On February 22, 2001, the Company’s shareholders approved a stock split (one additional share for two existing shares) of the common stock. This stock split became effective on April 30, 2001. Share and per share data for all periods presented reflect the share split and are based on the new number of shares.

Financial statement presentation

The financial data of the Company is presented in the following components:

- **Siemens worldwide** – Represents the consolidated financial statements of the Company.
- **Operations** – Operations are defined as Siemens’ Operating segments including corporate headquarters and excluding the activities of Infineon Technologies AG (Infineon), the Financing and Real Estate segments, and Corporate Treasury.
- **Infineon** – Infineon is a consolidated subsidiary whose shares are listed on the stock exchanges in Frankfurt and New York.
- **Financing and Real Estate** – Siemens’ Financing and Real Estate segments are responsible for the Company’s international leasing, finance, credit and real estate management activities.
- **Eliminations, reclassifications and Corporate Treasury** – This component combines the consolidation of transactions among Operations, Infineon and Financing and Real Estate with certain reclassifications. This component also includes the Company’s Corporate Treasury activities.

The Company’s presentation of Operations, Infineon, 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 oriented towards the inherent risk evident in the underlying assets. Infineon’s shareholders’ equity represents amounts presented in its separate financial statements. 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 separate entities under U.S. GAAP.

The information disclosed in these footnotes 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, directly or indirectly, has 20% to 50% of the voting rights and the ability to exercise significant influence over operating and financial policies – are recorded in the consolidated financial statements using the equity method of accounting.

The principal subsidiaries and associated companies are listed on pages 114–117. A complete list of Siemens' holdings 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 (€)		Annual average rate (€)	
		September 30		Fiscal year	
		2001	2000	2001	2000
100 Swiss francs	CHF	67.70	65.53	66.61	63.35
1 British pound	GBP	1.60	1.67	1.61	1.63
1 U.S. dollar	USD	1.09	1.14	1.11	1.05
100 Japanese yen	JPY	0.92	1.05	0.92	0.99

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. Revenues from services are recognized as services are rendered. In the case of long-term service contracts, revenues are generally recognized on a straight-line basis over the term of the contract. Revenues under fixed-price long-term service contracts are generally recognized under the percentage-of-completion method, based on the percentage of costs to date compared to the total estimated contract costs. Revenues from long-term construction projects are generally recognized under the percentage-of-completion method based on 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 made at the time the related sale is recorded. 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 of all potentially dilutive stock options. Share and per share data for all periods presented reflect the share split and are based on the new number of shares.

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.

The Company's trading securities consist of marketable securities and money market instruments. Gains and losses, both realized and unrealized, as well as other income earned from these assets such as dividends and interest are included in "income from financial assets and marketable securities, net." 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 ade-

quate 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.

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.

Intangible assets – Intangible assets consist of goodwill and patents, software, licenses and similar rights. Intangible assets other than goodwill are amortized on a straight-line basis over the shorter of their contractual rights or estimated useful lives. Intangible assets other than goodwill acquired after June 30, 2001 which are determined to have indefinite useful lives are not amortized. Except for goodwill acquired in a business combination for which the acquisition date is after June 30, 2001, goodwill is amortized over its estimated period of benefit on a straight-line basis not exceeding 40 years. The Company evaluates the recoverability of goodwill when events or circumstances warrant revised estimates of useful lives or indicate that an impairment exists, based on projected future cash flows discounted at a risk-adjusted rate. If the carrying amount of the net assets, including goodwill, exceeds the sum of the discounted cash flows, an impairment is recorded. Such impairment charges are recorded in the amount of the excess of the carrying value of the net tangible and identifiable intangible assets and goodwill over the discounted cash flows of the business evalu-

ated. In the determination of projected future cash flows, the Company considers current and projected levels of profitability, business and technological trends and economic and other developments.

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.

Derivative instruments and hedging activities –

Effective October 1, 1999, the Company adopted Statement of Financial Accounting Standards (SFAS) 133, “Accounting for Derivative Instruments and Hedging Activities”, as amended, which requires all derivative instruments, such as interest rate swap contracts and foreign currency exchange contracts, be 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 shareholders’ equity (as a component of other comprehensive income), depending on whether the derivative is being used to hedge changes in fair value or cash flows. SFAS 133 also requires that certain derivative instruments embedded in host contracts be accounted for separately as derivatives. In accordance with the provisions of SFAS 133, the Company has chosen January 1, 1999, as its transition date for embedded derivatives. Accordingly, only those derivatives embedded in host contracts issued, acquired or substantially modified on or after January 1, 1999, are accounted for separately as derivatives in the financial statements of the Company.

The Company has historically utilized various derivative instruments to reduce the risks related to fluctuations in foreign currencies. The strategies used to reduce foreign currency risks did not satisfy the requirements of hedge accounting existing before the adoption of SFAS 133, and accordingly all related derivative instruments were accounted for at fair value prior to October 1, 1999 with changes in fair value impacting earnings. The Company employed hedge accounting for risks related to the effects of changes in interest rates on a portion of its long-term, fixed-rate debt via interest rate swaps prior to adoption of SFAS 133. The effect of adoption of SFAS 133 resulted in a charge to net income of €1 (representing the net effect of recording embedded derivatives as of October 1, 1999) and a net increase to other comprehensive income of €5.

See footnote 23, “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.

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.

Environmental clean-up costs – The Company charges to expense environmental clean-up costs related to existing conditions resulting from past or current operations from which no current or future benefit is discernible. Liabilities for these expenditures are recorded on a site-by-site basis at the time when they are probable and can be reasonably estimated. Expenditures which extend the life of the related property or mitigate or prevent future environmental contamination are capitalized. Environmental liabilities are discounted when the associated payments are deemed to be fixed or reliably determinable.

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”.

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.

Recent accounting pronouncements – In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS 143, “Accounting for Asset Retirement Obligations”, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or normal use of the asset. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this 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. SFAS 143 is required to be adopted for the fiscal year beginning October 1, 2002. The Company expects that the adoption of SFAS 143 will have no material impact on its financial position.

In July 2001, the FASB issued SFAS 141, “Business Combinations,” and SFAS 142, “Goodwill and Other Intangible Assets”. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. SFAS 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values.

At the date of adoption, a goodwill impairment assessment must be performed and any impairment loss at the date of adoption will be recognized as a cumulative effect of a change in accounting principles in the Company’s statement of income.

The Company is required to adopt the provisions of SFAS 141 immediately and will adopt SFAS 142 effective October 1, 2001. Consequently, any goodwill and any intangible asset determined to have an indefinite useful life that is acquired in a purchase business combination completed after June 30, 2001 will not be amortized. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of SFAS 142.

As of September 30, 2001, Siemens has unamortized goodwill in the amount of €6,963 and unamortized intangible assets in the amount of €2,808, all of which will be subject to the provisions of SFASs 141 and 142. Amortization expense related to goodwill, excluding impairment charges, was €562 and €253 for the years ended September 30, 2001 and 2000, respectively. Because of the extensive effort needed to comply with adopting SFASs 141 and 142, it is not practicable to reasonably estimate the impact of adopting these Statements on the Company's financial statements at the date of this report.

3 Acquisitions and dispositions

Acquisitions

During the years ended September 30, 2001 and 2000, 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 February 2000, Automation and Drives (A&D) acquired Moore Products, Inc. for a purchase price of approximately €180. This acquisition resulted in the capitalization of approximately €47 of goodwill, which is being amortized on a straight-line basis over 20 years.

In March 2000, A&D acquired Milltronics Ltd. for €242, which resulted in the capitalization of approximately €177 of goodwill, which is being amortized on a straight-line basis over 20 years (see footnote 14).

In April 2000, Siemens Business Services (SBS) acquired Entex Information Services, Inc., an information services provider in the U.S. The purchase price was approximately €294. In connection with this acquisition, approximately €248 was capitalized as goodwill and is being amortized on a straight-line basis over 20 years.

In May 2000, Information and Communications Mobile (ICM) acquired the mobile telecommunications development operations of Robert Bosch GmbH (Bosch) for a purchase price of approximately €172. In connection with this acquisition, approximately €55 of IPR&D was charged to expense as research and development cost, and approximately €7 was capitalized as goodwill and is being amortized on a straight-line basis over 4 years.

In June 2000, Siemens Financial Services (SFS) acquired Schroder Leasing plc of the U.K. for a purchase price of approximately €142. In connection with this acquisition, approximately €95 was capitalized as goodwill and is being amortized on a straight-line basis over 20 years.

In July 2000, Medical Solutions (Med) completed its acquisition of Shared Medical Systems Corp. (SMS) of the U.S. for a purchase price of approximately €2.1 billion. In connection with this acquisition, €84 of IPR&D was charged to expense as research and development cost, and approximately €1.6 billion was capitalized as goodwill and is being amortized on a straight-line basis over 20 years.

In November 2000, Med acquired Acuson Corporation. The aggregate purchase price was approximately €780. In connection with this acquisition, approximately €345 was capitalized as goodwill and is being amortized on a straight-line basis over 20 years. Approximately €47 of IPR&D was charged to expense as research and development cost.

In January 2001, the merger of the nuclear power businesses of Siemens and Framatome S.A. was completed. The Company holds a 34% minority interest in the company, called Framatome ANP. This investment is accounted for using the equity method.

In April 2001, Siemens' Information and Communication Networks Group (ICN) completed the acquisition of Efficient Networks, Inc. The purchase price was approximately €1.6 billion, plus the assumption of €457 of debt. In connection with this acquisition, approximately €1.2 billion has been recorded as goodwill and is being amortized on a straight-line basis over 5 years. IPR&D of approximately €17 was charged to expense as research and development cost (see footnote 14).

In April 2001, Siemens completed the acquisition of a controlling interest of 50% plus two shares in Atecs Mannesmann AG (Atecs), an automotive and automation technology company. In accordance with the purchase agreement, prior to closing, Siemens paid €3.1 billion to Mannesmann AG. As of the date of closing, Siemens made a capital contribution to Atecs. The purchase agreement also provides Siemens the option to acquire Mannesmann AG's remaining interest in Atecs, either at the option of Mannesmann during the period from the date of closing through September 30, 2002, or at the option of Siemens during the period from April 1, 2002 through December 31, 2003. The purchase price for the remaining interest in Atecs under both options is between €3.7 and €3.8 billion. Siemens plans to exercise its option. The Company has accounted for the Atecs transaction as the purchase of a 100% interest using the purchase method of accounting. The purchase price for 100% of Atecs of €9.6 billion, including the assumption of €2.8 billion of financial debt and pension liabilities, was allocated to the assets acquired and liabilities assumed based on estimated fair values. In connection with the acquisition, €62 of IPR&D was charged to expense. The excess of the purchase price over the fair value of the net identifiable assets acquired and IPR&D of €1.9 billion has been recorded as goodwill and is being amortized on a straight-line basis over 40 years. The purchase price allocation has not been finalized due to the pending sale of various Atecs businesses discussed below. Accordingly, in fiscal 2002, the goodwill associated with this acquisition may change, although management does not presently anticipate such changes to be material.

In connection with the Atecs transaction, Siemens entered into a put option contract giving Siemens the right to sell Rexroth AG, a wholly owned subsidiary of Atecs, to Bosch for an adjusted equity value €2.7 billion. The put option is exercisable from January 2002 through December 31, 2002. Siemens plans to exercise this put option.

Siemens intends to dispose of certain of the businesses of Atecs within one year of its acquisition of Atecs. In accordance with Emerging Issue Task Force Issue 87-11, "Allocation of Purchase Price to Assets to Be Sold," the accompanying consolidated financial statements include as "assets held-for-sale", within other current assets, €4.3 billion representing management's estimate of the net proceeds from the sales of the businesses, less incremental financing costs during the holding period. The increase in the recorded value of these businesses from the date of acquisition through September 30, 2001 of €42 (representing allocable interest costs) has been excluded from the Consolidated Statements of Income. Any difference between the actual and estimated proceeds from the sale of these Atecs businesses held-for-sale will result in an adjustment to goodwill, unless the adjustment results from a post-acquisition event. Net income generated since the date of acquisition by these businesses classified as assets held-for-sale of €13 has been excluded from net income of the Company.

The following unaudited pro forma information for the years ended September 30, 2001 and 2000 assumes that Acuson Corporation, Efficient Networks, Inc. and Atecs had been acquired as of the beginning of fiscal 2001 and 2000: Net sales would have been €91,275 (2000: €84,057), net income would have been €1,825 (2000: €8,440), basic earnings per share would have been €2.06 (2000: €9.49) and diluted earnings per share would have been €2.06 (2000: €9.49).

The Company made certain other acquisitions during the years ended September 30, 2001 and 2000, accounted for by the purchase method of accounting, which did not have a significant effect on the consolidated financial statements.

Dispositions

In October 1999, in connection with an initial public offering (IPO) of Epcos AG (Epcos), the Company sold a portion of its ownership interest in Epcos for net proceeds of €767, which resulted in a pretax gain of €638. The Company continues to hold a 12.5% plus one share ownership interest in Epcos.

In November 1999, the Company's Electromechanical Components business was sold to Tyco International, Ltd. for net proceeds of €874. The resulting pretax gain was €525.

In December 1999, the Company sold Nixdorf Retail and Banking Systems to a consortium of investors for net proceeds of €698 with a resulting pretax gain of €538.

