SIEMENS AKTIENGESELLSCHAFT
Form 20-F
November 29, 2004

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As filed with the Securities and Exchange Commission on November 29, 2004

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, 2004. 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, 2004: 891,075,461 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 forward-looking statements and information that is, statements related to future, not past, events. These statements may be identified by words as expects, anticipates, intends, plans, believes, seeks, estimates, will or words of similar meaning. Such are based on our current expectations and certain assumptions, and are, therefore, subject to certain risks and uncertainties. A variety of factors, many of which are beyond Siemens control, affect its operations, performance, business strategy and results and could cause the actual results, performance or achievements of Siemens worldwide to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. For us, particular uncertainties arise, among others, from changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products or technologies by other companies, lack of acceptance of new products or services by customers targeted by Siemens worldwide, changes in business strategy and various other factors. More detailed information about certain of these factors is contained throughout this report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the relevant forward-looking statement as anticipated, believed, estimated, expected, intended, planned or projected. Siemens does not intend or assume any obligation to update or revise these forward-looking statements in light of developments which differ from those anticipated.

In this Form 20-F, references to we, us, our, 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. Throughout this annual report, whenever a reference is made to our Company s website, such reference does not incorporate information from the website by reference into this annual report. 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 United States Generally Accepted Accounting Principles (U.S. GAAP) selected financial data set forth below 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.

INCOME STATEMENT DATA

	Year ended September 30,				
	2004	2003	2002	2001	2000
	(in millions, except per share data)				
Net sales	75,167	74,233	84,016	87,000	77,484
Income before income taxes	4,232	3,372	3,475	2,678	12,239
Net income	3,405	2,445	2,597	2,088	8,860
Basic earnings per share	3.82	2.75	2.92	2.36	9.97
Diluted earnings per share	3.66	2.75	2.92	2.36	9.96

BALANCE SHEET DATA

	At September 30,				
	2004	2003	2002	2001	2000
	(in millions)				
Total assets	79,518	77,605	77,939	90,118	81,654
Long-term debt	9,785	11,433	10,243	9,973	6,734
Shareholders equity	26,855	23,715	23,521	23,812	28,480
Capital stock	2,673	2,673	2,671	2,665	1,505

The number of shares issued at September 30, 2004, 2003, 2002, 2001 and 2000 was 891,075,711, 890,866,301, 890,374,001 and 888,230,245, 882,930,900, respectively, after stock split.

DIVIDENDS

The following table sets forth in euros and in dollars the dividend paid per share for the years ended September 30, 2000, 2001, 2002, 2003 and the proposed dividend per share for the year ended September 30, 2004. 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.

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Year ended September 30,	Dividend paid per share: Euro	Dividend paid per share: Dollar
2000	1.60(1)(2)	1.41(1)(2)
2001	1.00	1.14
2002	1.00	1.08
2003	1.10	1.40
2004	1.25(3)	

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

(2) Adjusted for stock split.

(3) Proposed by the Managing Board and the Supervisory Board; to be approved by the shareholders at the shareholders annual meeting on January 27, 2005.

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.

EXCHANGE RATE INFORMATION

We publish our Consolidated Financial Statements in euros. As used in this document, euro or means the 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. 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 Annual Shareholders Meeting at which the dividends were approved. As used in this document, the term noon buying rate refers to the rate of exchange for euro, expressed in U.S. dollar per 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. 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
2000	0.9549
2001	0.8886
2002	0.9208
2003	1.0919
2004	1.2199

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

2004	High	Low
June	1.2320	1.2006
July	1.2437	1.2032
August	1.2368	1.2025

September	1.2417	1.2052
October	1.2783	1.2271
November	1.3059	1.2703

On November 22, 2004, the noon buying rate was U.S.$1.3048 per 1.00.

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Commencing January 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 uncertainties of economic and political conditions: Our business environment is influenced by conditions in the domestic and global economies. Numerous factors, such as global political conflicts, including situations in the Middle East and other regions, continue to impact macroeconomic parameters and the international capital markets. The uncertainty of economic and political conditions can impact the demand for our products and services, and also make our budgeting and forecasting more difficult.

Our Information and Communication Networks (ICN) and Information and Communication Mobile (ICM) Groups are particularly affected by the market conditions in the telecommunications industry. In addition, Siemens VDO Automotive (SV) and Osram are suppliers to the automotive industry, and their sales and the profitability could be negatively impacted by the financial condition of their automotive customers. Furthermore, the demand for products of our Groups is linked to the consumer demand for automobiles, which may be adversely impacted by the continuing uncertain economic environment.

In light of these economic conditions, in fiscal year 2004, we continued our cost-cutting initiatives across our business Groups. These include adjusting existing capacities through consolidation of manufacturing facilities, streamlining product portfolios and reducing headcount. The contribution of these measures to our profitability will be influenced by the actual savings achieved and by 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 and is exposed to market downturns or slower growth. 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 lead to 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 innovative 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 Groups ICN, ICM, Siemens Business Services (SBS), Medical Solutions (Med) and SV. For example, ICN and ICM are currently involved in developing marketable components, products and systems, for a new generation of wireless communications technology. Introducing such new offerings requires a significant commitment to research and development, which may not always 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, if our products or systems are not brought to market in a timely manner, or if they become obsolete.

We may have difficulty in identifying and executing acquisitions, strategic alliances, joint ventures and mergers and in executing divestitures: Our strategy involves divesting our interests in some business areas and

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strengthening others through acquisitions, strategic alliances, joint ventures and mergers. 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 of long-lived assets including goodwill due to unforeseen business developments that may adversely affect our earnings.

Our financial results and cash flows may be adversely affected by cost overruns or additional payment obligations particularly with respect to our long-term contracts: A majority of our operating Groups, including ICN, ICM, SBS, Industrial Solutions & Services (I&S), Logistics and Assembly Systems (L&A), Power Generation (PG), Power Transmission & Distribution (PTD) and Transportation Systems (TS), 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, non-payment or contract termination. There can be no assurance that all of our fixed-priced contracts can be completed profitably.

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, 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. From time to time, some of the products we sell have quality issues originating from the design or manufacture of the product, or from the software integrated into them. These quality issues may have financial and legal ramifications.

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 operating 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 may be adversely affected by rising raw material prices: Our operating Groups are exposed to fluctuations in energy and raw material prices. In the recent past, oil, steel and copper prices in particular have increased on a worldwide basis. If we are not able to compensate or pass on our increased costs to customers, this could have an adverse impact on our financial results.

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 as exports from Europe. Our currency risks as well as interest rate risks are hedged on a company-wide basis using derivative financial instruments. Depending on the development of foreign currency exchange rates, our hedging activities can have significant effects on our cash flow, particularly for our treasury activities (Corporate Treasury). In addition, the interest rate hedging activities not qualifying for hedge accounting of our Corporate Treasury, are subject to changes in interest rates. Exchange rate and interest rate

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fluctuations may influence our financial results. A further strengthening of the euro particularly against the U.S. dollar 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, hedging activities 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. Financing of GSM or UMTS wireless network equipment for ICM customers who lack established credit histories may cause special credit risks for us. We also finance a large number of smaller customer orders, through for example, the leasing of telephone systems and medical equipment, in part, through Siemens Financial Services (SFS). SFS also incurs credit risk by financing third-party equipment. For additional information on customer financing see Item 5: Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Resources and Capital Requirements 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 and its financial statement impact 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 in 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.

