SIEMENS AKTIENGESELLSCHAFT
Form 20-F
December 06, 2002

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As filed with the Securities and Exchange Commission on December 6, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

OF THE SECURITIES EXCHANGE ACT OF 1934 o

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2002. þ

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________. o

Commission file number: 1-15174

Siemens Aktiengesellschaft

(Exact name of Registrant as specified in its charter)

Federal Republic of Germany

(Jurisdiction of incorporation or organization)

Wittelsbacherplatz 2

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

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

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

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

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

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

The number of outstanding shares of each of the issuer s classes of capital or common stock as of September 30, 2002: 890,374,001 common shares, no par value.

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

Yes þ No o Not applicable o

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

Item 17 o Item 18 þ

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FORWARD LOOKING STATEMENTS

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

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

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PART I

Item 1: Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2: Offer Statistics and Expected Timetable

Not applicable.

Item 3: Key Information

Selected Consolidated Financial and Statistical Data

The U.S. GAAP selected financial data set forth below as of and for each of the years in the three-year period ended September 30, 2002 should be read in conjunction with, and are qualified in their entirety by reference to, the consolidated financial statements and the Notes thereto presented elsewhere in this document.

We have also presented the selected financial data below as of and for each of the years in the three-year period ended September 30, 2000 in accordance with German GAAP. The selected financial data presented in accordance with German GAAP have been derived from our consolidated German GAAP financial statements for those periods. In fiscal 1999, we began to prepare our consolidated financial statements in accordance with U.S. GAAP and in fiscal 2001, we discontinued preparing consolidated German GAAP financial statements. Accordingly, the information set forth below regarding the major differences between U.S. GAAP and German GAAP is most relevant in understanding the income statement and balance sheet data presented in fiscal year 1998 where no corresponding data under U.S. GAAP has been presented.

U.S. GAAP differs from German GAAP in certain significant respects. The more significant accounting differences that have an impact on the financial reporting of Siemens are the following:

Revenue Recognition: Under U.S. GAAP, revenues and profits on long-term contracts are recognized using the percentage-of-completion method of accounting. Under German GAAP, revenues and profits on long-term contracts are recorded using the completed contract method. Under this method, sales and gross profit are only recorded when performance under the contract is completed and the customer acceptance has been received, i.e., at a later point in time than allowed under the percentage-of-completion method. Where the contract can be divided into several technically independent performance milestones and is invoiced separately, sales and gross profit are recorded for each milestone when customer acceptance has been received.

Derivatives: Under U.S. GAAP, all derivative instruments are measured at fair value and recognized on the balance sheet. Changes in fair value (gains and losses) of derivatives not qualifying for hedge accounting are recognized in the income statement. For German GAAP, unrealized losses on derivatives are recognized as an expense in the income statement and a liability on the balance sheet while unrealized gains on derivatives are not recognized in the financial statements.

Marketable securities: Our securities are segregated into one of two categories: available for sale or trading. Under U.S. GAAP, all marketable securities are recorded at fair value. For marketable securities classified as trading securities, the change in fair value is recorded in the income statement. Unrealized gains and losses on marketable securities classified as available-for-sale are reported as a separate component of shareholders equity until such securities are sold or when a decrease in value has been determined to be other than temporary, at which time the gain or loss is recognized in income. Under German GAAP, marketable securities are recorded at the lower of cost or market with immediate effect on the income statement. Unrealized gains are deferred until realized.

Accruals: Under U.S. GAAP, a liability may only be accrued if it is probable that an obligation has been incurred and the amount of the obligation can be reasonably estimated. Under German GAAP, accruals may be recorded for possible obligations with third parties and losses for which the amount can be estimated.

Pension Costs: Under U.S. GAAP, the pension obligations are recorded in accordance with the projected unit credit method as set forth in SFAS 87, *Employers Accounting for Pensions*. Under German GAAP, Siemens historically provided for its domestic pension costs based on actuarial studies using the entry age method as defined in the German tax code. This method does not allow the consideration of future inflationary increases in salaries and pension payments. During fiscal 2000, Siemens recorded an extraordinary charge in the income statement for German GAAP to adjust its domestic pension obligations to the projected unit credit method.