In December 1999, the Company disposed of Vacuum-schmelze GmbH through a sale to Morgan Crucible Company, plc. This disposition resulted in net proceeds of €180 with a resulting pretax gain of €93.

During 2000, the Company sold substantially all of its fiber-optic cable and optical fiber business to Corning Inc. for net proceeds of €1,107. The pretax gain from this transaction was €584.

In March 2000, the Company sold its Swiss-based television cable business to NTL, Inc. for net proceeds of €839. The pretax gain on this disposition was €774.

In March 2000, the Company successfully completed the IPO of Infineon. Prior to the offering, Siemens held 100 percent of the outstanding shares of Infineon. A total of 173.5 million shares of Infineon stock were sold in the IPO and a further 7.6 million shares were sold through a concurrent private placement, so that 181.1 million shares in total were sold. The average offering price was €35 per share. The Company sold 156.8 million shares for net proceeds of €5,284 resulting in a tax-free gain of €4,135. In addition, Infineon sold 24.3 million shares of newly issued stock for net proceeds of €820. A pretax gain of €461 (after tax gain of €330) arose as a result of the issuance of shares directly by Infineon.

In April 2000, Infineon issued an additional 1.2 million shares of new stock in connection with the acquisition of

Savan Communications, Ltd. As a result of this transaction, the Company realized a pretax gain of €20 (after tax gain of €14). The acquisition of Savan Communications, Ltd. was accounted for using the purchase method of accounting with a purchase price of €131 resulting in goodwill of €18 and a charge for acquired in-process research and development of €26.

In December 2000, Infineon sold its Image & Video business unit. After giving effect to the minority interest ownership of Infineon, the gain increased the Company's pretax income by €143.

In April 2001, Siemens irrevocably transferred 93,825,225 Infineon shares into its domestic pension trust. As a result of the transfer, the Company realized a pretax gain of €3,459 (after tax gain of €2,519).

In July 2001, Infineon completed a follow-on offering of 60 million shares for which the Company 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.

4 Other operating income and expenses

	Year ended	
	September 30,	
	2001	2000
Gains on sales of property, plant and equipment	172	190
Other	645	415
Other operating income	817	605
Amortization and impairment of goodwill	(1,489)	(448)
Losses on sales and disposals of property, plant and equipment	(21)	(74)
Other	(783)	(360)
Other operating expenses	(2,293)	(882)

For fiscal year 2001, "Other operating income" includes the effect of the positive resolution of certain assets disposal contingencies as well as certain asset disposals, including the pretax gain of €202 from the disposition of Infineon's sales of its Image & Video business unit. Included in "Amortization and impairment of goodwill" in fiscal 2001, are impairments relating to Efficient Networks Inc. and Milltronics Ltd. (see footnote 14). "Other" in "Other operating expenses" include amortization of other intangibles.

5 Income from investments in other companies, net

	Year ended September 30,	
	2001	2000
Income from investments	166	135
Share in earnings from equity investees	213	149
Gains on sales of investments	138	314
Losses on sales of investments	(279)	(26)
Write-downs on investments	(231)	(52)
Other	42	(221)
	49	299

Included in “Losses on sales of investments” for the year ended September 30, 2001 is a €209 loss on the sale of an investment in a domestic equity and debt security fund. “Write-downs on investments” for the year ended September 30, 2001 relate to the write-down of certain equity investments. Included in “Other” for the year ended September 30, 2000 is a €175 provision related to a loan associated with the investment in a joint venture.

6 Income from financial assets and marketable securities, net

	Year ended September 30,	
	2001	2000
Gains on sales of available-for-sale securities	426	280
Income from trading securities	–	2,512
Other financial losses, net	(253)	(60)
	173	2,732

In fiscal 2001, included in “Other financial losses, net,” is a write-down of certain marketable securities totaling €217 where the decline in value was determined to be other than temporary.

7 Interest income, net

	Year ended September 30,	
	2001	2000
Interest income (expense) of Operations, net	(32)	(35)
Other interest (expense) income, net	43	180
Total net interest income	11	145
Thereof: Interest and similar income	964	1,039
Thereof: Interest and similar expense	(953)	(894)

“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 before income taxes and minority interests for the years ended September 30, 2001 and 2000 is attributable to the following geographic regions:

	Year ended September 30,	
	2001	2000
Germany	1,446	5,112
Foreign	1,232	7,127
	2,678	12,239

Income tax expense (benefit) for the years ended September 30, 2001 and 2000 consisted of the following:

	Year ended September 30,	
	2001	2000
Current:		
German corporation and trade taxes	228	1,371
Foreign income taxes	517	1,061
	745	2,432
Deferred:		
Germany	(131)	656
Foreign	167	(71)
	36	585
Net income tax expense	781	3,017

For the years ended September 30, 2001 and 2000, German corporation tax law applies a split rate imputation credit system to the income taxation of corporations and their shareholders. In accordance with the tax law in effect for fiscal 2001 and 2000, retained corporation income is initially subject to a federal corporation tax rate of 40%, plus a solidarity surcharge of 5.5% for each year on federal corporate taxes payable. Including the impact of the surcharge, the federal corporate tax amounted to 42.2%, plus trade tax, net of federal tax benefit, of 9.8% for the years ended September 30, 2001 and 2000.

Upon distribution of retained earnings to shareholders, the corporation income tax rate on such distributed earnings is adjusted to 30%, plus solidarity surcharge of 5.5% for a total of 31.65%. This reduction is effected by means of a refund for taxes previously paid, and is referred to as the dividend tax credit.

In October 2000, the German government enacted new tax legislation which, among other changes, will reduce the Company's statutory tax rate in Germany from 40% on retained earnings and 30% on distributed earnings to a uniform 25% effective for the Company's year ending September 30, 2002. The impact of the various revisions in the new tax legislation for the Company is an increase of income tax expense of €145.

For the years ended September 30, 2001 and 2000, income tax expense differed from the amounts computed by applying the German federal corporation income tax rate of 42.2% plus the after-federal tax benefit rate for trade taxes on income of 9.8% for a combined statutory rate of 52%, as follows:

	Year ended September 30,	
	2001	2000
'Expected' income tax expense at the undistributed rate	1,393	6,364
Increase (decrease) in income taxes resulting from:		
Nondeductible losses and expenses	144	108
Goodwill and acquired in-process research and development	853	225
Tax-free income	(43)	(27)
Dividend distribution credit	–	(208)
Gains from sales of business interests	(859)	(2,972)
Effect of change in German tax rates:		
Effect of change on deferred taxes of date of enactment	(222)	–
Effect of change on deferred taxes arising during the year	367	–
Foreign tax rate differential	(768)	(440)
Tax effect of equity method investments	(111)	(77)
Other	27	44
Actual income tax expense	781	3,017

Deferred income tax assets and liabilities as of September 30, 2001 and 2000 are summarized as follows:

	September 30,	
	2001	2000
Intangibles	339	90
Property, plant and equipment	434	442
Inventories	605	507
Receivables	413	392
Retirement plans	74	550
Other accrued liabilities	1,356	1,860
Other liabilities	3,092	2,449
Deferred income	223	251
Tax loss and credit carryforwards	1,767	521
Other	272	172
Total deferred tax assets, before valuation allowances	8,575	7,234
Valuation allowances	(551)	(193)
Deferred tax assets	8,024	7,041
Intangibles	373	258
Property, plant and equipment	732	487
Inventories	750	1,705
Receivables	1,106	1,283
Other accrued liabilities	123	127
Other liabilities	211	209
Investments	118	2,074
Other	679	565
Total deferred tax liabilities	4,092	6,708
Deferred tax assets, net	3,932	333

As of September 30, 2001, the Company had approximately €4,334 of tax loss carryforwards, of which €770 related to Infineon. Of the total €4,334 tax loss carryfor-

wards, €3,436 have unlimited carryforward periods and €898 expiring over the period to 2020.

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.

Provision has not been made for income taxes or foreign withholding taxes on €989 of cumulative earnings of foreign subsidiaries 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 shareholders' equity, the provision (benefit) for income taxes consists of the following:

	Year ended September 30,	
	2001	2000
Provision for income taxes	781	3,017
Shareholders' equity for other comprehensive income	(3,326)	806
	(2,545)	3,823

9 Marketable securities

As of September 30, 2001 and 2000, the Company's portfolio of marketable securities consisted solely of securities classified as available-for-sale. During the year ended September 30, 2000, the Company contributed approxi-

mately €10 billion of trading securities into a domestic pension trust (see footnote 19).

The following tables summarizes the Company's investment in available-for-sale securities:

	September 30, 2001			
	Cost	Fair Value	Unrealized Gain	Loss
Equity securities	244	480	291	55
Debt securities	126	124	–	2
Fund securities	190	187	4	7
	560	791	295	64

	September 30, 2000			
	Cost	Fair Value	Unrealized Gain	Unrealized Loss
Equity securities	371	2,691	2,338	18
Debt securities	482	483	1	–
Fund securities	119	143	25	1
	972	3,317	2,364	19

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

	September 30, 2001
Due within one year	21
Due after one year through five years	103

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

Proceeds from sale of available-for-sale securities for the years ended September 30, 2001 and 2000 were €1,143 and €388, respectively. Gross realized gains on sales of available-for-sale securities for the years ended September 30, 2001 and 2000 were €426 and €280, respectively.

10 Accounts receivable, net

	September 30,	
	2001	2000
Trade receivables from the sale of goods and services, net	16,115	17,468
Receivables from sales and finance leases, net	1,220	945
Receivables from associated and related companies, net	1,593	815
	18,928	19,228

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,	
	2001	2000
Valuation allowance as of beginning of fiscal year	1,610	1,710
Amount charged to expense in current period	505	219
Write-offs charged against the allowance	(383)	(417)
Recoveries of amounts previously written-off	45	18
Foreign exchange translation adjustment	8	80
Valuation allowance as of September 30	1,785	1,610

Receivables from sales and finance leases

	September 30, 2001
2002	1,532
2003	1,093
2004	752
2005	433
2006	209
Thereafter	134
Minimum future lease payments	4,153
Less: Unearned income	(577)
Less: Allowance for doubtful accounts	(146)
Plus: Unguaranteed residual values	99
Net investment in lease receivables	3,529
Less: Long-term portion	2,309
Receivables from sales and finance leases, current	1,220

Investment 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.

The following table presents quantitative information about delinquencies and net credit losses for total short-term trade receivables, excluding allowances, and the securitized portion of such receivables as of and for the year ended September 30, 2001:

	Outstanding balance	Delinquencies > 60 days	Net credit losses during the year
Total short-term trade receivables	18,769	2,061	412
Less: receivables sold (see discussion below)	(815)	(73)	–
Receivables held in portfolio	17,954	1,988	412

Securitization of trade receivables

In June 2001, the Company began selling short-term trade receivables through a securitization program on a revolving basis. During fiscal 2001, the Company sold short-term receivables totaling €1,848 in securitization transactions. The Company has retained interests in all trade receivables sold, which are subordinated to the interests of the investors. In addition, the Company has provided a guarantee of up to an additional 17% of such trade receivables. Except for such subordinated retained interests and guarantees, the investors and securitization trusts have no recourse to the Company's other assets and liabilities for failure of debtors to pay when due.

The value of retained interests is subject to credit, prepayment, and interest rate risks of the trade receivables sold. The weighted average key assumptions used in measuring the retained interests at the time of securitization resulting from securitizations completed during the year were as follows: average days outstanding – 61, discount rate – 4.6% per annum and credit risk – 0.6% per annum.

For the year ended September 30, 2001, the Company recognized pretax losses of €13 on the securitizations of trade receivables and received cash from new securitizations totaling approximately €1,673 from securitization trusts. The Company also received cash flows of €95 from retained interests.

As of September 30, 2001, the Company's retained interests in trade receivables sold had a fair value of €65. The key economic assumptions used in measuring these retained interests were as follows: average days outstanding – 64, discount rate – 4.0% per annum and credit risk – 0.7% per annum.

The sensitivity of the fair value of these retained interests as of September 30, 2001, to an immediate 10% and 20% adverse change in each of the assumptions above was less than €(0.2). These sensitivities are hypothetical and should be used with caution. The effect of a variation in a particular assumption on the fair value of the retained interests is calculated without changing any other assumption; in reality, changes in one assumption may result in changes in another, which might magnify or counteract the sensitivities.

11 Inventories, net

	September 30,	
	2001	2000
Raw materials and supplies	2,387	2,336
Work in process	3,564	3,108
Costs and earnings in excess of billings on uncompleted contracts	6,263	5,771
Finished goods and products held for resale	4,004	3,655
Advances to suppliers	609	1,010
	16,827	15,880
Advance payments received	(3,421)	(3,458)
	13,406	12,422

During fiscal 2001, the Company wrote-down inventory of €386 principally within the Information and Communication business area. Such write-downs are included in cost of sales.

12 Other current assets

	September 30,	
	2001	2000
Taxes receivable	1,277	953
Loans receivable	761	401
Other	6,935	4,312
	8,973	5,666

Included in "Other" for fiscal 2001 are €4.3 billion assets held-for-sale in connection with Siemens' intention to dispose certain of the businesses of Atecs within one year of its acquisition of Atecs. Included in "Other" for fiscal 2000 was an advance deposit of €2.1 billion to Mannesmann AG in connection with the purchase of Atecs.