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 impact our sales and profitability 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 industries we operate in 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

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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, product defects, quality problems and intellectual property infringement. For additional information with respect to legal proceedings see Item 4: Information on the Company Legal Proceedings. There can be no assurance that the results of these or other legal proceedings 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

Siemens traces its origins to 1847. Beginning with advances in telegraph technology, the Company quickly expanded its product line and geographic scope, and was already a multi-national business by the end of the 19th century. The Company formed a partnership under the name Siemens & Halske in 1847, reorganized as a limited partnership in 1889 and again as a stock corporation in 1897. The Company moved its headquarters from Berlin to Munich in 1949, and assumed its current name as Siemens Aktiengesellschaft, a stock corporation under the Federal laws of Germany, in 1966. The address of our principal executive offices is Wittelsbacherplatz 2, D-80333 Munich, Germany; telephone number +49 (89) 636 00.

During fiscal 2004, Siemens employed an average of 419,200 people in approximately 190 countries worldwide. In fiscal 2004, we had net sales of 75.167 billion. Our balanced business portfolio is based on leadership in electronics and electrical engineering. We have combined this expertise with a commitment to original research and development (R&D) to build strong global market positions in equipment for telecommunications and networking, industrial automation, power generation and medical diagnostics. We are also a major world competitor in rail transportation systems, automotive electronics and lighting. Our businesses operate under a range of regional and economic conditions. 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 these areas include power generation, power transmission and distribution, medical solutions and rail systems. By contrast, 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 these areas include information and communications, automation and drives and lighting. Some activities, especially information and communications, medical solutions and automotive, are also influenced by technological change and the rate of acceptance of new technologies by end users.

In fiscal 2003, we vigorously pursued a strategy we called Operation 2003 with the overriding purpose to increase profitability through a set of strategic programs and initiatives aimed at achieving specific earnings margin targets for our business Groups and generating cash during a period of slow macroeconomic growth. Upon the successful completion of Operation 2003, we conducted a thorough review of our management system,

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in order to further refine and improve it. We expanded our top+ business excellence program at the start of fiscal 2004, integrating it into a reorganized Siemens Management System (SMS) consisting of three programs: Innovation, Customer Focus and Global Competitiveness. Launched in October 2003, the SMS motivates Siemens business Groups to further intensify their R&D activities to yield new and improved innovative products and to expand and develop customer relationships. Accordingly, we enhance their overall cost position as one way, among many others, to further advance Siemens competitiveness in the global marketplace. In fiscal 2004, we began our Go for Profit and Growth initiative, which we will continue in fiscal 2005.

In the remainder of this section, we detail the SMS strategy, highlight portfolio optimization activities in recent years, and describe the long-term, broad-based management strategies that span all of our businesses and will guide our growth in the years ahead.

SIEMENS MANAGEMENT SYSTEM

Innovation has been a hallmark of Siemens since its inception, and our commitment to innovation remains strong, with a total 5.063 billion of R&D expenses and approximately 6.7% of sales invested in R&D in fiscal 2004. Innovation cycles are increasingly shorter. The role of management is to identify opportunities to bring innovation to market as rapidly and profitably as possible, such as by using common technology platforms across multiple businesses.

Customer focus means meeting a customers needs rather than simply selling a product or service. In practice, we market our products, solutions and services not only through our business Groups but also take advantage of cross-selling opportunities. We intend to maximize our customers satisfaction and market penetration through various initiatives, including cross-selling programs. Throughout our Groups, we will initiate further emphasis of our service business to stimulate sales. It is important to treat our customers as partners, to involve them in our own development processes and to provide them with market-oriented solutions.

Global competitiveness the third component of the Siemens Management System, concerns our ability to compete and market our products on a worldwide basis. Siemens is present in approximately 190 countries and benefits from its multicultural mix of managers and employees in these countries. It is our primary goal to secure competitive strength by utilizing and optimizing all parts of our worldwide value chain including procurement, production and hardware, development of software, shared services and back-office functions. In addition, we plan to expand our presence in our growth regions.

PORTFOLIO ACTIVITIES

Since fiscal 2002, we have completed the following significant transactions in our efforts to realign our businesses in order to achieve sustainable profitability growth:

Acquisitions

Acquisition of USFilter Corporation (USFilter) which offers water systems and services products in the municipal and industrial water treatment and supply market in the fourth quarter of fiscal 2004;

Acquisition of three entities not significant individually in fiscal 2004: Trench Electric Holdings BV, Netherlands, BBC Technology Holdings Ltd., UK and the Huntsville, Alabama, USA business group of an automotive electronics manufacturer; and

Acquisition of the industrial turbine business of Alstom S.A. (Alstom), Paris, which was structured in two transactions; in the first transaction in April 2003, Power Generation (PG) acquired the small gas turbine business of Alstom; and in the second transaction in July 2003, PG acquired Alstom s medium-sized gas and steam turbine businesses.

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Dispositions

In the fourth quarter of fiscal 2004, Siemens divested a 74.9% interest in SBS banking software company KORDOBA Gesellschaft für Bankensoftware mbH & Co. KG (Kordoba);

Siemens contributed the Patient Care System and Electro Cardiography System businesses of our Medical business Group into a joint venture with Drägerwerk AG in exchange for a 35% interest in the joint venture Dräger Medical AG & Co. KGaA (Dräger Medical) in June 2003. In October 2003, Siemens completed the sale of its Life Support Systems business to Getinge AB, Sweden and contributed the net proceeds from this sale to Dräger Medical;

In September 2002, Siemens divested of several business activities to Kohlberg Kravis Roberts & Co. L.P. (KKR), including units acquired as part of our acquisition of the Atecs Mannesmann group, the Metering division of our PTD Group, the Ceramics division of our PG Group and a regional service business belonging to our ICN Group;

In July 2002, divestiture of Unisphere Networks, Inc.;

In fiscal 2002, divestiture of certain other businesses and assets related to the acquisition of Atecs Mannesmann AG; and

Siemens decreased its ownership interest in Infineon Technologies AG (Infineon) from 64.0% at the beginning of fiscal 2002 to 18.2% at the end of fiscal 2004.

For a detailed discussion of our acquisitions and dispositions, see Notes to Consolidated Financial Statements.

ECONOMIC VALUE ADDED (EVA)

A core element of our strategy has been an emphasis on EVA as a measurement of the success of each of our business Groups and of our Company as a whole. Economic value added provides a measure of 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.

CORPORATE STRUCTURE

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

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

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

For a detailed description of our business Groups, see Description of Business.

In addition, we hold non-controlling interests in a number of businesses. The most significant of these is our interest in BSH Bosch und Siemens Hausgeräte GmbH which manufactures consumer household appliances, often referred to as white goods and Fujitsu Siemens Computers for computers.

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. Our corporate departments also support the business Groups with financial resources, human resources, planning and development and information and communications infrastructures.

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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.

DESCRIPTION OF BUSINESS

Our seven business areas and fifteen Groups are as follows:

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* The Groups ICN and ICM were combined into one Group named Communications (Com) as of October 1, 2004.

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INFORMATION AND COMMUNICATIONS

Information and Communication Networks (ICN)

	Year ended September 30, 2004
Total sales	6.994 billion
External sales as percentage of Siemens net sales	8.41%
Group profit	222 million

ICN develops, manufactures and sells comprehensive public and enterprise communication systems, including related hardware and 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.