Deferred Taxes: Under U.S. GAAP, deferred income taxes are provided for the effects of temporary differences between an asset s or liability s balance sheet carrying value and the tax basis of such asset or liability in the local tax jurisdiction. Under German GAAP, deferred taxes are recorded for the tax effect of income and expense items recognized in different periods for book and tax purposes.

Income Statement Data

	Year ended September 30,				
	2002	**2001**	**2000**	**1999**	**1998**
	(in millions, except per share data)				
Amounts in accordance with U.S. GAAP:					
Net sales	84,016	87,000	77,484	68,069	N/A
Income before income taxes	3,475(1)	2,678(1)	12,239(1)	2,118	N/A
Net income	2,597(1)	2,088(1)	8,860(1)	1,209	N/A
Basic earnings per share	2.92(1)	2.36(1)	9.97(1)	1.36	N/A
Diluted earnings per share	2.92(1)	2.36(1)	9.96(1)	1.36	N/A
Amounts in accordance with German GAAP(2):					
Net sales	N/A	N/A	78,396	68,582	60,177
Net income(3)	N/A	N/A	7,901(1)	1,865	469(4)
Extraordinary items	N/A	N/A	4,520(1)		(890)
Net income after minority interests(3)	N/A	N/A	7,549	1,614	337
Earnings per share(5)	N/A	N/A	3.38	1.75	0.92

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

(2) We have not included German GAAP data for fiscal 2002 and 2001 because we no longer prepare German GAAP data on a group basis.

(3) Net income under German GAAP includes income attributable to minority interests; accordingly, the amounts under Net income after minority interests are more directly comparable to the U.S. GAAP figures.

(4) In 1998, net income was negatively affected by the one-time charge relating to the closure by our Infineon group of a wafer fabrication facility located in North Tyneside, Northern England.

(5) Earnings per share are calculated based on net income including income attributable to minority interests in accordance with the standards of the German Society of Capital Market Experts (DVFA) and the German Society for Economic Science *(Schmalenbachgesellschaft)*.

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Balance Sheet Data

	At September 30,				
	2002	**2001**	**2000**	**1999**	**1998**
			(in millions)		
Amounts in accordance with U.S. GAAP:					
Total assets	77,939	90,118	81,654	71,720	N/A
Long-term debt	10,243	9,973	6,734	4,753	N/A
Shareholders equity	23,521	23,812	28,480	19,138	N/A
Capital stock	2,671	2,665	1,505	1,521	N/A
Amounts in accordance with German GAAP(1):					
Total assets	N/A	N/A	79,255	61,495	57,277
Long-term debt	N/A	N/A	6,222	4,079	4,326
Shareholders equity	N/A	N/A	25,640	17,200	15,488
Capital stock	N/A	N/A	1,505	1,521	1,521

(1) We have not included German GAAP data for fiscal 2002 and 2001 because we no longer prepare German GAAP data on a group basis.

The number of shares outstanding at September 30, 2002, 2001, 2000, 1999 and 1998 was 890,374,001, 888,230,245, 882,930,900, 892,186,410 and 892,170,210, respectively.

Dividends

The following table sets forth in euros and in dollars the dividend paid per share for the years ended September 30, 1998, 1999, 2000 and 2001 and the proposed dividend per share for the year ended September 30, 2002. The table does not reflect the related tax credits available to German taxpayers who receive dividend payments. Owners of our shares who are United States residents should be aware that they will be subject to German withholding tax on dividends received. See Item 10: Additional Information Taxation.

	Dividend paid per share	
Year ended September 30,	**Euro**	**Dollar**
1998	0.51	0.57
1999	0.67	0.66
2000	1.60(1)	1.41(1)
2001	1.00	1.14
2002	1.00(2)	

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

(2) Proposed by the Managing Board and the Supervisory Board; to be approved by the shareholders at the shareholders annual meeting on January 23, 2003.

On February 22, 2001, our shareholders approved an increase in our share capital from capital reserves, thereby creating new shares in an amount equal to 50% of our outstanding shares. This stock split became effective for trading purposes on April 30, 2001. As a result, the number of our outstanding shares increased by 295,812,450 shares, from 591,624,900 shares to 887,437,350 shares, based on the number of shares outstanding as of February 22, 2001. These new shares were distributed to shareholders at a ratio of one additional share for every two shares owned. In this document, we refer to this distribution as the stock split. See Note 21 to the consolidated financial statements for further information.