13 Long-term investments

	September 30,	
	2001	2000
Investment in associated companies	2,354	4,318
Miscellaneous investments	960	1,084
	3,314	5,402

Investments in associated companies represent non-controlling interests in entities of 20% to 50% accounted for using the equity method of accounting. As of September 30, 2000, such investments include the Company's investment in a domestic equity and debt security fund, which was sold in fiscal 2001.

Miscellaneous investments 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.

14 Intangible assets and property, plant and equipment, net

	10/1/00	Trans- lation adjust- ment	Addi- tions	Re- classi- fica- tions	Retire- ments at cost	9/30/01	Accu- mulated depre- ciation/ amorti- zation	Net book Value as of 9/30/01	Accu- mulated depre- ciation/ amorti- zation 10/1/00	Net book value as of 10/1/00	Depre- ciation/ Amorti- zation during fiscal year
Goodwill	5,521	(294)	4,169	–	173	9,223	2,260	6,963	784	4,737	1,489
Patents, software, licenses and similar rights	2,484	(94)	2,385	–	397	4,378	1,570	2,808	775	1,709	660
Intangible assets	8,005	(388)	6,554	–	570	13,601	3,830	9,771	1,559	6,446	2,149
Land and buildings	10,089	(147)	1,405	129	891	10,585	4,769	5,816	4,614	5,475	360
Technical machinery and equipment	11,941	(291)	2,838	750	1,031	14,207	8,613	5,594	7,510	4,431	1,400
Furniture and office equipment	11,145	(279)	3,115	378	1,611	12,748	9,020	3,728	8,079	3,066	1,825
Equipment leased to others	2,165	(78)	493	(114)	303	2,163	1,099	1,064	1,100	1,065	299
Advances to suppliers and construction in progress	1,683	(57)	1,475	(1,143)	357	1,601	–	1,601	–	1,683	–
Property, plant and equipment	37,023	(852)	9,326	–	4,193	41,304	23,501	17,803	21,303	15,720	3,884

The Company has capitalized interest of approximately €27 and €4 during the years ended September 30, 2001 and 2000, respectively.

During the fourth quarter of fiscal 2001, the Company recorded impairments of goodwill for businesses acquired by ICN and A&D totaling €927. At ICN, the Company determined that due to the rapid and significant deterioration in the market for customer-premises equipment for high-speed digital subscriber lines (xDSL) for broadband access in the U.S., the future cash flows from Efficient will be lower than anticipated. Also, at A&D, as a result of operational issues relating primarily to the acquired business of Milltronics, the Company determined that the future cash flows from these businesses will be lower than previously anticipated.

Additions to “Patents, software, licenses and similar rights” during fiscal 2001 consist primarily of identifiable intangible assets acquired in connection with the acquisitions of Atecs, Acuson and Efficient Networks.

During the year ended September 30, 2000, the Company recorded a charge of €124 for the impairment of goodwill associated with the acquisition of Argon Networks, Inc. This impairment represented the remaining unamortized value of the Argon Networks, Inc. goodwill. The impairment charge resulted from a review of the development of Argon’s key product, the core router. Due to significant delays in its development, the introduction of more advanced next generation technology by competitors and, to a lesser extent, the loss of key management and development personnel, the Company determined that there would be no future cash flows generated from the Argon Networks intellectual property as acquired.

15 Other assets

	September 30,	
	2001	2000
Long-term portion of receivables from sales and finance leases	2,309	2,056
Prepaid pension and other postretirement benefit assets	179	411
Long-term loans receivable	587	151
Other	1,458	1,892
	4,533	4,510

16 Accrued liabilities

	September 30,	
	2001	2000
Employee related costs	2,876	2,747
Income and other taxes	1,827	2,141
Warranties	1,555	1,260
Accrued losses on uncompleted contracts	1,188	1,380
Other	3,418	2,385
	10,864	9,913

“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. Employee related costs in 2000 include a €600 charge for a special one-time employee bonus program related to the Company’s exceptional results in fiscal year 2000 (see footnote 25).

During the fourth quarter of 2001, in response to slowing economic conditions globally, especially in the technology sector, certain of Siemens’ information and communications units undertook plans to reduce their workforces. The Company is seeking to achieve the workforce reduction through voluntary programs that provide the affected employees with appropriate separation payments.

Employees have been notified that in case of insufficient voluntary terminations, employees will be terminated involuntarily in order to achieve the required workforce reduction.

For fiscal 2001, the charges recorded in connection with these plans were €662 of which €80 have been paid.

The remaining unpaid amount of €582 is recorded within accrued liabilities in “Employee related costs” and within other current liabilities in “Other”. The Company expects the workforce reduction programs to be completed within a period of approximately 12 months.

17 Other current liabilities

	September 30,	
	2001	2000
Billings in excess of costs and estimated earnings on uncompleted contracts and related advances	7,320	5,008
Payroll and social security taxes	2,431	2,321
Sales and other taxes	624	1,025
Bonus obligations	1,137	1,317
Liabilities to associated and related companies	997	826
Deferred income	938	755
Accrued interest	175	145
Other liabilities	6,271	2,397
	19,893	13,794

Included in “Other liabilities” as of September 30, 2001, is the deferred purchase price of €3,616 relating to the acquisition of Atecs (see footnote 3).

18 Debt

	September 30,	
	2001	2000
Short-term		
Notes and bonds	882	766
Loans from banks	1,078	1,121
Other financial indebtedness	640	662
Obligations under capital leases	37	55
Short-term debt and current maturities of long-term debt	2,637	2,604
Long-term		
Notes and bonds (maturing 2002 – 2011)	9,142	5,852
Loans from banks (maturing 2002 – 2008)	328	323
Other financial indebtedness (maturing 2002 – 2031)	274	339
Obligations under capital leases	229	220
Long-term debt	9,973	6,734
	12,610	9,338

As of September 30, 2001, weighted average interest rates for loans from banks, other financial indebtedness and obligations under capital leases were 5.0% (2000: 6.1%), 3.8% (2000: 6.1%) and 6.5% (2000: 6.9%), respectively. As of September 30, 2001, debt in the amount €79 is secured, €3 of which, primarily outside Germany, is secured by mortgages. 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 €1.5 billion and US\$1.6 billion (€1.8 billion) of commercial paper. As of September 30, 2001 and 2000, outstanding commercial paper totaled €214 (interest rates from 2.45% to 4.16%), and €233 (interest rates from 6.4% to 6.5%), respectively.

The Company also has agreements with financial institutions under which it may issue up to €3.5 billion in medium-term notes. As of September 30, 2001 and 2000, approximately €1.8 billion and €2.0 billion, respectively, was outstanding under this program.

The Company maintains global credit facilities of €1.4 billion and US\$2 billion (€2.2 billion). As of September 30, 2001 and 2000, the full amounts of these lines of credit remain unused. Commitment fees for each of the years ended September 30, 2001 and 2000 totaled approximate-

ly €2. Under the terms of the agreements, credit may be used for general business purposes. Borrowings under these lines of credit would bear interest of .16% above LIBOR (London Inter Bank Offer Rate) for €1 billion and .28% above LIBOR for €0.4 billion on the credit facility denominated in euro, and .125% above LIBOR on the credit facility denominated in U.S. dollar.

As of September 30, 2001, the aggregate amounts of indebtedness maturing during the next five years and thereafter are as follows:

Fiscal year	
2002	2,600
2003	462
2004	201
2005	2,637
2006	1,988
Thereafter	4,456
	12,344

As of September 30, 2001, the minimum lease payments under capital leases for the next five years and thereafter are as follows:

Fiscal year	
2002	38
2003	52
2004	47
2005	45
2006	41
Thereafter	110
Minimum lease payment obligation	333
Less: unamortized interest expense	(67)
Obligations under capital leases	266
Less: current portion	(37)
	229

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

	September 30, 2001		September 30, 2000			
	Currency (notional amount)	€*	Currency (notional amount)	€*		
0.10% 1999/99 2000/00 CHF LIBOR Linked notes			EUR	50	50	
10.25% 1998/2000 DEM reverse convertibles			DEM	190	98	
1986/2001 U.S.\$ zero coupon bonds			USD	200	214	
2% 1994/2001 Swiss franc bonds			CHF	100	66	
4.5% 1998/2001 U.S.\$ notes			USD	300	338	
3.25% 1997/2002 Swiss franc notes	CHF	350	238	CHF	350	225
5.75% 1998/2002 U.S.\$ notes	USD	200	223	USD	200	225
7.75% 1992/2002 Swiss franc bonds	CHF	28	20	CHF	28	20
8% 1992/2002 U.S.\$ bonds	USD	573	639	USD	580	654
2.75% 1993/2003 Swiss franc bonds	CHF	100	68	CHF	100	66
7.5% 1998/2003 Greek drachma € notes	GRD	5,000	17	GRD	5,000	17
3% 1994/2004 Swiss franc bonds	CHF	178	121	CHF	178	117
1.0% 2000/2005 € exchangeable notes	EUR	2,500	2,529	EUR	2,500	2,503
5.0% 2001/2006 € bonds	EUR	1,900	1,941			
2.5% 2001/2007 Swiss franc bonds	CHF	250	163			
5.5% 1997/2007 € bonds	EUR	991	1,041	EUR	991	973
6% 1998/2008 U.S.\$ notes	USD	970	1,127	USD	975	1,052
5.75% 2001/2011 € bonds	EUR	1,900	1,897			
		10,024			6,618	

* Includes adjustments for hedge accounting.

In June 2001, the Company issued bonds with a face value of €4 billion. Net proceeds from the issuance were €3,988. The bonds were issued in two tranches: €2 billion 5.00 per cent bonds, which mature on July 4, 2006, and €2 billion 5.75 per cent bonds, which mature on July 4, 2011. Interest on both tranches is payable on an annual basis on July 4, beginning 2002. The bonds are redeemable prior to maturity under limited circumstances at the option of the Company, at a redemption price equal to their principal amount, together with accrued interest thereon. During 2001, the Company acquired €100 notional amount of each tranche.

In August 2000, the Company issued €2,500 of 1% exchangeable notes due in 2005. These notes are exchangeable at the option of the noteholder on or after August 10, 2001 into 1,000 ordinary registered shares with no par value in Infineon (the "Shares") at an initial exchange price for each share of €100 subject to certain provisions. The Company is entitled, upon exercise of the exchange right by a noteholder, to pay a cash amount in lieu of delivery of Shares. Unless previously exchanged, the notes will be redeemed by the Company on August 10, 2005 at 105.204 per cent of their principal amount of €2,500. The Company may, at any time on or after August 12, 2003, redeem all or any part of the notes at their amortized principle amount subject to certain conditions.

19 Pension plans and similar commitments

Pension benefit plans – The Company provides pension benefits to virtually all of its employees in Germany. Individual benefits are generally based on eligible compensation levels or ranking within the Company hierarchy and years of service. During March 2000, the Company established a pension trust to provide for future pension benefit payments relating to certain defined benefit pension plans in Germany and contributed approximately €10 billion of securities into the pension trust, resulting in a reduction of accrued pension liabilities. During April 2001, the Company contributed 93.8 million Infineon shares with a fair value of €4,376 into the domestic pension trust. The transfer was intended, in part, to bring the current net asset value of the pension fund's assets back into balance with Siemens' expanded domestic pension obligations following the closing of the Atecs acquisition.

As in Germany, the Company's foreign subsidiaries offer primarily defined benefit pension plans. Retirement benefits may vary depending on the legal, fiscal and economic requirements in each country. About half of the obligations outside Germany are for employees and retirees in the U.S. and Canada. In these countries, the Company sponsors trustee contributory and noncontributory defined benefit pension plans whose plan assets are held in trusts. The benefits for these plans are based primarily on years of service and employees' compensation. The assets of the pension plan trusts in the U.S. and Canada primarily consist of U.S. and international corporate equities, government securities and fixed income investments.

Other postretirement benefit plans – In Germany, employees who entered into the Company's employment on or before September 30, 1983, are entitled to transition payments for the first six months after retirement equal to the difference between their final compensation and the retirement benefits payable under the corporate pension plan (transition payment obligations upon retirement in Germany). Certain foreign companies, primarily in the U.S., provide postretirement health care and life insurance benefits to employees. The health care plans are contributory, with participants' contributions adjusted annually at the Company's discretion. The basic life insurance plans are noncontributory. The accounting for the health care plans anticipates future cost sharing changes to the written plans that are consistent with the Company's intent that retirees share a fixed percentage of the overall costs of benefits each year. The plans provide either defined medical, dental and life insurance benefits or a defined Company contribution toward the cost of such benefits.