Our focus has shifted from traditional communication systems that carry primarily voice (narrowband networks) to systems that can combine voice, data and multimedia, such as video transmissions (broadband or next generation networks). Our carrier business upgrades existing voice-centered networks primarily to allow the transmission of voice, data and multimedia, based on internet protocol (IP) (often referred to as IP convergence), so that service providers can address new revenue opportunities while protecting their significant investments in their existing networks. For our new customers, we also design and build new IP-based networks. Our enterprise business offers comprehensive communication products and solutions designed to increase productivity of enterprises by converging their voice and data networks on a single unified network infrastructure and by integrating real-time communication applications. Our Group is organized in three divisions: Carrier Networks, Carrier Service and Enterprise Networks.

Carrier Networks. This division is a leading system provider for public fixed-line communication network infrastructure. We offer innovative and comprehensive solutions designed to reduce the operating costs of our carrier customers and to increase the efficiency of their networks. Additionally, we provide applications that enable our customers to increase their revenues by allowing them to offer more products and services such as telephone and video conferencing and to thus carry more IP-converged traffic over their networks. Our customers worldwide include telephone operators, cable and other alternative operators, data carriers, internet service providers and application service providers.

Our product portfolio addresses each of the following three telecommunication networks segments: access, transport and control. For network access, we provide products and solutions that upgrade the portion of a telephone network between a home or a business and the first network switching system (the last mile) equipping it to carry not only voice but data requiring very high bandwidth. We also offer broadband equipment for homes and businesses, including modems for high-speed internet access. As part of our new network access strategy, in fiscal 2004, we initiated a comprehensive partnership with the Korean access specialist Dasan Networks Inc. (Dasan), in which we held a significant minority interest, giving us a strong local partner in Asia. After receiving approval from the German antitrust authorities, in fiscal 2005, we acquired a controlling interest in Dasan on October 18, 2004. Dasan offers broadband access products such as DSLAMs (DSL access multiplexers) and switches based on Ethernet. For network transport, we offer transport solutions for optical networks, which use light waves to transmit communications signals through fiber optic cables. Our transport solutions combine hardware and software designed to deliver higher transmission rates between network elements. To complete our transport network product portfolio, in fiscal 2004, we entered into a global reseller agreement with the Chinese company, Photonic Bridges, Inc. (Photonic Bridges). For network control, we provide solutions which switch and direct voice, data and video signals within a network. In addition, our portfolio includes products for voice switching in traditional networks and for voice and data switching in IP converged networks, as well as interfaces between these narrowband and broadband networks. All our carrier products are offered under the common brand, SURPASS®. In order to offer the full spectrum of network products for the Chinese market, during fiscal 2004, we increased our minority ownership in Beijing International Switching Company (BISC) to a majority ownership, and subsequently renamed it Siemens Communication Networks, Beijing (SCNB).

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For multimedia applications, we provide open application programming interfaces to members of our SURPASS partner program, weSURPASS®. This allows weSURPASS partners to develop features and applications that enhance the value of SURPASS for its users. We have also launched SURPASS Home Entertainment allowing our carrier customers to create a customized strategy for entry into the multimedia business, providing both entertainment and communication services on TV.

Our portfolio is also complemented by the data routing products of Juniper Networks, Inc. (Juniper) for which we act as a global reseller.

Carrier Service. This division provides services for the network operation processes of our customers. The service portfolio comprises network maintenance and professional services. Network maintenance includes comprehensive service packages, including a customer interaction center, network care, repair and replacement services and evolution services, which allow networks to keep pace with technological developments. Our professional services focus on operational out-tasking and also include consulting, design and education services.

Enterprise Networks. This division provides comprehensive real-time communication products and solutions for enterprises, government agencies and other organizations. Our products and services are based on our enterprise IP convergence architecture, called HiPath®. Our portfolio contains a comprehensive range of communications platforms, a broad offering of traditional and IP phones and software-based telephone applications for personal computers, IP-based applications for customer relationship management and remote office environments, a wide array of installation and maintenance services, professional and managed services, and network security systems and solutions. In addition, our open, real-time communications application suite, OpenScape®, integrates traditional telephony services with voice over IP and collaborative applications, such as multimedia conferencing, offering a fully integrated, real-time framework that simplifies business processes. As a result of the general shift towards open standards IP communications solutions, we are moving from a hardware-based business to an increasingly software-and solutions-driven business. Thus, our focus is on optimizing an enterprise s business processes through software solutions which are integrated in its existing IT structure. We design our solutions to provide customers with a prompt return on investment and to open new business opportunities for them, such as through the integration of fax, e-mail, internet and video into existing telephone call center systems.

In order to extend our data networks and information technology security offerings, during fiscal 2004, we have entered into reseller agreements with Huawei Technologies Co. Ltd. (Huawei) and Oblix Inc. (Oblix).

During fiscal 2004, ICN continued to implement its LifeWorks® concept as its vision for the future of telecommunications worldwide. LifeWorks is a unified communications platform that incorporates elements of our SURPASS carrier technology and our HiPath enterprise technology in order to integrate the technologies, devices and applications of enterprises and carriers and to produce a single, homogeneous communications environment where information can be accessed at any time and from any remote point. As a further step to implement our LifeWorks vision, we have launched our HiPath Openscape and our SURPASS Home Entertainment.

ICN operates its own sales force in Germany and uses dedicated personnel in Siemens worldwide network of regional sales units. Our global presence and our expertise in voice and IP communication allow us to deliver ready-for-use network solutions on a wide scale and of varied complexity throughout the world. Some of our more significant carrier customers include Deutsche Telekom, Telecom Italia, China Telecom, SBC and France Telecom, while our more significant enterprise customers include research and governmental institutions (including certain departments of the United States federal government), Ford Motor Company, DaimlerChrysler and RWE. Being faced with an almost stable market development, we have not experienced a significant change in the number of our carrier customers or in the number of our enterprise customers. Our larger contracts with both our carrier and enterprise customers often involve tens of millions of euros. We have no customer who contributed more than 5% of total sales in fiscal 2004.

We have provided, and expect to continue to provide, some of our customers with various forms of direct and indirect financing in connection with large infrastructure projects.

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We derive approximately two thirds of our sales from Europe, with 35% from Germany, and a smaller yet significant amount from the Americas, mainly the U.S.

ICN has established a number of smaller joint ventures in order to share costs and risks of developing new technologies, to manufacture products under local conditions and to facilitate market entry. In addition, we enter into strategic alliances in order to help achieve a leading position in the market for real-time communications. Typical examples are our strategic alliances with leading enterprise IT companies, such as IBM, Microsoft and SAP.

ICN s market continues to be characterized by:

- Growth in the amount and speed of data communications traffic due to the increased availability of broadband access, multimedia applications, such as messaging and games, and real-time communications;
- Continued convergence of voice, data and video communications and increasing volatility of such converged digital traffic within networks;
- Decreasing revenues for many large carriers from fixed line telephony and voice due to mobile substitution, further price erosion, and migration to internet telephony (often referred to as voice over IP services);
- Growing maturity of IP voice technologies, such as voice over IP, endangering more expensive traditional technologies and lowering market entry barriers faced by new competitors; and
- Low levels of capital expenditure by carriers and enterprises in established voice infrastructure.