Exchange Rate Information

We publish our consolidated financial statements in euros. As used in this document, euro or means the new single unified currency that was introduced in the Federal Republic of Germany and ten other participating member states of the European Union on January 1, 1999.
Deutsche Mark, DEM or DM

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means the sub-unit of the euro designated as such within the European Union, or, with respect to any time or period before January 1, 1999, means the lawful currency of the Federal Republic of Germany. U.S. dollar, U.S.$, USD or $ means the lawful currency of the United States of America. The currency translations made in the case of dividends we have paid have been made at the noon buying rate at the date of the shareholders annual meeting at which the dividends were approved. As used in this document, the term noon buying rate refers to the rate of exchange for either Deutsche Mark or euro, expressed in U.S. dollar per Deutsche Mark or euro, as announced by the Federal Reserve Bank of New York for customs purposes as the rate in The City of New York for cable transfers in foreign currencies.

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

Fiscal year ended September 30,	Average
1998	1.0982
1999	1.0955
2000	0.9549
2001	0.8886
2002	0.9208

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

	High	Low
June 2002	0.9885	0.9390
July	1.0156	0.9730
August	0.9882	0.9640
September	0.9959	0.9685
October	0.9881	0.9708
November	1.0139	0.9895

On November 29, 2002, the noon buying rate was U.S.$0.99 per 1.00.

With effect from the beginning of 1999, our shares have traded on the Frankfurt Stock Exchange in euro. Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar equivalent of the euro price of the shares on the Frankfurt Stock Exchange and, as a result, are likely to affect the market price of the American Depositary Shares (referred to as ADSs) on the New York Stock Exchange. We will declare any cash dividends in euro and exchange rate fluctuations will affect the U.S. dollar amounts received by holders of ADSs on conversion of cash dividends on the shares represented by the ADSs.

Risk Factors

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

Our business is affected by the economic downturn: Our business has been negatively impacted by the prolonged economic downturn that began in the U.S. in the latter part of 2000 and spread to Europe in 2001. The business environment is influenced by numerous political uncertainties, including the situation in the Middle East

as well as South America and other regions, which continue to impact macroeconomic parameters and the international capital markets. Investment sentiment will continue to be weak for our customers in important industry segments and regional markets in the U.S., Europe, Asia and South America. In fiscal 2002, the prevailing weak economic conditions negatively affected a number of our business groups, especially Information and Communication Networks (ICN), which posted a significant loss.

Our Information and Communications business area is particularly affected by the current market conditions in the telecommunications industry. Capital expenditure budgets of telecommunication carriers have been reduced drastically worldwide and many infrastructure customers are burdened by prohibitive debt levels because they borrowed heavily to build, expand or upgrade systems for which there is currently weak demand. The rate at which the telecommunications industry recovers will have a material impact on the financial performance of ICN, Information and Communication Mobile (ICM) and Siemens Business Services (SBS).

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

In light of these economic conditions, in fiscal year 2002, we intensified cost-cutting initiatives across our business groups. These include adjusting existing capacities through consolidation of manufacturing facilities, streamlining product portfolios and reducing headcount. In addition, we divested a number of unprofitable or non-core businesses. The resulting impact of these cost-reduction measures on our profitability will be influenced by the actual amount of cost savings achieved and on our ability to sustain these ongoing efforts.

We operate in highly competitive markets, which are subject to price pressure and rapid changes: The worldwide markets for our products are highly competitive in terms of pricing, product and service quality, development and introduction time, customer service and financing terms. We face strong competitors, some of which are larger and may have greater resources in a given business area. Siemens faces downward price pressure especially in ICN, ICM, SBS and Siemens Dematic (SD). Some industries in which we operate are undergoing consolidation, which may result in stronger competitors and a change in our relative market position. In some of our markets new products must be developed and introduced rapidly in order to capture available opportunities, and this can result in quality problems. Our operating results depend to a significant extent on our ability to adapt to changes in the market and reduce the costs of producing high-quality new and existing products.