Liabilities for the Company's principal pension benefit plans and other postretirement benefit plans are comprised of the following components:

	September 30,	
	2001	2000
Pension benefits	3,048	842
Other postretirement benefits	1,366	1,347
Other	307	284
Total accrual for pension plans and similar commitments	4,721	2,473

Information regarding the Company's principal pension benefit plans is presented in the following tables:

	September 30,	
	2001	2000
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	15,930	15,069
Foreign currency exchange rate changes	(244)	572
Service cost	464	455
Interest cost	1,091	991
Settlements and curtailments	–	(13)
Plan participants' contributions	27	25
Amendments and other	665	261
Actuarial losses (gains)	703	(592)
Acquisitions	703	115
Divestments	–	(212)
Benefits paid	(795)	(741)
Projected benefit obligation at end of year	18,544	15,930
Change in plan assets:		
Fair value of plan assets at beginning of year	15,785	4,634
Foreign currency exchange rate changes	(210)	574
Actual return on plan assets	(5,278)	479
Acquisitions	551	260
Employer contributions	4,655	10,299
Plan participants' contributions	32	25
Benefits paid	(774)	(486)
Fair value of plan assets at end of year	14,761	15,785

A reconciliation of the funded status to the amounts recognized in the consolidated balance sheets is as follows:

	September 30,	
	2001	2000
Funded status	(3,783)	(145)
Unrecognized net losses (gains)	7,354	(283)
Unrecognized prior service cost	113	28
Unrecognized net transition asset	(7)	(11)
Net amount recognized	3,677	(411)
Amounts recognized in the consolidated balance sheets consist of:		
Prepaid benefit asset	179	407
Accrued benefit liability	(3,048)	(842)
Intangible asset	17	14
Accumulated other comprehensive income	6,529	10
Net amount recognized	3,677	(411)

As of September 30, 2001, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with an accumulated benefit obligation in excess of the fair value of plan assets were €13.1 billion, €12.4 billion and €9.7 billion, respectively.

Assumed discount rates and rates of increase in remuneration and pension entitlements used in calculating the projected benefit obligation 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. The weighted-average assumptions used in calculating the actuarial values were as follows:

	September 30,	
	2001	2000
Discount rate	6.2%	6.7%
Expected return on plan assets	8.8%	8.9%
Rate of compensation increase	3.3%	3.9%
Rate of pension progression	1.7%	1.5%

The components of the net periodic benefit cost for the years ended September 30, 2001 and 2000 were as follows:

	September 30,	
	2001	2000
Service cost	464	455
Interest cost	1,091	991
Expected return on plan assets	(1,609)	(872)
Amortization of:		
Unrecognized prior service cost	8	4
Unrecognized net gains	(1)	(9)
Unrecognized net transition obligation (asset)	(4)	(4)
Gain due to settlements and curtailments	–	(1)
Net periodic benefit cost	(51)	564

Information regarding the Company's principal other postretirement benefit plans is presented in the following tables:

	September 30,	
	2001	2000
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	1,210	1,078
Foreign currency exchange rate changes	(25)	96
Service cost	47	44
Interest cost	79	74
Plan participants' contributions	1	1
Amendments	–	14
Actuarial gains	(86)	(9)
Divestments	(18)	(50)
Benefits paid	(38)	(38)
Projected benefit obligation at end of year	1,170	1,210
Change in plan assets:		
Fair value of plan assets at beginning of year	32	7
Foreign currency exchange rate changes	–	1
Actual return on plan assets	(6)	–
Employer contributions	26	41
Plan participants' contributions	1	1
Benefits paid	(25)	(18)
Fair value of plan assets at end of year	28	32

A reconciliation of the funded status to the amounts recognized in the consolidated balance sheets is as follows:

	September 30,	
	2001	2000
Funded status	(1,142)	(1,178)
Unrecognized net gains	(228)	(169)
Unrecognized prior service cost	3	2
Unrecognized net transition obligation	1	2
Net amount recognized	(1,366)	(1,343)
Amounts recognized in the consolidated balance sheets consist of:		
Prepaid benefit asset	–	4
Accrued benefit liability	(1,366)	(1,347)
Net amount recognized	(1,366)	(1,343)

Assumed discount rates and rates of increase in remuneration and pension entitlements used in calculating the projected benefit obligations 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. The weighted-average assumptions used in calculating the actuarial values were as follows:

	September 30,	
	2001	2000
Discount rate	6.7%	7.1%
Expected return on plan assets	9.0%	8.8%
Medical trend rates (initial/ultimate/year):		
Medicare ineligible pre 65	10.0%/5.0%/2007	8.5%/5.4%/2021
Medicare eligible post 65	10.0%/5.0%/2007	6.9%/5.4%/2021
Fixed dollar benefit	5.8%	6.0%
Dental trend rates (initial/ultimate/year)	6.0%/5.0%/2021	6.0%/5.0%/2021

The health-care trend rate assumptions have a significant effect on the amounts reported. A one-percentage-point change in the health-care trend rates would have the

following effects on the accumulated postretirement benefit obligation and service and interest costs as of and for the year ended September 30, 2001:

	One-percentage-point increase	One-percentage-point decrease
Effect on accumulated postretirement benefit obligation	71	(50)
Effect on total of service and interest cost components	10	(8)

The components of the net periodic benefit cost for the years ended September 30, 2001 and 2000 were as follows:

	September 30,	
	2001	2000
Service cost	47	44
Interest cost	79	74
Expected return on plan assets	(2)	–
Amortization of:		
Unrecognized prior service cost	(1)	–
Unrecognized net gain	(20)	(8)
Net periodic benefit cost	103	110

20 Other accruals and provisions

	September 30,	
	2001	2000
Remediation and environmental accruals	728	969
Deferred income	254	218
Other long-term accruals	1,975	2,881
	2,957	4,068

Remediation and environmental protection liabilities have been accrued primarily to account for 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). 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 until 2006; 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. As of September 30, 2001 and 2000, the accrual totals €676 and €706 and is recorded net of a present value discount of €1,460 and €1,493, respectively, calculated using a range of rates from approximately 4-5%.

The rates are determined based on the differing durations of the steps of decommissioning. The total expected payments for each of the next five fiscal years and the total thereafter are €66, €70, €75, €79, €3 and €1,843 (includes €1,663 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, 2001 and 2000, €33 and €33, respectively, was recognized as interest expense related to such accretion.

21 Shareholders' equity

Capital Stock and Additional Paid-in Capital

As of September 30, 2001, the Company's capital stock amounts to €2,665 divided into 888,230,245 shares without par value with a notional value of €3.00 per share. Each share of common stock is entitled to one vote.

Capital increases

On February 22, 2001, the Company's shareholders approved a capital increase of €262 through the increase in the notional value per share to a round amount from approximately €2.56 per share to €3.00 per share.

In addition, the Company's shareholders approved a capital increase of €888 effected in the form of a 3-for-2 stock split through increasing the number of shares outstanding by 295,812,450. The stock split was effective for trading purposes on April 30, 2001. All share and per share data for periods prior to April 30, 2001 have been restated to give effect to the 3-for-2 stock split.

The foregoing capital increases had the effect of decreasing additional paid-in capital and increasing common stock by €1,150.

In December 2000, €8 or 3,000,000 shares (4,500,000 after stock split) from Authorized Capital 1996/II were issued to an underwriter, repurchased and subsequently offered for sale to employees in Germany principally with respect to a special employee share program.

In June 2001, €2 or 790,000 shares from Authorized Capital 2001/II were issued to an underwriter, repurchased and subsequently offered for sale to employees in the U.S. with respect to a special employee share program.

In fiscal 2001 and 2000, capital stock increased by €20 thousand and €32 thousand, respectively, through the issuance of 9,345 shares and 18,990 shares, respectively, from the conditional capital as settlement to former shareholders of SNI AG who had not tendered their SNI share certificates by September 30, 2000 and 1999.

Treasury stock

On February 22, 2001, the Company's shareholders authorized the Company to repurchase up to 10% of the €2,662 capital stock.

In fiscal 2001, Siemens repurchased 6,063,920 shares (representing €18 or 1.2% of capital stock) at an average price of €84.76 per share. Including the 23,100 shares of treasury stock held at the beginning of the fiscal year, 6,085,904 shares were sold to employees. A majority of these shares were related to a special employee share program. The remainder of these shares were offered for sale to employees at a preferential price of €58.77. As of September 30, 2001, 1,116 shares of stock remained in treasury with a carrying amount of €111 thousand.

In fiscal 2000, Siemens repurchased 2,718,486 shares (representing €5 or 0.2% of the capital stock) at an average price of €82.55 per share, in order to offer them for sale to employees. Including the 28 shares of treasury stock held at the beginning of the fiscal year, 2,695,414 shares were sold to employees at a preferential price of €42.07 per share. At fiscal year-end, 23,100 shares of stock remained in treasury. The carrying amount of these shares, valued at €82.56 each, was €2.

During the years ended September 30, 2001 and 2000, the Company incurred compensation expense of €65 and €109, respectively, related to the sale to employees of repurchased shares.

During fiscal 2000, the Company repurchased during the months of May to August 2000 a total of 9,274,500 of its outstanding shares at an average price of €107.71 per share for a total of €999. The shares were purchased on the open market and were subsequently retired. As a result of these transactions, capital stock was reduced by €16 or 1%, paid-in capital was reduced by €58 or 1%, while retained earnings was charged with the purchase price difference of €925.

Authorized and Conditional Capital

Authorized Capital 1996/II, which was used for the above mentioned capital increase during fiscal 2001 of 3,000,000 shares, expired on February 1, 2001.

On September 30, 2001, the authorized but unissued capital of the Company amounts to €773 or 257,543,334 common shares (€499 or 195,200,000 common shares as of September 30, 2000).

On February 22, 2001, the Company's shareholders authorized the Managing Board with the approval of the Supervisory Board to increase the capital stock by up to €400 through the issuance of up to 133,333,334 shares for offer to existing shareholders until February 1, 2006 (Authorized Capital 2001/I). The Managing Board, with the approval of the Supervisory Board, is authorized to increase the capital stock by up to €75 through the issuance of up to 25,000,000 shares until February 1, 2006. The shareholders' preemptive rights are excluded since these shares will be offered for sale to employees (Authorized Capital 2001/II). As mentioned above, 790,000 shares from this authorized capital were issued during fiscal 2001.

The authorization to issue €300 or 100,000,000 in new common shares for which the shareholders' preemptive rights are excluded because these shares will be issued against contribution in kind will expire on February 1, 2003 for the first tranche of €90 (Authorized Capital 1998) and on February 1, 2004 for the second tranche of €210 (Authorized Capital 1999).

By resolution of the Annual Shareholders' Meeting on February 22, 2001, conditional share capital of €147 was approved to service the 2001 Siemens Stock Option Plan (Conditional Capital 2001). In addition, conditional capital of €45 was approved by the Company's shareholders to service the 1999 Siemens Stock Option Plan and the 2001 Siemens Stock Option Plan (Conditional Capital 1999).

Conditional capital of €2.5 provides for the settlement offered to former shareholders of SNI AG who had not tendered their SNI share certificates by September 30, 2001.

Other Comprehensive Income

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

	2001			September 30, 2000		
	Pretax	Tax effect	Net	Pretax	Tax effect	Net
Unrealized gains (losses) on securities:						
Unrealized holding gains (losses) for the period	(2,239)	918	(1,321)	2,123	(973)	1,150
Reclassification adjustments for gains included in net income	209	(87)	122	(280)	132	(148)
Net unrealized gains (losses) on available-for-sale securities	(2,030)	831	(1,199)	1,843	(841)	1,002
Unrealized gains (losses) on derivative financial instruments:						
Cumulative effect of change in accounting for derivative instruments	–	–	–	8	(3)	5
Unrealized gains (losses) on derivative financial instruments	(87)	(41)	46	(67)	33	(34)
Reclassification adjustments for (gains) losses included in net income	12	(5)	7	(2)	1	(1)
Net unrealized gains (losses) on derivative financial instruments	99	(46)	53	(61)	31	(30)
Minimum pension liability	(6,529)	2,541	(3,988)	(10)	4	(6)
Foreign currency translation adjustment	(532)	–	(532)	1,059	–	1,059
	(8,992)	3,326	(5,666)	2,831	(806)	2,025

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 year ended September 30, 2001, Siemens AG management distributed an ordinary dividend of €823 (€0.93 per share) and an additional bonus of €589 (€0.67 per share) of the 2000 earnings of Siemens AG as a dividend to the shareholders. During the years ended September 30, 2000, Siemens AG management distributed €593 (€0.67 per share) of the 1999 earnings of Siemens AG as a dividend to the shareholders.

In August 2001, Infineon entered into an agreement to sell its 49% share in the OSRAM Opto Semiconductors GmbH & Co. OHG joint venture for approximately €565 to Osram. The purchase price in excess of historic cost, net of tax, of €392 was reflected as a capital transaction in the separate financial statements of Infineon and Osram. Accordingly, in its consolidated financial statements, the Company recorded a decrease of €194 in its retained earnings to reflect the minority interest holding of Infineon.

22 Commitments and contingencies**Guarantees and other commitments**

	September 30,	
	2001	2000
Discounted bills of exchange	121	356
Guarantees	4,595	3,835
therein credit guarantees	[668]	[495]
Collateral for third-party liabilities	3	5

As of September 30, 2001, future payment obligations under noncancellable operating leases are as follows:

2002	460
2003	396
2004	326
2005	263
2006	229
Thereafter	926

The total operating rental expense for the years ended September 30, 2001 and 2000 was €279 and €283, respectively.

As of September 30, 2001, the Company has commitments to make capital contributions of €55 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.

The Company is a party to various lawsuits and arbitration proceedings arising in the ordinary course of its business, including matters involving allegations of improper shipments and services, product liability, patent infringement and claims for damages. Liabilities for litigation risks have been accrued, which the Company believes represent reasonable estimates of the probable liabilities associated with the cost of related litigation and the estimated cost of an unfavorable outcome of the disputes. Although the final resolution of any such matters could have a material effect on Siemens' consolidated operating results for the particular reporting period in which an adjustment of the estimated reserve is recorded, Siemens believes that any resulting adjustment should not materially affect its consolidated financial position.