ICN is challenged by a changing competitive landscape. In addition to our traditional competitors, such as Alcatel, Lucent, Nortel and Avaya, there are also recent entrants, such as Huawei, UTStarcom and ZTE, targeting our traditional customers. As a result of the importance of IP convergence and the applications business, we also face new competitors which formerly focused on software, IT services and/or data networks, such as Microsoft, SAP, Cisco Systems and IBM.

For our carrier business, market conditions remained difficult throughout fiscal 2004, largely due to the continued weak level of capital expenditures among telecommunications operators. Our enterprise business suffered from a continuing reluctance to engage in IT spending, particularly in the United States and Germany.

In fiscal 2004, adjusting our research and development activities to reflect current market conditions, our research and development costs were 10.2 % of ICN total sales, compared to 11.8% of total sales in fiscal 2003. We remain focused on improving the efficiency of our research and development activities, which includes reducing and transferring development sites to lower-cost countries, as well as directing research and development efforts on targeted projects in order to decrease overhead costs and development time.

More generally, in response to the decline of ICN s volume and changes in the competitive landscape, we have undertaken further comprehensive adjustments to our cost structure and business portfolio and continued our efforts in working capital management. During fiscal 2004, we started to implement our ICN Top+ Program aiming for innovation in products and services, improved customer focus and profitable, sustainable growth in turnover and market share. We also continued to maintain our focus on the key elements of our former Profitability and Cash Turnaround (PACT) Program: improving management of working capital, cutting costs, reducing personnel, consolidating our worldwide manufacturing structure and improving portfolio management.

The large size of some of our projects occasionally exposes us to risks associated with technical performance, a customer, or a country. For additional information with respect to our long-term contracts, see Item 3: Key Information Risk Factors.

Effective October 1, 2004, our ICN and ICM Groups were combined to form our new Siemens Communications (Com) Group. Com is organized into three businesses around the telecommunications industry with eight divisions. The devices business consists of *Mobile Devices*, *Customer Premises Equipment Devices* and *Wireless Modules*; the enterprise networks business consists of the two divisions *Enterprise Systems* and

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Enterprise Services; and the carrier networks business consists of the *Mobile Networks*, *Fixed Networks* and *Carrier Services* divisions.

Information and Communication Mobile (ICM)

	Year ended September 30, 2004
Total sales	11.042 billion
External sales as percentage of Siemens net sales	14.48%
Group profit	347 million

ICM designs, manufactures and sells a broad range of mobile network products and systems and communication devices including mobile, cordless and corded fixed-line telephones. ICM is one of the world s leading providers of mobile infrastructure and devices.

In fiscal 2004, our Group comprised four divisions: Mobile Networks, Mobile Phones, Cordless Products, and Wireless Modules.

Mobile Networks. The Mobile Networks division provides mobile network operators and enterprises with a complete range of products for building, expanding and enhancing mobile networks, including the dominant second generation (2G) mobile standard, GSM, the mobile data standard, GPRS and the further enhancement of GPRS data transmission, EDGE, as well as the dominant third generation (3G) mobile technology, W-CDMA.

The division s product portfolio includes radio base stations, base station controllers, switching systems for mobile communications networks, intelligent network systems, applications, and microwave technology systems. The division has started to address the increasing demand of corporate customers offering mobile enterprise solutions to operators. Additionally, the division also focuses on customized solutions in the areas of multimedia solutions and services for operators such as charging which use the division s hardware and software, as well as third party technology. Based on industry estimates of market share published by Gartner, Inc. in May 2004, our Mobile Networks division is among the leading global providers of GSM and W-CDMA networks and prepaid services.

The universal mobile telecommunications system (UMTS) standard used in 3G networks offers faster and more reliable transmission of voice, data and multimedia communications over mobile devices through higher efficiency and speed of radio transmission. These new types of mobile networks are expected to provide a platform for wireless Internet access and a variety of new applications. Supported by Mobisphere, our joint venture with NEC, we are well positioned in the UMTS market. We have already been awarded 30 commercial contracts for 3G network projects. Currently, we are working on a number of rollouts of W-CDMA infrastructure in Europe and Asia.

Mobile Phones. We offer digital mobile phones for all customer segments based on GSM/ GPRS and UMTS, the widely distributed mobile phone technology standards that allow faster data transmission rates. We build our major mobile phone products from common platforms to reduce production costs while allowing us to readily tailor features for different market segments. To broaden our mobile phone line, we continue to introduce high-end products, with multimedia capabilities. The core of our sales come from medium- and lower-priced phones designed for the consumer market. In fiscal 2004, we discontinued our Xelibri brand of fashion accessory phones.

During fiscal 2004, we launched a variety of new products, including:

SX1 smart phone, our first smart phone based on an open operating system offering multimedia capabilities, including audio, video and an integrated camera;

business phones, such as the S65, a high-end bar phone with Bluetooth™ technology, exchangeable MultiMediaCard, integrated camera, and high resolution color display;

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fun phones, such as the M65 and the CX65, with a fashionable design and features such as multimedia messaging service (MMS), JAVA™ technology, color displays, entertaining and easy to use menus, integrated camera with digital zoom, polyphonic ringer, video, and an attachable flash as an accessory; as well as basic-class multimedia phones like C65, for mainstream users;

the slider phone SL65, which features a distinctive design, allowing it to slide open to reveal its keypad, and a camera with digital zoom and video;

clam shell phones, such as the entry level CF62 developed in China, featuring a distinctive design with an antenna loop and an attractive illumination concept, MMS, JAVA™ technology, color display and an attachable camera;

market entry phones, including the A57, designed to appeal to first-time users or price sensitive customers; and

a 3G phone, the U15, which provides a large variety of multimedia features, including video and an MP3 player.

Currently, we rely on Infineon and Lumberg as significant suppliers of semiconductors and other components for mobile handsets. As is common in our industry, we also use electronic manufacturing services (EMS) providers, who supply us with manufacturing capacity. In addition, we use original design manufacturing (ODM) suppliers, who supply us with certain product design and technology features that we use to serve market-specific needs.

Cordless Products. Our cordless products portfolio is based on digitally enhanced cordless technology (DECT) and covers the entire range of products for the consumer, home office, and small business segments. Apart from voice products, we increasingly focus on data products, such as modems and set-top boxes.

In fiscal 2004, we introduced a new generation of Gigaset cordless phones. This is the first Gigaset cordless phone product line to provide access to internet telephony (often referred to as voice over IP), making use of the new Gigaset M34 universal serial bus (USB) device to link the cordless phone with a personal computer. We also introduced the SL740/ SLX740, which is the world s first cordless home phone with integrated camera and MMS.

Wireless Modules. Our Wireless Modules division produces communication modules which enable wireless voice communications and machine-to-machine data transfer. Our customers include them in personal data assistants, smart phones, vending machines, traffic control systems, burglar alarms, measuring instruments, navigation systems, automotive communication systems and other electronic systems and devices.

Our communication modules are based on the GSM and GPRS mobile technology standards. In fiscal 2004, our XT55 module was the first tri-band GPS/ GPRS module to be introduced in the market. The XT55 can be used for fleet management, asset tracking, person tracking and car security, as well as various other applications that focus on location-based communication.

Our Siemens Mobile Acceleration GmbH continues to make strategic investments in start-up companies in the mobile telecommunications field.