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

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

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Our financial results and cash flows may be adversely affected by cost overruns or additional payment obligations in connection with our project businesses: Certain of our operations groups, including ICN, ICM, SBS, PG, Power Transmission & Distribution (PTD), Transportation Systems (TS), Industrial Solutions & Services (I&S) and SD, perform a significant portion of their business, especially large projects, under long-term contracts that are awarded on a competitive bidding basis. The profit margins realized on such fixed-priced contracts may vary from original estimates as a result of changes in costs and productivity over their term. We sometimes bear the risk of quality problems, cost overruns or contractual penalties caused by unexpected technological problems, unforeseen developments at the project sites, problems with our subcontractors or other logistic difficulties. Certain of our multi-year contracts also contain demanding installation and maintenance requirements, in addition to other performance criteria relating to timing, unit cost requirements and compliance with government regulations, which, if not satisfied, could subject us to substantial contractual penalties, damages or non-payment, or could result in contract termination. There can be no assurance that all of our fixed-priced contracts can be completed profitably. See Item 4: Information on the Company Long-Term Contracts and Contract Losses.

We face operational risks in our value chain processes: Our value chain comprises all the steps in our operations, from research and development, to production to marketing and sales. Operational failures in our value chain processes could result in quality problems or potential product, labor safety, regulatory or environmental risks. Such risks are particularly present in relation to our production facilities, which are located all over the world and have a high degree of organizational and technological complexity. We face such risks, for example, in connection with the high production volumes at PG or TS.

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

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

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

The funded status of our off-balance sheet pension benefit plans is dependent on several factors: Significant changes in investment performance or a change in the portfolio mix of invested assets can result in corresponding increases and decreases in the valuation of plan assets, particularly equity securities, or in a change of the expected rate of return on plan assets. Pension plan valuation assumptions can also affect the funded status. For example, a change in discount rates would result in a significant increase or decrease in the valuation of pension obligations, affecting the reported funded status of our pension plans as well as the net periodic pension cost in the following financial year. Similarly, changes in the expected return on plan assets assumption can result in significant changes in the net periodic pension cost of the following financial year. Changes in other pension plan assumptions, such as discount rate, expected return on plan assets, the compensation increase rate and pension progression, can also materially impact net periodic pension expense. For further information see Item 5: Operating and Financial Review and Prospects Critical Accounting Policies.

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

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

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

Our business could suffer as a result of current or future litigation: We are subject to numerous risks relating to legal proceedings to which we are currently a party or that could develop in the future. In the ordinary course of our business we become implicated in lawsuits, including suits involving allegations of improper delivery of goods or services, product liability and product defects and quality problems and intellectual property infringement. The most significant lawsuits to which we are a party are described under Item 4: Information on the Company Legal Proceedings. There can be no assurance that the results of these or other legal proceedings

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will not materially harm our business, reputation or brand. We maintain liability insurance for legal risks at levels our management believes are appropriate and in accordance with industry practice. We accrue for litigation risks when it is probable that an obligation has been incurred and the amount can be reasonably estimated. There can be no assurance that (i) we will not incur losses relating to litigation beyond the limits, or outside the coverage, of such insurance or that any such losses would not have a material adverse effect on the results of our operations or financial condition or (ii) our provisions for litigation related losses will be sufficient to cover our ultimate loss or expenditure.

Item 4: Information on the Company

Overview

History and Strategy

Siemens traces its origins to 1847. Beginning with an improved design for telegraphs, the company quickly expanded its product and geographic scope, and was already a multi-national business by the end of the 19th century. We moved our headquarters from Berlin to Munich in 1949. In 1966, we assumed our current corporate form as Siemens Aktiengesellschaft, a stock corporation under the Federal laws of Germany. Siemens employed an average of 445,100 people in some 190 countries worldwide during fiscal 2002. In fiscal 2002, we had net sales of 84.016 billion.

Siemens has a balanced business portfolio with activities predominantly in the field of electronics and electrical engineering, holding global leadership positions in areas such as telecommunications equipment, industrial automation equipment, power generation equipment and medical equipment. These activities are influenced by a range of different regional and economic factors. In internationally oriented long-cycle industries, for example, customers have multi-year planning and implementation horizons that tend to be independent of short-term economic trends. Our activities in this area include power generation, power transmission and distribution, medical solutions and rail systems. In fields with more industry-specific cycles, customers tend to have shorter horizons for their spending decisions and greater sensitivity to current economic conditions. Our activities in this area include information and communications, automation and drives, and lighting. Some activities, especially information and communications and medical solutions, are also influenced by technological change and the rate of acceptance of new technologies by end users.