23 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. 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 and also did not qualify for hedge accounting prior to SFAS 133. Accordingly, all such derivative financial instruments are recorded at fair value on the balance sheet 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 statements of income.

Hedging activities

During the years ended September 30, 2001 and 2000, the Company's operating units applied hedge accounting for certain significant anticipated transactions and firm commitments denominated in foreign currencies. Specifically, the Company has 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 as a separate component of shareholders' equity. During the year ended September 30, 2001, a net loss of €1 (2000: €–) was reclassified from accumulated other comprehensive income into cost of sales because the occurrence of the related hedged forecasted transaction was no longer probable. During the year ended September 30, 2001, a net loss of €2 (2000: €–) on the derivative contracts was recognized in cost of sales representing hedge ineffectiveness.

It is expected that €30 of net deferred gains in accumulated other comprehensive income will be reclassified into earnings during the year ended September 30, 2002 when the hedged forecasted foreign-currency-denominated sales and purchases occur.

As of September 30, 2001, the maximum length of time over which the Company is hedging its future cash flows associated with foreign-currency forecasted transactions is 64 months.

Fair value hedges – As of September 30, 2001, 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 €6 (2000: €16) and other current liability of €6 (2000: €–) 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 including a net loss of €– (2000: €(1)) representing 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 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, 2001 and 2000, the Company agrees to pay a variable rate of interest times a notional principle amount, and receive in return an amount equal to a specified fixed rate of interest times the same notional principal amount. 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 value 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 value 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 3.9% and 6.2% as of September 30, 2001 and 2000, respectively) and receive fixed rates of interest (average rate of 5.3% and 5.8% as of September 30, 2001 and 2000, respectively). The notional amount of indebtedness hedged as of September 30, 2001 and 2000 was €5,212 and €3,668, respectively. This resulted in 53% and 55% of the Company's underlying notes and bonds being subject to variable interest rates as of September 30, 2001 and 2000, 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, 2001 and 2000 was €103 and €(166), respectively.

Cash flow hedges

Prior to adoption of SFAS 133, the Company used interest rate derivative contracts to hedge certain anticipated commercial paper borrowings in the United States. The net unrealized gain of €8 on such derivatives was recorded to other comprehensive income at the date of adoption of SFAS 133. The Company elected not to designate such derivatives in a hedging relationship upon adoption of SFAS 133. During fiscal 2000, the Company significantly curtailed its commercial paper borrowing program in the United States and reclassified the unrealized gain of €8 from other comprehensive income into earnings.

24 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.

As of September 30, 2001, the Company's derivative financial instruments had a net fair value of €263 (2000: €(481)) and were recorded on the consolidated balance sheet as other current assets of €463 (2000: €259) and other current liabilities of €200 (2000: €740).

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 value due to the short-term maturities of these instruments.

Financial assets and securities

Securities in the portfolio are carried at fair value, which is based on quoted market prices. It is not practicable to estimate the fair value of the Company's other equity investments in related and affiliated companies, as these investments are not publicly traded.

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, 2001 and 2000, 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, 2001 and 2000, the fair value and carrying value of debt is as follows:

	September 30,	
	2001	2000
Fair value	12,333	9,208
Carrying value	12,610	9,338

25 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 will not be 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 in fiscal 2001 (see footnote 21).

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 are 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 option 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.

Details on option activity and weighted average exercise prices are as follows. On November 4, 1999, the Supervisory Board and the Managing Board granted options exercisable for approximately 1,181,061 (1,771,592 after stock split) shares with an exercise price of €86.60 (€57.73 after stock split) of which options exercisable for 114,000 (171,000 after stock split) shares were granted to the Managing Board. On November 24, 2000, the Supervisory Board and the Managing Board granted options exercisable for approximately 2,173,594 (3,260,391 after stock split) shares with an exercise price of €129.35 (€86.23 after stock split) of which options exercisable for 107,000 (160,500 after stock split) shares were granted to the Managing Board.

The options and exercise prices below have been restated to reflect the stock split:

	Year ended September 30,			
	2001		2000	
	Options	Exercise price	Options	Exercise price
Outstanding, beginning of period	1,750,892	€57.73		
Granted	3,260,391	€86.23	1,771,592	€57.73
Options exercised	–	–	–	–
Options forfeited	(47,611)	€76.27	(20,700)	€57.73
Outstanding, end of period	4,963,672	€76.27	1,750,892	€57.73
Exercisable, end of period	–	–	–	–

The following table summarizes information on stock options outstanding and exercisable at September 30, 2001:

Options outstanding				Options exercisable	
Range of exercise prices	Options outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
€57.73	1,750,892	5	€57.73	–	–
€86.23	3,212,780	6	€86.23	–	–

Fair value information

The Company uses the Black-Scholes option pricing model to determine the fair value of grants. The fair value prior to the stock split for the first tranche of the 1999 Plan in November 1999 was €22.52 and for the second tranche in November 2000, €38.11. The fair value of grants made during the years ended September 30, 2001 and 2000, restated for the stock split are as follows:

	Assumptions at grant date	
	2001	2000
Risk-free interest rate	5.0%	4.6%
Expected dividend yield	2.59%	0.94%
Expected volatility	50.00%	35.85%
Expected option life	4 years	4 years
Estimated weighted average fair value of options	€25.41	€15.01

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.

Pro forma information

If the Company had adopted the fair value based accounting method prescribed by SFAS 123, the net income and earnings per share would have been changed to the pro forma amounts indicated below:

	Year ended September 30,	
	2001	2000
Net income		
As reported	2,088	8,860
Pro forma	2,034	8,870
Basic earnings per share		
As reported	2.36	9.97
Pro forma	2.30	9.98
Diluted earnings per share		
As reported	2.36	9.96
Pro forma	2.30	9.97

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 representing approximately 6.2% of the total shares outstanding. 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. The exercise price is also the performance target. The terms of the plan allow the Company to offer optionees the choice of settling options in either shares or cash. 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. In connection with the 2001 Siemens Stock Option Plan, the shareholders approved an increase in conditional capital in an amount not to exceed €147 (see footnote 21).

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.

The option 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 opening market price of the Company's stock on the day of exercising the stock options.

During 2000, the Managing Board approved a special one-time employee bonus award of €600 relating to the Company's exceptional results in 2000. Individuals employed by Siemens, other than employees of Osram GmbH and Infineon Technologies AG, during the entire period October 1, 1999 through September 30, 2000 were entitled to participate in the bonus program, including former employees who left the Company after September 30, 2000. Approximately €300 of the special bonus was allocated to domestic participants. Eligible participants in Germany were offered a 50% discount towards the purchase of a fixed number of the Company's shares in November 2000, with an enrollment period of 21 days. Shares issued to domestic participants under the bonus program approximated 2.4 million shares and cannot be sold for a period of one year. In foreign countries, depending on the legal environment, the bonus program has been administered either through a similar program as in Germany or through a grant of stock or cash.

26 Personnel costs

	Year ended September 30,	
	2001	2000
Wages and salaries	23,028	21,264
Statutory social welfare contributions and expenses for optional support payments	3,673	3,305
Expenses relating to pension plans and employee benefits	401	2,032
	27,102	26,601

The average number of employees in fiscal year 2001 was 477,100 (2000: 430,200). 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,	
	2001	2000
Manufacturing	214,900	191,400
Sales and marketing	142,000	129,300
Research and development	60,200	54,800
Administration and general services	60,000	54,700
	477,100	430,200

27 Additional information relating to Board members

The total remuneration received or receivable by the members of the Supervisory Board amounts to €2.1 and €3.6 for the years ended September 30, 2001 and 2000, respectively, of which €0.1 (2000: €0.1) is accounted for by fixed compensation, and €1.2 (2000: €3.5) by variable compensation and, in 2001, €0.8 by the market value of appreciation rights granted under the same conditions as under the Siemens 1999 Stock Option Plan. The total remuneration of the members of the Managing Board was €17.0 and €21.7 for the years ended September 30, 2001 and 2000, respectively, of which €5.1 (2000: €4.0) is accounted for by fixed salary and €6.3 (2000: €15.1) by variable compensation and, in fiscal 2001, €4.1 by the market value of the stock options under the 1999 Siemens Stock Option Plan (2000: €2.6). Furthermore, the Managing Board received an amount of €1.5 for the immediate acquisition of a total of 15,375 shares (10,250 prior to stock split) under the condition that each board member, within a period of 18 months, buys the same number of shares on his own account. Each board member paid any taxes and other levies associated with the initial payment. None of the shares purchased may be sold until the holder leaves the Managing Board or for three years from the date of the award, whichever is longer. Former members of the Managing Board and their surviving dependents received pensions and transitional payments of €13.2 (2000: €12.2).

Pension commitments to former members of the Managing Board and their surviving dependents are covered by an accrual of €95.8 (2000: €95.6).

During the last two fiscal years there have been no loans outstanding to our management.

Share ownership

The Supervisory Board members and the Managing Board members of Siemens AG hold shares and options representing less than 1% of the total shares outstanding. For this calculation, Siemens has not included the aggregate of 2.01% of outstanding share capital that is held by the von Siemens-Vermögensverwaltungs GmbH, a German limited liability entity that functions much like a trust (vSV) or the 4.47% as to which the vSV has voting power under a power of attorney. Mr. Peter von Siemens has the voting control over these shares.

Related party transactions

Some of the board members of Siemens AG hold or in the last three years 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, Bayerische Hypo- und Vereinsbank AG and Allianz AG. Dr. Rolf-E. Breuer is the Spokesman of the Managing Board of Deutsche Bank AG and Dr. Albrecht Schmidt is the Spokesman of the Managing Board of Bayerische Hypo- und Vereinsbank AG. The Company's ongoing banking relations with these institutions include securities underwritings, other investment banking services, and credit, money market and foreign-exchange business. Dr. Henning Schulte-Noelle is Chairman of the Managing Board of Allianz AG, which directly and indirectly provides insurance coverage in the ordinary course of our business as well as banking services through its majority-owned subsidiary, Dresdner Bank AG to Siemens.

The members of the Managing Board of Siemens AG are listed on pages 24, 25 and 121 of this Annual Report, and the Supervisory Board members are named on page 120.

28 Earnings per share

(shares in thousands)	Year ended	
	September 30,	
	2001	2000
Net income	2,088	8,860
Weighted average shares outstanding – basic	885,658	889,055
Effect of dilutive stock options	270	662
Weighted average shares outstanding – diluted	885,928	889,716
Basic earnings per share	2.36	9.97
Diluted earnings per share	2.36	9.96

29 Segment information

The Company's segments are organized based on the nature of products and services provided.

The segment information is subdivided on a primary level into four components: Operations, Infineon, Financing and Real Estate, and Eliminations, reclassifications and Corporate Treasury. The accounting policies of these components (and the segments included) are generally the same as those described in the summary of significant accounting policies. 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 segments. In fiscal 2001, the Company changed the profitability measure for its Operations segments to earnings before financing interest, certain pension costs, income taxes, and amortization of goodwill and purchased in-process R&D and certain one-time items (EBITA). The prior-period segment information has been restated to reflect this change. In the prior year and until March 31, 2001, the service cost component of domestic net periodic pension cost was included in the measure of segment EBITA. Beginning April 2001, management decided to discontinue the allocation of the service cost component of domestic pension costs to the Operations segments. Such change increased EBITA of the segments in total by €49 for fiscal 2001. Additionally, in fiscal 2001, management decided to allocate the expense or income associated to the Company's stock option plans to the segments. Such change increased EBITA of the segments by €26 in 2001. Interest costs, return on plan assets and all other components of domestic net periodic pension costs are included in the line item "Corporate, eliminations." Interest related to accounts receivable to customers, cash allocated to the segments, and accounts payable to suppliers are part of EBITA.

Earnings (losses) from equity investees included in EBITA of Operations segments were €6 and €(61) at ICM; €1 and €12 at ICN; €33 and €2 at PG; as well as €28 and €14 in the other Operations segments for the years ended September 30, 2001 and 2000, respectively.

EBITA assets is the asset measure used to assess the performance for the Operations segments. It represents net capital employed (total assets less tax-related assets, less accruals and less non-interest bearing liabilities other than tax-related liabilities). EBITA assets are not reduced for amortization of goodwill and in-process research and development as such expenses are added back to calculate EBITA assets.

Corporate, eliminations and Reconciliation to financial statements

Corporate, eliminations within Operations and Reconciliation to financial statements include various categories of items which are not allocated to the segments since the Managing Board has determined that such items are not indicative of the segments' performance. These include nonrecurring, one-time charges or gains and the results of centrally managed projects. In addition, Corporate, eliminations includes corporate charges such as personnel costs, including results from the domestic pension fund, certain corporate related derivative activities, centrally held equity investments, business units and corporate projects, liquid assets unallocated to segments and corporate items relating to foreign subsidiaries. Reconciliation to financial statements consists of various items excluded by definition from EBITA. Operations segments EBITA is used to determine bonus payments in accordance with Siemens' management incentive program.

Corporate, eliminations

Corporate, eliminations in the column EBITA consists of:

	Year ended September 30,	
	2001	2000
Corporate headquarters expenses and charges	(910)	(827)
Gains on sales of available-for-sale securities	227	98
Domestic pension related income (expense)	418	(177)
At-equity earnings from centrally held equity investees	113	81
Eliminations, other	(168)	(445)
	(320)	(1,270)

In March 2000, the Company contributed all of the trading securities and other assets into a pension trust to provide for future pension benefit payments relating to certain defined benefit pension plans in Germany. Prior to the establishment of the pension trust, certain trading securities were designated as pension assets and the return on these assets was included in income from marketable securities.