Our divisions continue to be actively involved in collaborative ventures. Our Mobile Phones division increased its share in Symbian, a software licensing joint venture that supplies an open operating system for data-enabled mobile handsets. The company is jointly owned by wireless industry leaders, including Nokia, Ericsson, Matsushita, Sony-Ericsson and us. In addition, our Mobile Phones division entered into a strategic partnership with Chinese Ningbo Bird Co., Ltd. (Bird), leveraging Bird s leading sales and distribution network with the aim of achieving strong growth in China.

In fiscal 2004, our research and development costs were 10.6% of ICM s total sales, compared to 11.3% of total sales in fiscal 2003. In addition to Mobile Networks significant long-term development efforts in UMTS, it has focused development efforts on GPRS and EDGE technology. With other leading industry participants, such as Ericsson, Huawei, NEC and Nortel, our Mobile Networks division also launched the Common Platform Radio Interface (CPRI™) initiative. The CPRI™ focuses on a 3G radio base station design that divides the radio base

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station into a radio and a control part, by establishing one new public interface as the sole connecting point between the two parts. This is intended to allow each of the two parts to better benefit from technology advancements in its respective area. The CPRI™ initiative generated its first products during fiscal 2004. Research for the next generation of mobile technologies has been intensified. For example, we participate in the European Union (EU) research for the next generation of mobile network architecture and technologies (beyond 3G). The Mobile Phones division is developing new product architectures in order to drive modularization of platforms, which enable flexible and quick product development. Cordless Products is a leading technology and innovation driver for the new fixed-line MMS standard in Europe, which allows sending and receiving multimedia like pictures and videos with fixed-line phones.

The technology relevant to our business continues to grow more and more complex, and the functionality of different products increasingly overlaps. As a result, ICM, like other competitors in the wireless market, may be more likely to face patent infringement and other intellectual property-related claims, which could have a negative impact on our competitive position.

Customers of our Mobile Networks division primarily include mobile network operators, as well as service providers and a variety of enterprises. Our Mobile Phones and Cordless Products customers are primarily large telecommunications operators, distribution companies and consumer retailers. Our Cordless Products division also sells cordless and corded telecommunications equipment to ICN for resale to business customers as part of its complete telecommunications solutions offerings. Customers of our Wireless Modules division primarily include information and communication device manufacturers, automobile manufacturers, IT vendors and other businesses.

In fiscal 2004, we continued our efforts in building our North American customer base as network providers in the United States continue to shift from TDMA (a 2G technology used only regionally) to GSM technology. In South America, we are taking advantage of the shift from TDMA to GSM standard, and the build-out of GSM in general, to grow our handset business.

We have provided and expect to continue to provide some of our customers with various forms of direct and indirect financing in connection with large infrastructure projects, including build-outs of 3G networks.

Our products and services are sold through our own sales units in approximately 70 countries, as part of Siemens worldwide network of regional sales units. We derive over half of our sales from Europe and a smaller but significant amount from the Americas and the Asia-Pacific region.

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

Fiscal 2004 brought a recovery in investment in mobile network technology due to the wide scale launch of commercial 3G services, continued investment in 2G and 2.5G mobile services and a growing market for services such as network integration and security. The mobile phones market continues to grow, especially for market-entry models, and in emerging markets such as India, the Middle East and Latin America, with a growing demand for ultra-low-cost phones. The prospects in both the mobile network and phone markets will depend on various factors, including the success of the commercial launch of 3G products and services and their widespread acceptance by consumers, the development of worldwide economic conditions and the severe financial constraints to which many wireless network providers are subject.

To improve and enhance profitability, ICM has continued its productivity program. The measures include process improvements, enhanced purchasing coordination, as well as headcount reduction. For example, we both continued and accelerated our increased use of low-cost development resources in China and India.

On an ongoing basis, demand for our products, systems and solutions depends on worldwide economic conditions and continuing growth in communications and information technology use in the areas and standards we serve. In the mature markets, the mobile phone industry is in a transition from serving a voice-centered market to addressing significant data services demand, and future demand for wireless equipment may depend on the availability and acceptance of such data services. Demand for wireless equipment will continue to be affected by the financial constraints facing most telecommunications operators, especially in Europe, which limit their ability

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to invest in wireless infrastructure. Demand for our mobile and cordless phone products also typically fluctuates by season, with most of the sales to the end-consumer historically occurring around the Christmas holidays. Due to generally short product life cycles in our mobile handset business, to remain competitive we must be able to design and successfully bring new products to market quickly and in sufficient amounts to meet customer demand.

We compete with both large, established mobile network and handset telecommunications manufacturers with a broad focus, as well as smaller start-up companies concentrating on particular market niches. In addition, we experience new competitors with a strong regional focus, for example China, who build on their low cost structures and abilities to integrate third-party modules and components in their own products. In general, some of our most significant competitors include Nokia, Motorola, Nortel, Lucent, Ericsson, Sony-Ericsson, LG and Samsung, in mobile networks and mobile phones, and Matsushita, Atlinks, and Vtech, in other digital communications products. Additionally, in Mobile Networks, we are facing both low-cost competitors such as Huawei and ZTE and traditional IT firms such as Cisco, who are strengthening their market positions. Mobile Networks is also confronted with intensifying competition from telecommunications suppliers such as Ericsson and IT integrators such as Capgemini, Hewlett-Packard (HP) and Accenture, in the system integration market segment. Additional competitive pressure in mobile phones comes from network operators who are selling phones under their own brand (white label phones). Also, forward integrating technology providers, such as chip manufacturers, expand their share in the value creation as they are able to build more of the phones functionalities into their components. In addition, EMS suppliers, who possess the necessary manufacturing know-how, participate in the manufacturing value creation. In Wireless Modules, we are facing competition mainly from Wavecom and substitution risks from semiconductor companies such as Intel, Infineon and Texas Instruments.

The large size of some of our projects occasionally exposes us to risks associated with technical performance, a customer, or a country. For additional information with respect to our long-term contracts, see Item 3: Key Information Risk Factors.

Several recent or proposed governmental actions may have an impact on our sales and costs. These include the EU directives concerning the disposal of used electronic equipment and the reduction of hazardous waste, and the possible establishment in the EU and other major markets of limits on the Specific Absorption Rate (SAR), a measure of the rate at which radio frequency energy is absorbed by the body, for hand-held phones and other devices. In addition, from 2006 on, the EU and China will exclude lead-containing electronic products from their markets. Our Mobile Phones and Wireless Modules divisions are preparing the migration to a lead-free product portfolio. See Environmental Matters. We are already running pilot projects intended to assure our compliance by the applicable dates. The potential impact of these environmental regulations on our sales or profitability will depend in part on how they are ultimately implemented through national legislation and enforced.

Effective October 1, 2004, our ICN and ICM Groups were combined to form our new Siemens Communications (Com) Group. Com is organized into three businesses around the telecommunications industry with eight divisions. The devices business consists of *Mobile Devices*, *Customer Premises Equipment Devices* and *Wireless Modules*; the enterprise networks business consists of the two divisions *Enterprise Systems* and *Enterprise Services*; and the carrier networks business consists of the *Mobile Networks*, *Fixed Networks* and *Carrier Services* divisions.