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

Three strategic areas business excellence, portfolio activities and synergies are the key factor to our success.

Within these strategic areas, Siemens strategy has one overriding goal: the strengthening of profitability and sustainable success. Our business excellence is linked to the ongoing implementation of Operation 2003, a set of strategic programs and initiatives aimed at achieving specific targets for EBIT as a percentage of sales, or EBIT margin for the groups and generating cash during a period of slow macroeconomic growth. For a definition of EBIT see Item 5: Operating and Financial Review and Prospects Basis of Presentation. A core element of our strategy has been an emphasis on economic value added as a measurement of the success of each of our business groups and of our company as a whole. Economic value added measures the return of a business group over its cost of capital. We believe that our management incentive compensation, which is based on economic value added targets, plays a key role in keeping us focused on our profitability goals.

The five major action areas of Operation 2003 include:

- Restoring profitability in the Information and Communications business area;
- Successfully integrating the businesses acquired from Atecs Mannesmann into our Siemens Dematic and Siemens VDO groups;
- Increasing profitability in our U.S. operations, across the board;
- Continuing to emphasize asset management, so as to maintain the healthy positive cash flows of the past two years; and
- Reducing central and group administrative costs.

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

- Divestiture of a majority of our original interest in Infineon Technologies AG through various means including a public offering, the transfer of an approximate 15% stake to the Siemens German Pension Trust (Siemens Pension Trust e.V.), the transfer of 200 million shares to an irrevocable, non-voting trust, open market sales and various other steps, as described below. Also, for further information on our deconsolidation of Infineon, see Note 3 to the consolidated financial statements;
- Divestiture of all but 12.5% plus one share of EPCOS AG in a public offering; EPCOS is our former joint venture with Matsushita in the field of passive components and electron tubes;
- Divestiture of our electromechanical components business to Tyco;
- Divestiture of Siemens Nixdorf Retail and Banking Systems;
- Divestiture of our telecommunications cable activities;
- Divestiture of businesses and assets related to the acquisition of Atecs Mannesmann AG discussed below;
- Divestiture of Unisphere Networks, Inc.;
- Transfer of our hydroelectric power plants business to a joint venture with J.M. Voith AG;
- Transfer of our nuclear power business into a joint venture with Framatome;
- Acquisition of Entex Information Service Inc., an information technology service provider in the United States;
- Acquisition of Efficient Networks Inc., a leading DSL equipment provider in the United States;
- Acquisition of Shared Medical Systems, Inc., a leading provider of information technology systems and services for the healthcare industry;
- Acquisition of Acuson Corporation, a leading medical ultrasound producer; and
- Acquisition of VDO and Dematic and merger with our business groups Siemens Automotive and Siemens Production and Logistics Systems.

Of the portfolio activities mentioned above, the following transactions occurred in fiscal 2002:

Atecs Mannesmann:

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

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

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

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

Infineon Technologies AG:

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

During the first quarter of fiscal 2002, the Company sold 23.1 million shares of Infineon, followed in January 2002, with a sale of 40 million shares of Infineon. At September 30, 2002 our ownership interest was 39.7% and our voting interest was 33.3%, which includes the voting interest of Infineon shares in the Siemens German Pension Trust.

As we no longer have a majority voting interest in Infineon, we have from December 2001 no longer included the assets and liabilities and results of operations of Infineon in our consolidated financial statements and instead account for our ownership interest in Infineon using the equity method. See Note 3 to the consolidated financial statements.

Other dispositions:

On July 1, 2002, Siemens completed the sale of Unisphere Networks, Inc. to Juniper Networks, Inc. for a contribution in cash and Juniper stock. As a result of the transaction, Siemens acquired 9.73% of Juniper Networks common shares. The Juniper shares held by Siemens are subject to certain disposal restrictions which limit the amount of shares which Siemens may sell.