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

For the year ended September 30, 2001, "Eliminations, other" in the table above includes the loss on the sale of a centrally held investment of €209; €78 in expenses related to centrally managed litigation issues, €74 in corporate interest expense in part related to the Atecs acquisition, and €63 in severance charges. Fiscal 2001, also included a gain of €114 related to currency effects and the treatment of derivative contracts not qualifying for hedge accounting, and positive resolution of certain asset disposal contingencies of €162.

For the year ended September 30, 2000, "Eliminations, other" in the table above includes higher charges related to currency effects and to the treatment of derivative contracts not qualifying for hedge accounting of €212 and losses on asset dispositions totaling €210. Also included are costs of €178 for employee severance and contract termination associated with the Ten-Point Program. Furthermore, Eliminations, other, consists of €68 related to the centrally managed outsourcing contract in Argentina, originally entered into by SBS. The most significant income item for Eliminations, other, was €692 in income from marketable securities classified as trading.

Reconciliation to financial statements

"Other interest expense" of Operations relates primarily to interest paid on debt and corporate financing transactions through Corporate Treasury.

"Goodwill amortization and purchased in-process R&D expenses" are not included in EBITA by definition.

"Gains on sales and dispositions of significant business interests" are shown under Reconciliation to financial statements. For fiscal year 2001, such amount includes a gain of €3,459 from the irrevocable transfer of approximately 93,825,225 Infineon shares into our domestic pension trust as well as a €484 gain from a follow-on offering by Infineon of approximately 60 million of its shares in the fourth quarter. In addition, Infineon increased its capital in connection with two acquisitions, which resulted in an aggregate gain of €122. Siemens did not participate in these capital increases. Gains on sales and dispositions of significant business interests for the prior year total €7,826 resulting primarily from the IPO of Infineon and other dispositions.

For fiscal 2001, "Other special items" include goodwill impairments, primarily related to Efficient and Milltronics totaling €927, and the write-down of inventories and assets associated with the contract cancellation by the Argentine government of €258. Other special items of the prior fiscal period primarily resulted from exceptional gains from certain marketable securities, a one-time bonus for employees, certain restructuring costs, a write-off of goodwill and exceptional charges related to certain contract losses, as well as a provision related to a loan associated with a joint venture and a contribution to the German government-sponsored humanitarian fund, called "Remembrance, Responsibility and the Future," and write-downs associated with centrally managed assets.

For further details of "Gains on sales and dispositions of significant business interests" and "Other special items" see below:

	Year ended September 30,	
	2001	2000
Gains on sales and dispositions of significant business interests	4,065	7,826
Other special items		
Income from marketable securities classified as trading	–	1,820
Personnel related expenses	–	(600)
Rationalization expenses	–	(193)
Impairment of goodwill	(927)	(195)
Contract losses	(258)	(450)
Other	–	(662)
Total of other special items	(1,185)	(280)

The following table reconciles total assets of the Operations component to EBITA assets as disclosed in Segment Information according to the above definition:

	September 30,	
	2001	2000
Total assets	70,917	69,109
Intracompany financing receivables and investments	(8,305)	(14,203)
Tax related assets	(4,335)	(1,625)
Pension plans and similar commitments	(4,653)	(2,419)
Accruals	(6,977)	(6,609)
Liabilities to third parties	(28,034)	(20,580)
Accumulated goodwill amortization and in-process R&D expense	1,057	392
Total reconciliation	(51,247)	(45,044)
EBITA assets	19,670	24,065

Infineon

The Company's profitability measure for Infineon is earnings before interest and taxes (EBIT).

Earnings (losses) from equity investees included in EBIT at Infineon were €32 and €101 for the years ended September 30, 2001 and 2000, respectively.

Net capital employed, as an EBIT-related asset indicator, is the only asset measure used to assess the performance for Infineon.

Financing and Real Estate

The Company's performance measurement for its Financing and Real Estate segments is income before income taxes. In contrast to the performance measurement used for the Operations segments, interest expense and income is an important source of revenue and expense for Financing and Real Estate.

For the years ended September 30, 2001 and 2000, income before income taxes at SFS includes interest revenue of €603 and €418, respectively, and interest expense of €404 and €307, respectively. For the years ended September 30, 2001 and 2000, income before income taxes at SRE includes interest revenue of €19 and €9, respectively, and interest expense of €150 and €117, 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.

Description of business segments

With the completion of the acquisition of Atecs and its consolidation in the Siemens consolidated financial statements beginning with the third quarter of fiscal 2001, two Operating segments were renamed: Siemens Dematic (SD) resulted out of the merger of Siemens Production and Logistics Systems (PL) and Mannesmann Dematic, and Siemens VDO Automotive (SV) resulted from the integration of Mannesmann VDO into Siemens Automotive (AT).

The Operations segments 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 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 communication networks as well as mobile and wireline intelligent network systems. ICM also holds a 50% interest in the Fujitsu Siemens Computers joint venture, a leading manufacturer of personal and network computers and servers.

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

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 is active in the fields of factory and logistics automation. The segment engineers and provides turnkey systems and related components and services for electronics assembly systems, logistics and factory automation systems, postal automation systems, crane and drive technology, as well as mobile crane systems.

Siemens Building Technologies (SBT) – SBT supplies products, systems and services for safety and security engineering, fire protection, heating and ventilation, and air conditioning. SBT also provides full facility management services as well as the planning and engineering of large-scale infrastructure projects.

Power Generation (PG) – PG provides customers worldwide with a broad range of products and services necessary for the conversion of energy into electricity and heat. This includes the design and construction of power plants, turbines and generators, and the production and development of alternative energy power sources.

Power Transmission and Distribution (PTD) – PTD ensures, as a product supplier, system integrator and service provider, reliable and efficient transmission of electrical energy from the generating plant to the consumer. PTD provides the liberalized energy markets not only with tailor-made IT solutions, but also enables power suppliers to outsource the operation and servicing of their electricity supply networks under service contracts with PTD.

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.

Siemens VDO Automotive (SV) – SV provides information, cockpit and car communication systems, including instrumentation, audio, navigation, multimedia and telematics applications as well as system solutions for drive train, motor control electronics and fuel injection technology, safety products such as airbag and ABS electronics, and chassis electronic products.

Medical Solutions (Med) – Med offers diagnostic and therapy systems such as CAT scanners, hearing instruments, magnetic resonance imagers and ultrasound and radiology devices.

Osram – Osram designs, manufactures and sells general lighting products, automotive lighting, photo/optical lighting, and opto semiconductors.

Infineon Technologies (Infineon) – Infineon's products include discrete and integrated semiconductor circuits and systems for wireless communications, computer networks and for use in automotive and industrial applications.

The Financing and Real Estate Segments are comprised of the following two businesses:

Siemens Financial Services (SFS) – SFS, the Company's international financial services segment, provides customized financial solutions and best-practice risk management.

Siemens Real Estate (SRE) – SRE owns and manages Siemens' domestic real estate portfolio, and increasingly manages Siemens real estate in the U.S. and in Western Europe.

30 Geographic information

The following table presents data by geographic region as of and for the years ended September 30, 2001 and 2000:

	Sales by location of customer		Sales by location of companies	
	2001	2000	2001	2000
Germany	19,144	18,899	30,547	27,640
Europe (other than Germany)	26,196	23,952	23,024	22,028
U.S.	21,103	16,978	21,102	16,863
Americas other than U.S.	4,893	4,317	3,928	3,674
Asia-Pacific	11,081	9,984	7,228	6,369
Other countries	4,583	3,354	1,171	910
Siemens worldwide	87,000	77,484	87,000	77,484

	Long-lived assets	
	2001	2000
Germany	7,368	5,858
Europe (other than Germany)	3,991	3,850
U.S.	4,486	4,042
Americas other than U.S.	633	711
Asia-Pacific	1,197	1,189
Other countries	128	70
Siemens worldwide	17,803	15,720

Long-lived assets consist of property plant and equipment and equipment leased to others.

September 30, 2001	Sales ⁽¹⁾ in millions of €	Income after taxes ⁽¹⁾ in millions of €	Equity interest in %
I. Subsidiaries – Operations			
1. Regional Companies (international)			
Siemens S.A., Brussels	442	48	100
Siemens A/S, Ballerup (Copenhagen)	413	1	100
AS Siemens, Tallinn	29	2	100
Siemens Osakeyhtiö, Espoo (Helsinki)	241	6	100
Siemens S.A.S., Saint-Denis (Paris)	868	0	100
Siemens A.E., Elektrotechnische Projekte und Erzeugnisse, Athens	261	10	100
Siemens plc, Bracknell (London) ⁽³⁾	2,188	118	100
Siemens Ltd., Dublin	181	3	100
Siemens S.p.A., Milan	1,215	11	100
Siemens d.d. Zagreb ⁽²⁾	107	1	97
Siemens SIA, Riga	36	1	100
UAB Siemens, Vilnius	31	1	100
Siemens Nederland N.V., The Hague	1,418	314	100
Siemens AS, Oslo	482	(5)	100
Siemens Aktiengesellschaft Österreich, Vienna ⁽³⁾	2,362	245	100
Siemens Sp.z.o.o., Warsaw	252	2	100
Siemens S.A., Lisbon ⁽³⁾	612	46	100
Siemens AB, Stockholm	285	6	100
Siemens Schweiz AG, Zurich ⁽³⁾	1,242	46	100
Siemens s.r.o., Bratislava ⁽²⁾	69	1	100
Siemens d.o.o., Ljubljana	46	1	100
Siemens S.A., Madrid	1,380	55	100
Siemens s.r.o., Prague	459	6	100
Simko Ticaret ve Sanayi A.Ş., Istanbul	294	4	100
Siemens Rt., Budapest ⁽²⁾	174	28	100
Siemens S.A., Buenos Aires	382	(10)	100
Siemens Ltda., São Paulo	689	25	100
Siemens S.A., Santiago de Chile	33	1	100
Siemens Canada Ltd., Mississauga/Ontario	1,430	57	100
Siemens S.A., Bogotá	106	2	94
Grupo Siemens S.A. de C.V., Mexico City ⁽³⁾	384	13	100
Siemens S.A., Caracas	94	1	100
Siemens Ltd., Bayswater (Melbourne) ⁽³⁾	292	(7)	100
Siemens Ltd., Beijing ⁽⁷⁾	56	85	100
Siemens Ltd., Hong Kong	138	2	100
Siemens Ltd., Mumbai	259	15	54
P.T. Siemens Indonesia, Jakarta	86	6	94
Siemens K.K., Tokyo	323	3	100
Siemens Ltd., Seoul	17	5	100
Siemens Malaysia Sdn. Bhd., Kuala Lumpur	101	6	100
Siemens Pakistan Engineering Co. Ltd., Karachi	76	4	64
Siemens Inc., Manila	39	6	100
Siemens Advanced Engineering Pte. Ltd., Singapore	536	12	100
Siemens Ltd., Taipei	48	3	100
Siemens Ltd., Bangkok	294	11	93

September 30, 2001	Sales ⁽¹⁾ in millions of €	Income after taxes ⁽¹⁾ in millions of €	Equity interest in %
Siemens Ltd., Cairo	69	1	90
Siemens Israel Ltd., Tel Aviv	16	(4)	75
Siemens S.A., Casablanca	61	1	51
OOO Siemens, Moscow ⁽²⁾	103	14	100
Siemens Ltd., Jidda	168	11	51
Siemens Ltd., Johannesburg ⁽³⁾	215	16	87
Siemens LLC, Abu Dhabi	59	1	49 ⁽⁶⁾
2. Siemens U.S.A. (Group statements)	23,046	(603)	100
3. Other subsidiaries			
Information and Communication Networks (ICN)			
Siemens Tele Industrie A.E., Thessaloniki	191	10	70
Siemens Information and Communication Networks S.p.A., Milan	1,334	22	100
ZWUT S.A., Warsaw	304	11	97
Siemens Information and Communication Networks, Inc., Boca Raton, Florida	1,682 ⁽⁴⁾		100
Unisphere Networks, Inc., Burlington, Massachusetts	202 ⁽⁴⁾		96
Siemens Public Communication Networks Ltd., Bangalore	177	8	100
Egyptian German Telecommunication Industry S.A.E., Cairo	64	15	75
Information and Communication Mobile (ICM)			
Siemens Information and Communication Mobile LLC, Austin, Texas	192 ⁽⁴⁾		100
Siemens Shanghai Mobile Communications Ltd., Shanghai	1,770	83	60
Siemens Telecommunication Systems Ltd., Taipei ⁽³⁾	186	7	60
Siemens Business Services (SBS)			
Siemens Business Services GmbH & Co. OHG, Munich	3,324	(198)	100
Siemens Business Services S.A., Brussels	214	6	100
Siemens Business Services Ltd., Hounslow, Middlesex	517	(232)	100
Siemens Informatica S.p.A., Milan	254	(2)	51
Siemens Business Services GmbH, Vienna	253	(6)	100
Siemens Business Services AG, Kloten (Zurich)	96	(1)	100
Siemens Itron Business Services S.A., Buenos Aires	72	(3)	60
Siemens Business Services, Inc., Rye Brook, New York	471 ⁽⁴⁾		100
Automation and Drives (A&D)			
Siemens Production Automatisations S.A., Haguenau, France	75	3	100
Siemens Elektromotory s.r.o., Mohelnice, Czech Republic	116	14	100
Siemens Milltronics Inc., Mississauga, Ontario	85	(3)	100
Siemens Energy & Automation, Inc., Alpharetta, Georgia	2,198 ⁽⁴⁾		100

⁽¹⁾ These figures correspond to the financial statements prepared in accordance with local regulations and do not reflect the amounts included in the consolidated financial statements. Foreign currency accounts are translated at year-end exchange rates.