Siemens Business Services (SBS)

	Year ended September 30, 2004
Total sales	4.716 billion
External sales as percentage of Siemens net sales	4.79%
Group profit	40 million

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SBS provides information and communications services to customers in industry, the public sector, financial services, telecommunications, transportation and utilities. SBS designs, builds and operates both discrete and large scale information and communications systems, and provides related maintenance and support services.

SBS has expanded into the operation of communications systems to provide comprehensive information technology and communications solutions from a single source. SBS creates these solutions for customers by drawing on its management consulting resources to redesign customer processes; on our professional services to integrate, upgrade, build, install and maintain information technology systems; and on our operational capabilities to run these systems on an ongoing basis. SBS serves primarily external customers, who account for approximately 76% of total sales.

SBS has three divisions which reflect the types of services SBS offers. The *Solution Business* division offers project-oriented consulting, design and implementation services. These include selecting, adapting and introducing new solutions to support business processes, as well as integration of systems and enterprise applications. Many of our solutions are based on software platforms from our partners, such as SAP. The *Operation-Related Services* division provides outsourcing services (operation of a customers IT infrastructure or of selected business processes), with a focus on full-scale IT operations spanning hosting, call center, network and desktop services. The *Product-Related Services* division offers infrastructure maintenance, including hardware and software maintenance and infrastructure service solutions, including security services and concepts designed to minimize business process interruption caused by failures in the IT infrastructure. In fiscal 2004, we generated more than a quarter of total sales from the Solution Business, less than half from Operation-Related Services and slightly more than a quarter from Product-Related Services. SBS will seek to expand its outsourcing business and formed a fourth division, *Business Process Outsourcing*, focusing on business process outsourcing, especially in the areas of human resource administration and financial service back-office operations as of October 1, 2004 to support this initiative.

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

customer relationship management to assist businesses in aligning their organizations to better serve the needs and requirements of their customers. In this area, SBS offers solutions for integrated management of all sales, marketing and customer care activities, including operation of call centers and the supply of sales control systems that allow businesses to follow and maintain their customer relationships by gathering and analyzing sales information;

business information management to improve our customers business processes, by electronically structuring, processing, analyzing and evaluating data and information, and making it available around the clock. Our portfolio in this area includes services and solutions for business information, document and product data management;

supply chain management to facilitate the efficient interplay of all of a business operational processes with those of its suppliers, from receipt of orders through production and shipment, enabling optimization of delivery times, capacities, inventories and production processes, as well as cost reductions. SBS offers a complete portfolio of offerings in this area, from planning, design and implementation of a customer s production and logistics information technology systems to the operation of production and logistics systems as an outsource services provider;

enterprise resource management to optimize a customer s internal management and production processes through the supply and support of configurable software packages for integrated management of a wide variety of the customer s business processes, from procurement to manufacturing and distribution to treasury management and accounting functions across different industries. SBS tailors standard software packages according to customer requirements to create and optimize solutions, making it available throughout the enterprise and offering global, around-the-clock support; and

e-commerce systems and solutions in a range of industries that allow customers to offer a variety of Internet-based services through design and implementation of software for on-line media, communications and transactions applications.

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Most of SBS consulting and design services relate to information technology and communications systems that we also build or operate. SBS designs and builds systems and provides services using the software of many companies with which it has established relationships, such as SAP, Microsoft, Siebel, i2 Technologies, Oracle and Computer Associates. We also provide technical support and maintenance of existing information and communication systems. As part of our outsourcing services, we provide the operation of an entire information technology system or only one or more discrete services, from data storage and processing to billing. Going forward, SBS will continue to focus on IT outsourcing activities while further intensifying its efforts in business process outsourcing.

Currently, the Group is focusing its efforts on the manufacturing industry, public sector and financial services. For example, during fiscal 2004, we were selected as the single preferred bidder for a new IT-technology framework for the British Broadcasting Corporation (BBC), which resulted in a ten year contract with expected total contract volume of 2.7 billion. As part of that deal, we acquired BBC Technology, a commercial subsidiary of BBC which will transfer about 1,400 BBC Technology employees to us. Among our larger customers are Fujitsu Siemens Computers, Deutsche Bank and National Savings & Investment. At the same time, the percentage of our revenue derived internally from Siemens has declined, in general due to a decline in IT budgets across the majority of the Siemens business Groups. Although we compete with external service providers for all Siemens contracts and each Siemens business Group determines on an arm s length basis whether to do business with SBS, we remain the largest supplier of information technology and communications services to Siemens. Siemens businesses collectively continue to be our largest customer.

SBS operates worldwide in more than 40 countries, but we have traditionally generated most of our sales in Germany, followed by a significant percentage of sales to other European countries. In fiscal 2004, Germany represented slightly less than half of our total sales.

SBS has its own sales and delivery force, as well as relationships with selected companies that act as dedicated delivery partners in certain smaller regional markets, such as our relationship with Fujitsu in the Asia Pacific region and selected countries in South America. During fiscal 2004, SBS and Fidelity Information Services (FIS) formed a strategic partnership to offer banking solutions services on an international basis, albeit focusing initially on Germany. SBS will provide IT services and FIS will provide the banking software and solutions services of our KORDOBA Gesellschaft für Bankensoftware mbH & Co. KG, in which it acquired a 74.9% interest in September 2004.

We continue to concentrate on improving our profitability through cost-cutting measures, including adaptation of capacity in selected segments, as well as several company-wide programs intended to enhance our operational efficiency. In addition, we have set up a global sourcing program to optimize the advantages of a globally distributed workforce.

Our most significant competitors vary by region and type of service. A few are global, full-service IT providers such as IBM s Global Services division and EDS. Our competitors that focus more narrowly on specific regions or customers include T-Systems, a unit of Deutsche Telekom, in Germany, and Capita, in the United Kingdom. Those focusing primarily on a particular service include Accenture in consulting, Capgemini in systems integration and Affiliated Computer Services in outsourcing. As a service business, SBS requires strong local presences and the ability to build close customer relationships and provide customized solutions while achieving economies of scale and successfully managing risks in large projects.

Consolidation of the IT Services market continued. Main international transactions have been the acquisitions of SchlumbergerSema (by Atos Origin) and of Transiciel (by Capgemini). In addition, HP acquired Triaton, the former IT subsidiary of ThyssenKrupp, focused on SBS German home market. The competitive environment of business process outsourcing changed by the merger of Hewitt Associates and Exult. Nevertheless, the markets in which we operate essentially remain fragmented.

We enter into large scale, and sometimes long-term, projects. The large size of some of these projects, as well as the long-term frame contracts with our largest customers, occasionally expose us to technical performance, customer-or country-related risks. Risks associated with long-term outsourcing contracts remain a

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management priority at SBS. For additional information with respect to our long-term contracts, see Item 3: Key Information Risk Factors.

AUTOMATION AND CONTROL

Automation and Drives (A&D)

	Year ended September 30, 2004
Total sales	8.829 billion
External sales as percentage of Siemens net sales	10.07%
Group profit	1.077 billion

Our A&D Group is a market leader in factory automation, offering standard and customized electronic and electro-mechanical products and systems for industrial and electrical installation applications, as well as comprehensive automation solutions for durable goods manufacturing and certain raw materials and materials processing industries.

We offer products, solutions and services in four main areas, which combine various internal organizational units: low voltage control and installation technology; manufacturing automation; motion control and drive systems; and process automation.