In September 2002, Siemens completed the sale of several business activities to Kohlberg Kravis Roberts & Co. L.P. (KKR). KKR took over units that had belonged to the former Atecs Mannesmann Group: Mannesmann Plastics Machinery, the gas spring producer Stabilus, Demag Cranes & Components and the harbor crane unit Gottwald. As part of the transaction, Siemens also sold the Metering division of its Power Transmission and Distribution group, the Ceramics division of its Power Generation group, and Network Systems, a regional service business belonging to its Information and Communication Networks group. The business activities were sold to a holding company, called Demag Holding s.a.r.l (Luxembourg). KKR holds an 81% and Siemens a 19% stake in the holding company. The transaction was treated as a sale of a portfolio of businesses. However, separate results were allocated to the operating segments where the sold businesses had previously resided.

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

The third strategic key factor, synergies, confirms that our business portfolio in the various fields of electrical engineering and electronics is the right one. In the future, we will strive to utilize horizontal synergies more effectively.

We will continue to concentrate on expanding our business with services related to products, solutions and projects. Three of our groups, Power Generation, Medical Solutions and Transportation Systems have already been successful with this strategy. For example, in the past year, all of our significant power plant and rail transportation orders were combined with maintenance and service contracts.

We remain committed to our goal: the strengthening of profitability and achieving sustainable success through our innovative strength, our global presence, our financial integrity and through our social responsibility.

Corporate Structure

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

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

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

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

Our business groups are supported by regional units and central corporate departments. Our regional units include sales units in each region where we operate to complement the sales efforts of our individual business groups and take advantage of cross-marketing opportunities. We also provide our business groups with support through our corporate departments and offices in areas including finance, human resources, planning and development and information and communications structures.

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

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

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Information and Communication Networks (ICN)

	Year ended September 30, 2002
Total sales	9.647 billion
External sales as percentage of Siemens net sales	10.91%
EBIT	(691) million
Net capital employed	1.100 billion
Employees	39 thousand

The Information and Communication Networks group develops, manufactures and sells public communication systems, private business communication systems and related software, and provides a wide variety of consultancy, maintenance and other services. ICN s worldwide customer base comprises service providers, such as network operators and Internet service providers, as well as private companies, ranging from small businesses to large multinational enterprises. We also supply complete end-to-end solutions that include design, installation and management of voice and data networks.

We upgrade existing voice-centered networks, primarily to allow the transmission of data, so that service providers can address new revenue opportunities while protecting their significant investments in those networks. We also build new networks optimized for the requirements of the Internet. Consequently, our focus has shifted from systems that carry primarily voice over the entire network infrastructure to systems that combine voice and data transmission into a single solution for our customers. Our products for achieving this result, known as voice-data convergence products, enable network service providers to combine telephone and Internet services and enrich those services with further applications.

In fiscal 2002, we realigned the products and services we provide from six divisions into four: Wireline Networks, Enterprise Networks, Optical Networks and Access Solutions.

Our *Wireline Networks* division offers systems for next-generation Internet, traditional circuit-switched telephone networks, IP infrastructure and communication access equipment, as well as related services to fixed-line network service providers. Its product portfolio contains (i) softswitch products for managing telephone calls and calling features in network switches; (ii) voice/data convergence products, including gateways for voice over IP and voice over Asynchronous Transfer Mode (ATM) gateways (ATM products involve broadband switching technology that permits the use of one network for transmission of different kinds of information such as voice, data and video); (iii) public telephone switching systems; (iv) units allowing access to narrowband and broadband channels along with public communication software that is integrated into such products; and (v) IP routers, which we purchase from Juniper Networks under the cooperation agreement described below.

Our Wireline Networks products include the following:

EWSD® (a German acronym for digital electronic switching system) is a product line comprised of central office circuit switching systems and related proprietary software that are primarily used for public telephone networks. Since its market introduction in the early 1980s, EWSD has become one of the best-selling switches in the worldwide market, with more than 260 million EWSD ports delivered in over 110 countries.

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

SURPASS includes an open software platform for application development, enabling third parties to offer new network features with significantly shortened innovation cycles. Examples of these new features include phone calls using voice over IP, initiated from a Web page; an e-mail waiting indication on phone sets and the ability to pick up e-mail messages using a standard touchtone phone.