⁽²⁾ Fiscal year from January 1, 2000 to December 31, 2000.

⁽³⁾ Sales and income after taxes as per consolidated financial statements.

⁽⁴⁾ Included in U.S. Group statements.

⁽⁵⁾ Fiscal year from April 1, 2000 to March 31, 2001.

⁽⁶⁾ Subsidiary pursuant §290 (2) No. 2 German Commercial Code (HGB).

⁽⁷⁾ Sales and income after taxes as per separate company financial statements.

September 30, 2001	Sales ⁽¹⁾ in millions of €	Income after taxes ⁽¹⁾ in millions of €	Equity interest in %
Siemens Dematic (SD)			
Siemens Dematic AG, Munich	978	(383)	100
Siemens Dematic Electronics Assembly Systems, Inc., Wilmington, Delaware	141 ⁽⁴⁾		100
Mannesmann Dematic Rapistan Corp., Grand Rapids, Michigan	573 ⁽⁴⁾		100
Siemens Dematic Postal Automation, Inc., Arlington, Texas	338 ⁽⁴⁾		100
Siemens Building Technologies (SBT)			
Siemens Gebäudetechnik GmbH & Co. OHG, Erlangen	888	7	100
Siemens Building Technologies AG, Zurich	610	12	100
Siemens Building Technologies, Inc., Buffalo Grove, Illinois	1,520 ⁽⁴⁾		100
Power Generation (PG)			
Siemens Westinghouse Power Corporation, Orlando, Florida	4,712 ⁽⁴⁾		100
Power Transmission and Distribution (PTD)			
Siemens Metering AG, Zug	134	(6)	100
Siemens Power Transmission & Distribution, Inc., Raleigh, North Carolina	523 ⁽⁴⁾		100
Transportation Systems (TS)			
Siemens Duewag Schienenfahrzeuge GmbH, Krefeld	365	(43)	100
Matra Transport International S.A., Montrouge (Paris)	162	5	95
Siemens SGP Verkehrstechnik Ges.m.b.H., Vienna	229	3	100
Siemens Transportation Systems, Inc., Sacramento, California	403 ⁽⁴⁾		100
Siemens VDO Automotive (SV)			
Siemens VDO Automotive AG, Munich	2,251	(449)	75
Siemens VDO Automotive Rambouillet S.A.S., Rambouillet (Paris)	305	2	100
Siemens VDO Automotive S.A., Toulouse	494	(15)	100
VDO Automotive España S.A., Barcelona	433	3	100
VDO Česká republika s.r.o., Brandys (Prague)	208	8	100
Siemens Automotive, Inc., Chatham, Ontario	334	5	100
Siemens Automotive Corp., Auburn Hills, Michigan	1,047 ⁽⁴⁾		100
VDO North America LLC, Winchester, Virginia	165 ⁽⁴⁾		100
Medical Solutions (Med)			
Siemens-Elema AB, Solna (Stockholm)	373	1	100
Acuson Corporation, Wilmington, Delaware	538 ⁽⁴⁾		100
Siemens Medical Solutions Health Services, Wilmington, Delaware	1,128 ⁽⁴⁾		100
Siemens Medical Solutions USA, Inc., Iselin, New Jersey	2,279 ⁽⁴⁾		100
Siemens Asahi Medical Technologies Ltd., Tokyo	310	10	82
Osram			
Osram GmbH, Munich	1,456	177	100
Osram Opto Semiconductors GmbH & Co. OHG, Regensburg	384	13	100
Osram S.A.S., Molsheim, France	203	0	100
Osram Ltd., Langley (London)	109	5	100
Osram Società Riunite Osram Edison-Clerici S.p.A., Milan	272	1	100
Osram Argentina S.A.C.I., Buenos Aires	52	2	100
Osram do Brasil Companhia de Lâmpadas Elétricas Ltda., Osasco (São Paulo)	79	6	100
Osram de México S.A. de C.V., Tultitlán	86	2	100

September 30, 2001	Sales ⁽¹⁾ in millions of €	Income after taxes ⁽¹⁾ in millions of €	Equity interest in %
Osram Sylvania, Inc., Danvers, Massachusetts	2,176 ⁽⁴⁾		100
Osram-Melco Ltd., Yokohama	178	5	51
Infineon Technologies			
Infineon Technologies AG, Munich	6,697	(437)	50.4
Infineon Technologies North America Corp., Wilmington, Delaware	1,171 ⁽⁴⁾		100
Infineon Technologies Japan K.K., Tokyo	186	1	100
Infineon Technologies Asia Pacific Pte. Ltd., Singapore	1,875	26	100
II. Subsidiaries – Financing and Real Estate			
Siemens Financial Services (SFS)			
Siemens Finance & Leasing GmbH & Co. KG, Munich	651	2	100
Siemens Financial Services GmbH, Munich	27	130	100
Siemens Finance S.A., Saint-Denis (Paris)	120	2	100
Siemens Financial Services Ltd., Harrow, Middlesex	49	10	100
Siemens Finanziaria S.p.A., Milan	38	4	100
Siemens Financial Services, Inc., Wilmington, Delaware	144 ⁽⁴⁾		100
Siemens Real Estate (SRE)			
Siemens Immobilien Management GmbH & Co. OHG, Munich	294	47	100
Siemens Real Estate Ltd., Bracknell, Berkshire	50	1	100
Siemens Servizi Aziendali S.r.l., Milan	37	(2)	100
Siemens Real Estate, Inc., Iselin, New Jersey	47 ⁽⁴⁾		100
III. Associated companies			
Information and Communication Mobile (ICM)			
Fujitsu Siemens Computers (Holding) B.V., Amsterdam ⁽⁵⁾	5,888	(65)	50
Infineon Technologies			
ProMOS Technologies, Inc., Hsinchu, Taiwan ⁽²⁾	672	213	33
Other (not allocatable to specific operating units)			
BSH Bosch und Siemens Hausgeräte GmbH, Munich ⁽²⁾	6,278	89	50
Tela Versicherung Aktiengesellschaft, Berlin and Munich ⁽²⁾	334	(5)	50

⁽¹⁾ These figures correspond to the financial statements prepared in accordance with local regulations and do not reflect the amounts included in the consolidated financial statements. Foreign currency accounts are translated at year-end exchange rates.

⁽²⁾ Fiscal year from January 1, 2000 to December 31, 2000.

⁽³⁾ Sales and income after taxes as per consolidated financial statements.

⁽⁴⁾ Included in U.S. Group statements.

⁽⁵⁾ Fiscal year from April 1, 2000 to March 31, 2001.

⁽⁶⁾ Subsidiary pursuant §290 (2) No. 2 German Commercial Code (HGB).

	2001	2000	1999	1998 ⁽¹⁾	1997 ⁽¹⁾
Sales and earnings (in millions of euros)					
Net sales	87,000	77,484	68,069	–	–
Gross profit on sales	23,105	21,535	17,909	–	–
Research and development expenses	6,782	5,848	5,260	–	–
as a percentage of sales	7.8	7.5	7.7	–	–
Net income	2,088	8,860	1,209	–	–
Net income excluding special items	85	2,639	1,209	–	–
Assets, liabilities and shareholders' equity (in millions of euros)					
Current assets	51,013	49,091	44,850	–	–
Current liabilities	44,524	36,855	31,049	–	–
Debt	12,610	9,338	7,492	–	–
Long-term debt	9,973	6,734	4,753	–	–
Pension plans and similar commitments	4,721	2,473	11,540	–	–
Shareholders' equity	23,812	28,480	19,138	–	–
as a percentage of total assets	26	35	27	–	–
Total assets	90,118	81,654	71,720	–	–
Cash flows (in millions of euros)					
Net cash provided by operating activities	7,016	6,154	3,640	–	–
Depreciation and amortization	6,264	4,652	3,594	–	–
Net cash used in investing activities	(5,886)	(435)	(2,876)	–	–
Additions to intangible assets and property, plant and equipment	(7,048)	(5,544)	(3,998)	–	–
Net cash used in financing activities	(95)	(1,174)	(1,111)	–	–
Net increase (decrease) in cash and cash equivalents	940	4,725	(292)	–	–
Employees					
Employees ⁽²⁾ (in thousands)	484	448	437	–	–
Employee costs (in millions of euros)	27,102	26,601	23,126	–	–

⁽¹⁾ Due to the adoption of U.S. GAAP comparable financial data is not available for the fiscal years 1998 and 1997.

⁽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)	2001	2000	1999	1998	1997
EVA (in millions of euros)	(743)	7,095	–	–	–
Earnings per share	2.36	9.97	1.36	–	–
Diluted earnings per share	2.36	9.96	1.36	–	–
Dividend per share	1.00 ⁽⁴⁾	1.60	0.67	0.51	0.51
Siemens stock price ⁽⁵⁾					
High	105.77	127.67	57.53	47.25	44.31
Low	37.50	50.65	26.93	30.78	24.13
Year-end (September 30)	41.89	97.33	51.60	31.46	40.68
Siemens stock performance over prior year (in percentage points)					
compared to DAX® index	– 19.84	+ 57.88	+ 63.23	– 30.00	– 6.98
compared to Dow Jones STOXX SM index	– 28.30	+ 63.95	+ 47.85	– 26.13	– 2.79
Number of shares (in millions)	888	883	892	892	857
Market capitalization (in millions of euros)	37,208	85,939	46,037	28,068	34,852
Credit rating of long-term debt					
Standard & Poor's	AA	AA	AA	AA	AAA
Moody's	Aa3	Aa3	Aa3	Aa1	Aa1

Quarterly data (in millions of euros)	2001	4 th Quarter	3 rd Quarter	2 nd Quarter	1 st Quarter
Net sales	87,000	24,540	21,360	20,629	20,471
Net income	2,088	(1,098)	1,608	578	1,000
Net income excluding special items	85	(566)	(705)	578	778

Quarterly data (in millions of euros)	2000	4 th Quarter	3 rd Quarter	2 nd Quarter	1 st Quarter
Net sales	77,484	23,660	18,025	19,058	16,741
Net income	8,860	562	267	5,628	2,403
Net income excluding special items	2,639	767	628	653	591

Siemens AG – Statement of income and balance sheet*
(condensed version) (in billions of euros)

Years ended September 30	2001	2000	September 30	2001	2000
Net sales	29.7	31.6	Property, plant and equipment	1.6	1.7
Cost of sales	(22.8)	(22.8)	Investments	17.8	17.5
Gross profit on sales	6.9	8.8	Noncurrent assets	19.4	19.2
Other functional costs	(9.3)	(8.5)	Inventories	1.0	2.3
Other income and expense, net	3.7	1.7	Accounts receivable	23.7	17.3
Income before income taxes	1.3	2.0	Marketable securities, liquid assets	12.9	14.0
Income taxes	(0.4)	(0.3)	Total assets	57.0	52.8
Extraordinary items (after taxes)	–	0.2	Shareholders' equity	13.8	13.8
Net income	0.9	1.9	Accrued liabilities and special reserves	17.8	16.5
Profit available for distribution	0.9	1.4**	Debt	0.2	0.3
			Other liabilities	25.2	22.2
			Total shareholders' equity and liabilities	57.0	52.8

* Prepared in accordance with the German Commercial Code (HGB).

** Including distribution of an extra dividend of €0.6 billion.

Supervisory Board*

Karl-Hermann Baumann, Dr. rer. oec.

Chairman

Additional positions

Supervisory Board:
Allianz AG (until 9/30/01)
Deutsche Bank AG
E.ON AG
Linde AG
mg technologies ag
Schering AG
ThyssenKrupp AG
Wilhelm von Finck AG

Alfons Graf

First Deputy Chairman
Chairman of the
Central Works Council

Rolf-E. Breuer, Dr. jur.

Second Deputy Chairman
Spokesman of the Board
of Managing Directors,
Deutsche Bank AG

Additional positions

Supervisory Board:
Bertelsmann AG
Deutsche Börse AG
(Chairman)
Deutsche Lufthansa AG
E.ON AG
Münchener Rückversicherungs-
Gesellschaft AG

Board of Administration:
Compagnie de Saint-Gobain S.A.
Landwirtschaftliche Rentenbank

Helmut Cors

Head of Industrial Services and
Production,
Vereinte Dienstleistungs-
gewerkschaft

Additional positions

Supervisory Board:
Hebel AG
Framatome ANP GmbH

Bertin Eichler

Executive Member
of the Board of Management,
IG Metall

Additional positions

Supervisory Board:
Allgemeine Deutsche
Direktbank AG
BGAG Beteiligungsgesellschaft
der Gewerkschaften AG
(Chairman)
Deutsche BauBeCon AG

Jean Gandois

Member of the
Supervisory Board,
Suez Lyonnaise des Eaux S.A.

Additional positions

Supervisory Board:
Rodamco Continental Europe
N.V.