Low voltage control and installation technology products include low voltage switchboards, circuit protection and distribution products and command and signaling devices. These products are used in the control cabinets of switchgear and control gear manufacturers and automation providers, who in turn serve producers of mechanical and electrical machinery and companies in the construction industry. We also offer electrical installation products such as circuit protection systems, small distribution board systems, wiring devices, switches and sockets for the distribution of electricity in residential and industrial buildings. Our modern bus systems for communication and monitoring links products and systems together and further links these to building automation systems. The bus systems are used principally in residential buildings and large commercial facilities such as plants and office buildings. In this area, we increasingly combine systems designed to optimize power distribution and management, which we market under the name totally integrated power, with factory automation systems, which we market under the name totally integrated automation.

Manufacturing automation products include programmable logic controllers (PLCs), human machine interfaces (HMIs) for integrated automated systems using a single system platform, and industrial communications systems. Our main customers are the durable goods and capital equipment industries, especially mechanical engineering companies. In addition, we integrate these products into industry- or customer-specific hardware and software solutions and, for the automotive industry, plan, engineer and sell complete manufacturing automation solutions. Our products continue to keep pace with innovations in software and Internet-based capabilities.

Motion control and drive systems products include motors, drives and computerized numerical controls (CNCs) for machine tools, as well as automation and drive equipment for all types of production machines and material handling equipment. We also sell motors and drives, from low to high voltage, for various applications in different industries and in infrastructure facilities. Applications include rolling mills and ships, engines for all kinds of rail vehicles and ventilation and water and waste water transportation systems. We have recently developed and introduced a common drive platform, Sinamics, and a drive-based platform, Simotion, which we expect to utilize in motion control applications across product areas.

Process automation engineers and sells process instrumentation and analytics to companies in the raw materials and other materials processing and capital equipment industries. We plan, engineer and sell complete solutions that integrate these products for specific applications in the chemical, pharmaceutical, food and beverage, and non-metallic minerals industries. We use our computerized process control system, which we continually develop, as the basis for our batch and process solutions.

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In all of our business units, we supply consulting, design and support services to our customers, both independently, and as a part of, our sales contract work.

To offer our customers a broad portfolio of products and systems as a one stop shop supplier, we are strengthening our market position through acquisitions and joint ventures in the field of process instruments and drive systems. In order to improve our position in the low voltage installation sector, in fiscal 2004, we acquired the busbar trunking systems unit of the Moeller group. Busbar trunking systems are used to transmit and distribute electrical power in buildings and offer advantages compared to conventional cables. The business, with approximately 600 employees and four manufacturing locations, is expected to reinforce our market position in Europe, the Middle East and Asia.

We sell our products primarily through our own sales force in Germany and through dedicated personnel in Siemens worldwide network of regional sales units. We also sell a significant proportion of our products to original equipment manufacturers and third-party distributors for resale to end users. The majority of our sales to third parties goes to industrial customers in the mechanical and electrical machines industries. A significant portion is also made to distributors, system and software houses and engineering companies. For example, we reach customers of our electrical installation products and systems in the building construction industry through third-party distributors.

For many years, we have also cooperated closely with customers in the automotive and chemical industries and we are working to expand both our business and our cooperation in this area. To meet the distinctive needs of our customers in these industries, we have developed a broad range of standardized products tailored to specific industry segments, thus increasing efficiency in the planning, construction and commissioning of plants. While A&D serves a diverse group of customers, the other Siemens business Groups, such as Transportation Systems (TS), Industrial Solutions and Services (I&S) and Power Generation (PG), considered together, traditionally comprise our largest single customer, accounting for approximately 14.3% of our total sales in fiscal 2004. Because a portion of our business involves contracts for large scale automation solutions, our list of significant customers may vary substantially from year to year.

We derive more than two thirds of our sales from Europe, with 40% from Germany, and a smaller but significant amount from the Americas, mainly the United States. Our sales in China are growing in importance.

We have 54 significant manufacturing and assembly locations around the world, including 22 in the Americas, nine in Asia, and 23 in Europe, of which twelve are located in Germany.

In fiscal 2004, our research and development costs were 6.3% of A&D s total sales, compared to 6.2% of total sales, in fiscal 2003. Our research and development efforts are currently focused on implementing technological progress in micro-electronics, software technology and industrial communication into our products, systems and solutions; improving the functionality of our products; and enlarging our field of activities.

Economic conditions affecting our relevant markets improved during fiscal 2004, in particular in the United States and China, where we experienced sales and order growth.

Our goal is to grow sales in our traditional markets in Germany and Western Europe and to continue our expansion in Eastern Europe, the Americas and the Asia-Pacific region, in particular China. In addition, we intend to increase our profitability through productivity improvements and continuous cost management. In fiscal 2004, we have continued to streamline our portfolio through the disposal of small non-core operations. For example, we sold our in-house circuit board contract manufacturer to Sanmina-SCI Corporation, a U.S.-based electronics manufacturer.

Consolidation in our industry is occurring on multiple levels. Suppliers of automation solutions to manufacturing companies have supplemented their activities with drives technology. Suppliers of manufacturing and process control systems are cooperating or combining through acquisitions or cooperative ventures with suppliers of field technology and outsource facility operation and monitoring activities to establish comprehensive automation suppliers. During the past fiscal year, some of our competitors have strengthened their portfolios through acquisitions and formation of joint ventures, primarily in Eastern Europe and China.

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Intense competition and rapid technical progress within our industry place significant pressure on prices. Average product lifetimes in our businesses tend to be short, typically from one to five years after introduction, and are even shorter where software and electronics play an important role. Product lifetimes tend to be longer in motors and in electronic devices.

Our principal competitors ABB, Emerson, Rockwell and Schneider Electric have broad business portfolios similar to ours. We also compete with specialized companies such as Eaton, Honeywell and Fanuc. Our U.S. competitors traditionally have had strong positions in software technologies, while some Japanese competitors have generally focused on large-scale production and cost cutting. Nevertheless, most of our major competitors have established global bases for their businesses. In addition, competition in the field has become increasingly focused on technological improvements to electronics and software.

Industrial Solutions and Services (I&S)

	Year ended September 30, 2004
Total sales	4.290 billion
External sales as percentage of Siemens net sales	4.19%
Group profit	95 million

I&S develops, builds, and upgrades plants for industry and infrastructure facilities. With the development of sector-specific product families, I&S combines various drive-, automation-, information technology-, and maintenance-solutions from other Siemens Groups to form an integrated complete offering for the life cycle of a plant. I&S thus optimizes the production and operational processes of our customers in the sectors water, metals, traffic control, marine solutions, oil and gas, paper and mining.

Our four core competencies are:

industry sector solutions for customers in materials processing industries and infrastructure-related industries including automation, instrumentation, drives, power distribution and control systems;

information technology solutions that enhance productivity in facilities for manufacturing and materials processing by linking different levels of automation, process control and management information systems;

technical services, including plant construction and modernization, on-call and logistics services and integral plant maintenance, as well as auxiliary process management services provided to customers in a broad range of industries; and

traffic control, including traffic guidance systems and transport telematics, enables us to integrate different technologies and services into solutions for modern traffic management, resulting in improved traffic mobility.