Board of Administration:

Air Liquide Espagne S.A.
Air Liquide Italie S.p.A.
Danone S.A.
Eurazéo
Société Générale de Belgique
S.A.

Birgit Grube

Office clerk

Heinz Hawreliuk

Head of the Company
Codetermination Department,
IG Metall

Additional positions

Supervisory Board:
Astrium GmbH
DaimlerChrysler Aerospace AG
DaimlerChrysler Luft und
Raumfahrt Holding AG
Eurocopter Deutschland GmbH
Infineon Technologies AG

Ralf Heckmann

Chairman of the
Combined Works Council,
Siemens AG

Robert M. Kimmitt

Executive Vice President of
AOL Time Warner

Additional positions

Board of Directors:
Allianz Life Insurance Co.
Commerce One, Inc.
United Defense Industries, Inc.
Xign Corporation

Heinz Kriwet, Dr. rer. pol.

Chairman of the
Supervisory Board,
ThyssenKrupp AG

Additional positions

Supervisory Board:
Allianz Lebensversicherungs-AG
Dresdner Bank AG
ThyssenKrupp Steel AG
(Chairman)

Hubert Markl, Prof. Dr. rer. nat.

President,
Max-Planck-Gesellschaft zur
Förderung der Wissenschaften
e.V.

Additional positions

Supervisory Board:
Aventis S.A.
Bayerische Motoren Werke AG

Georg Nassauer

Steel casting constructor

Albrecht Schmidt, Ass. jur., Dr. jur.

Spokesman for the Managing
Directors, Bayerische Hypo- und
Vereinsbank AG

Additional positions

Supervisory Board:
Allianz AG
Bayerische Börse AG
(Chairman)
Münchener Rückversicherungs-
Gesellschaft AG

Group positions

Supervisory Board:
Bank Austria
(Chairman)
HVB Real Estate Bank AG
(Chairman)
Vereins- und Westbank AG
(Chairman)

Henning Schulte-Noelle, Dr. jur.

Chairman of the Board
of Management,
Allianz AG

Additional positions

Supervisory Board:
BASF AG
E.ON AG
Linde AG
Münchener Rückversicherungs-
Gesellschaft AG
ThyssenKrupp AG

Group positions:

Supervisory Board:
Allianz Versicherungs-AG
(Chairman)
Allianz Lebensversicherungs-AG
(Chairman)
Dresdner Bank AG
(Chairman)

Board of Administration:
Assurances Générales de
France S.A.
Elvia Versicherungen AG

Board of Directors:
RAS S.p.A.
(Vice President)

Georg Seubert

Fitter

Peter von Siemens

Industrial manager

Additional positions

Supervisory Board:
Münchener Tierpark
Hellabrunn AG

Daniel L. Vasella, Dr. med.

President and Delegate of
the Board of Administration,
Novartis AG

Additional positions

Board of Administration:
Credit Suisse Group

Klaus Wigand

Industrial clerk

Erwin Zahl

Telecommunications installer

As of September 30, 2001

* German corporation law mandates establishment of a supervisory board, with the power to review and approve major strategies and actions proposed by a company's managing board (which is equivalent to the board of directors in U.S. corporations). A supervisory board also reviews and discusses a corporation's financial statements and related topics, including allocation of retained earnings and payment of dividends. A supervisory board meets at defined intervals during the year and maintains close contact with the Managing Board throughout the year.

Managing Board

Heinrich v. Pierer, Dr. jur. Dr.-Ing. E. h.

President and
Chief Executive Officer,
Siemens AG

Outside positions
Supervisory Board:
Bayer AG
Hochtief AG
Münchener Rückversicherungs-
Gesellschaft AG
Volkswagen AG

Company positions
Supervisory Board:
Siemens Aktiengesellschaft
Österreich, Vienna
(Chairman)

Volker Jung, Dr. Eng. h. c.

Outside positions
Supervisory Board:
Direkt Anlage Bank AG
MAN AG
Epcos AG
(Chairman)

Company positions
Supervisory Board:
Infineon Technologies AG
(Chairman)

Comparable positions:
Siemens A.E., Athens
(Chairman)
Siemens Information and
Communication Networks, Inc.,
Boca Raton
Siemens Ltd., Johannesburg
(Deputy Chairman)

Roland Koch (until 7/25/01)

Company positions
Supervisory Board:
Fujitsu Siemens Computers B.V.,
Amsterdam
Siemens Osakeyhtiö, Helsinki
(Deputy Chairman)
Comparable positions:
Iranian Telecommunication
Manufacturing Company, Shiraz
Siemens Information and
Communication Networks, Inc.,
Boca Raton
(Chairman)
Siemens Ltd., Bangkok
(Chairman)
Siemens Sherkate Sahami,
Teheran
(Chairman)

Edward G. Krubasik, Prof. Dr. rer. nat.

Outside positions
Supervisory Board:
Dresdner Bank AG
STINNES AG
Comparable positions:
Covisint LLC, Southfield

Company positions
Supervisory Board:
BSH Bosch und Siemens
Hausgeräte GmbH
Mannesmann Plastics
Machinery AG
(Chairman)
Mannesmann Sachs AG
(Chairman)
Siemens Dematic AG
(Chairman)
Siemens VDO Automotive AG
(Chairman)

Comparable positions:
Siemens A/S, Oslo
Siemens Building
Technologies AG, Zurich
(Chairman)
Siemens France S.A., Saint-Denis
Siemens S.A., Brussels
(Chairman)

Rudi Lamprecht

Outside positions
Supervisory Board:
Knorr Capital Partner AG

Company positions
Supervisory Board:
EWW Wien
Fujitsu Siemens Computers B.V.,
Amsterdam
(Chairman)

Comparable positions:
Siemens Information and
Communication Mobile LLC,
Austin
Siemens France S.A., Saint-Denis
Siemens S.A., Brussels
Siemens Telematica S.p.A.,
Santa Maria Capua Vetere

Heinz-Joachim Neubürger

Outside positions
Supervisory Board:
Allianz Versicherungs-AG
Bayerische Börse AG
HVB Real Estate Bank AG
TELA Versicherung AG
(Chairman)
Comparable positions:
Merrill Lynch & Co., Inc., New York

Company positions
Supervisory Board:
Infineon Technologies AG
Siemens Kapitalanlage-
gesellschaft mbH
(Chairman)
Atecs Mannesmann AG
(Chairman)
Mannesmann Demag Krauss-
Maffei AG
(Chairman)
Comparable positions:
Siemens Corp., New York
(Deputy Chairman)

Peter Pribilla, Prof.

Outside positions
Supervisory Board:
Deutsche Krankenversicherung
AG

Company positions
Comparable positions:
Grupo Siemens S.A. de C.V.,
Mexico City
Siemens Canada Ltd.,
Mississauga
Siemens Corporation, New York
(Chairman)
Siemens Information and
Communication Networks, Inc.,
Boca Raton
Siemens Information and
Communication Mobile LLC,
Austin

Jürgen Radomski

Company positions
Supervisory Board:
BSH Bosch und Siemens
Hausgeräte GmbH
(Chairman)
Osram GmbH
(Chairman)
Siemens Aktiengesellschaft
Österreich, Vienna
Siemens Osakeyhtiö, Helsinki
Comparable positions:
Siemens A/S, Copenhagen
Siemens-Elema AB, Stockholm
Siemens Holdings plc, Bracknell
Siemens Nederland N.V.,
The Hague
Siemens Rt., Budapest
(Chairman)
Siemens S.A., Madrid
(Deputy Chairman)
Siemens Schweiz AG, Zurich
(Deputy Chairman)
Siemens S.p.A., Milan
(Deputy Chairman)
Simko Ticaret ve Sanayi A.Ş.,
Istanbul

Uriel J. Sharef, Dr. rer. pol.

Company positions
Comparable positions:
Siemens Ltda., São Paulo
Siemens Power Transmission
& Distribution, Inc., Raleigh
Siemens Israel Ltd., Tel Aviv
(Chairman)
Siemens S.A., Buenos Aires
(Chairman)

Claus Weyrich, Prof. Dr. phil. Dr.-Ing. E. h.

Outside positions
Supervisory Board:
HERAEUS Holding GmbH, Hanau
Company positions
Supervisory Board:
Infineon Technologies AG
Comparable positions:
Siemens Corporate Research,
Inc., Princeton
(Chairman)

Klaus Wucherer, Dr.-Ing.

Outside positions
Supervisory Board:
Deutsche Messe AG
Company positions
Supervisory Board:
Infineon Technologies AG
BSH Bosch und Siemens
Hausgeräte GmbH
Comparable positions:
Eviop-Tempo A.E., Euboea
Siemens Energy & Automation,
Inc., Alpharetta
(Chairman)
Yaskawa Siemens Automation
& Drives K.K., Kitakyushu
(Chairman)
Siemens K.K., Tokyo
(Chairman)
Siemens Ltd., Mumbai
Siemens Building
Technologies AG, Zurich

Glossary

Acquisition	The act of taking over one company by another; usually accomplished by the purchase of a controlling portion of the acquired company's stock.
Asset management	The process of managing corporate assets in order to enhance operational efficiency while minimizing costs and associated risks.
Backup facilities	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.
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.
Cost of capital	The rate that a company must pay for its capital.
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.
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).
Divestments	Sale of activities or corporate divestiture (spin-off, carve-out) that results in a subsidiary or division becoming an independent company.
EBIT	Short for "earnings before interest and taxes." Net income before interest cost and income tax expense.
EBITA	Short for "earnings before interest, taxes and amortization." Primary financial measure of operating income before noncash amortization of intangible assets, after charges for depreciation.
EBITA assets	Similar to net capital employed (see below), but does not include the amortization of intangible assets, after charges for depreciation.
E-business	Also "e-biz," short for "electronic business." The aggregate total of information flows and transactions with products and services through electronic networks, including the Internet and related technologies and concepts.
E-commerce	Short for "electronic commerce." E-commerce is a part of e-business and is defined as transacting or enabling the marketing, buying, and selling of goods and/or information, usually through the Internet.
Emerging markets	Markets of newly industrialized countries (NICs), such as in Latin America, Southeast Asia and Eastern Europe.
E-procurement	Short for "electronic procurement." A generic term for using the Internet and other open networks to perform the procurement function; a B2B (business-to-business) application.
Equity method	Valuation method used to account for holdings in companies whose business policy can be significantly influenced (associated companies).
Equity ratio	The proportion of shareholders' equity to total funds employed.
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).
Financing and Real Estate	The worldwide leasing, lending, financing and real estate activities of Siemens Financial Services (SFS), Siemens Real Estate (SRE), and Siemens Corporate Treasury.
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.
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.

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.
M-business	Short for "mobile business." Mobile business is a part of e-business and describes the new business models enabled by the massive deployment of key mobile and wireless technologies and devices.
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.
NOPAT	Short for "net operating profit after tax." Profit before interest and taxes net of adjustments to eliminate financing and accounting distortions, minus taxes.
Operations	The most important of the three major components of Siemens, comprising all activities of the Siemens organization worldwide with the exception of Financing and Real Estate and the Domestic Pension Fund.
Purchase method	Valuation method used to account for shareholders' equity of subsidiaries included in the consolidated financial statements.
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).
Registered shares	Shares of stock registered in the name of the owner on the books of the issuer.
Risk management	Systematic process of identifying, assessing and monitoring various financial risk factors and of selecting and implementing measures to handle them.
RORAC	Short for "return on risk adjusted capital." An analysis tool commonly used in the banking industry to estimate line of business profitability.
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.
Shareholder value	Concept that focuses strategic and operational decision-making on steadily increasing corporate value, ensuring that investors receive a reasonable return on their investment.
Siemens 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.
SKAG	Short for "Siemens Kapitalanlagegesellschaft mbH."
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.
top⁺	<i>top⁺</i> is our company-wide program to achieve sustained growth in profitability. To improve the performance of our businesses, we apply tried and tested methods – e.g. cost reduction, sales stimulation, quality enhancement and asset management. The motto of <i>top⁺</i> is: Clear goals, concrete measures, rigorous consequences. We continually monitor the effectiveness of our <i>top⁺</i> activities.
Turnkey project	A project in which a supplier contracts to design, build and deliver a completed facility or package ready for operation.
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.
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.
Volatility	The degree of fluctuation for a given price or rate, such as a stock price or currency exchange rate.

Siemens financial calendar*



Annual Shareholders' Meeting Olympiahalle, Munich, 10:00 a.m.	Jan. 17, 2002
Ex-dividend date	Jan. 18, 2002
Interim report October to December	Jan. 23, 2002
Semiannual Report and Semiannual Press Conference	Apr. 25, 2002
Interim report October to June	July 24, 2002
Preliminary figures for fiscal year	Nov. 13, 2002
Annual Press Conference	Dec. 5, 2002
Annual Shareholders' Meeting for fiscal 2002	Jan. 16, 2003

* Preliminary dates

INFORMATION ON CONTENTS

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This Annual Report is also available in French, German and Spanish.

An abbreviated version has been prepared in Japanese.

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FOR INTERNAL ORDERS

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English Order no. A19100-F-V055-X-7600
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Corporate Citizenship Report 2001

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Environmental Report 2002 (to be published in May 2002)

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»We have made great progress in networking our internal value chain electronically and in linking it to our customers, suppliers and partners. This is enabling us to accelerate processes and cut costs.«

SIEMENS

Global network of innovation