During fiscal 2004, we provided our solutions and services through the following five divisions:

Industrial Plants uses industry-specific expertise to design, engineer and deliver solutions tailored to the needs of customers in various industry sectors. Increasingly, we focus on offering complete, integrated solutions rather than isolated solutions serving a single function. For metal and paper-processing industries, we provide automation and process control systems, drive systems and electrical equipment used in plants that make, roll and process steel and in mills producing pulp and paper. For the open-pit mining industry, we offer solutions, including electrical power, drive and automation systems for bulk material handling and processing. We also provide solutions for off- and on-shore operations of the oil and gas industry, including power and integrated drive systems, automation and process control. Our solutions and services in the oil and gas segment address both upstream exploration, as well as midstream transportation and pipeline activities. We also deliver propulsion drives and integrated electrical systems for ships, as well as drive systems, fuel cells and automation systems for submarines.

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Industrial Services is responsible for our industrial technical services activities, providing a wide range of technical services covering each stage of the lifecycle of industrial plants, infrastructure facilities and utilities. We serve customers in a variety of industries. Under the trade name Siemens Industrial Services, we provide engineering and general contracting services for plant construction and modernization and deliver on-call and logistics services, maintenance services, including predictive maintenance, as well as auxiliary process management services. We are active globally on a local basis through a network of about 200 service locations in more than 50 countries. Our strong local presence allows us to be close to our customers, increasing speed and efficiency in delivering our services.

Intelligent Traffic Systems offers automated systems for urban and inter-urban traffic control and management. These systems include information technology for traffic detection, information and guidance and parking space management, in addition to solutions for electronic tolls and tunnel traffic guidance and access control. Our airfield technologies business provides systems and solutions for the accurate monitoring, navigation and control of aircraft ground movement, as well as a variety of lighting systems for the visual guidance of traffic on the airfield.

Water Technologies was established as a new division in August 2004 with the acquisition of USFilter Corporation (USFilter), a leading supplier of products and services with a broad customer base for municipal and industrial water treatment in North America, which we acquired in July 2004 from the Veolia Environnement group. With the acquisition, we expect to position ourselves as a leader in the growing global water and wastewater market. For additional information with respect to the USFilter acquisition, see Portfolio Activities Acquisitions. Water Technologies offers products (filters, membranes, resin), integrated solutions (membrane systems, filtration solutions, chemical feed, ion exchange systems, disinfections systems, biological treatment) and outsourcing solutions (contract operations, build-own-operate solutions and customer asset management). Siemens will contribute its automation and electrical engineering expertise to USFilter s business. Synergies arising from the competencies of Siemens and USFilter will make Siemens a strong and attractive partner for our customers in the water business. I&S global presence gives the existing USFilter business access to its worldwide facilities, thereby enhancing USFilter s market presence immediately and giving it the opportunity to expand its business internationally, especially in Europe and China. I&S objective is to continue to expand the Siemens portfolio for the optimization of production processes in the process industry, especially in the oil & gas, metals & mining, and pulp & paper sectors.

IT Plant Solutions responsible for information technology plant solutions provides high value-added solutions for the growing market in advanced industrial information technology and industry-specific manufacturing execution solutions. Beginning in fiscal 2005, the activities of IT Plant Solutions will be integrated within our other divisions. Through this realignment we hope to strengthen our focus on specific sectors, increase efficiencies and enhance synergies within our industry sector solutions.

In fiscal 2004, we continued efforts to rationalize our organization in order to improve profitability and competitiveness. Our goal is to focus I&S on its core competencies and higher margin businesses.

Our Industrial Plants division derives its sales revenues primarily from projects awarded on the basis of internationally solicited tenders. These projects tend to be performed under long-term, high-value contracts with a relatively limited number of customers. Intelligent Traffic Systems works predominantly with state and municipal customers under long-term fixed-price contracts. Our newly formed Water Technologies division focuses on municipal, as well as industrial and institutional customers. Our Industrial Services division provides services to numerous customers across a variety of industries, as well as to our Industrial Plants division and other Siemens Groups, principally A&D, Power Generation, Power Transmission and Distribution and Transportation Systems. Siemens businesses collectively continue to be our largest customer.

We market our services to our customers primarily through our dedicated sales force, supplemented by Siemens worldwide network of regional sales units. We derive most of our total sales revenue from Europe and a smaller, but significant, amount from the Americas and increasingly from the Asia Pacific region. In fiscal 2004, we generated more than two thirds of total sales from projects and services performed in Europe, with 41% in Germany. In Europe, our primary goal is to increase our business outside of Germany. We are also seeking to continue our growth in selected markets in the Americas and Asia.

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Most of our research and development is undertaken in connection with specific projects for our customers, and our reported research and development expenses do not reflect those activities. Therefore, I&S does not traditionally incur high expenses relative to sales for research and development. In fiscal 2004, our research and development costs were 1.0% of I&S total sales, compared to 0.9% of total sales, in fiscal 2003. Our principal ongoing research efforts relate to industrial information technology, innovative automation, drive systems and power supply, as well as e-solutions. These include, for example, Internet-based technologies, such as remote commissioning, diagnosis, monitoring and control of industrial systems and facilities. We are also developing self-training expert systems for improved plant diagnosis and troubleshooting, as well as tools for plant simulation in order to optimize plant efficiencies in areas such as production output and energy consumption. In 2004, we launched our product family strategy marketed under the name Completely Integrated Solutions which offers integrated solutions for specific industries.

Our competitors vary by business area and region. They range from large, diversified multinationals to small, highly specialized local companies. I&S main competitors internationally include ABB, General Electric, Honeywell, Invensys and Alstom. Our Industrial Services division also competes with a large variety of small locally based suppliers of contracting, maintenance and support services. Unlike our principal competitors, we have not limited our Industrial Services business to particular industries, allowing us to take advantage of the growing demand for outsourced maintenance and support services in a variety of industries, including those for which Siemens does not provide products or systems and irrespective of the manufacturer of the original system or facility. We believe that we possess a competitive advantage in our unique combination of competences in the industrial sector and the information technology and technical services fields.

The large size of the projects performed by our Industrial Plants division occasionally exposes us to risks related to our technical performance, to a customer or to a country. For additional information with respect to our long-term contracts, see Item 3: Key Information Risk Factors.

Logistics and Assembly Systems (L&A)

	Year ended September 30, 2004
Total sales	2.338 billion
External sales as percentage of Siemens net sales	2.89%
Group profit	2 million

L&A (formerly Siemens Dematic) designs, engineers, manufactures and sells factory automation and logistics automation equipment, systems and solutions, postal automation, electronics assembly systems and internal transport systems for on-site use. We are the largest participant in the material handling automation market overall. Following a reorganization of our divisional structure in fiscal 2004, our business consists of four divisions: Distribution and Industry Logistics, Airport Logistics, Postal Automation and Electronics Assembly Systems.

Our *Distribution and Industry Logistics* division designs, manufactures and assembles integrated distribution and factory logistic systems, and offers after-sales services to its customers. We automate materials flow, handling and logistics processes for major retail and wholesale operations and durable and non-durable goods manufacturers, principally in the chemical, pharmaceutical, food and beverage, and automotive sectors. In this division, we focus on globally standardized product and systems development, planning, information technology, material handling automation architecture and consulting in support of our systems sales.

Airport Logistics offers systems to track and control cargo in and around airport terminals, as well as a full range of baggage handling functions, from the check-in counter and screening, to baggage reclaim, including services and parts for such systems. We also provide security solutions for the aviation industry, integrating baggage screening and explosives detection technologies.

Postal Automation provides equipment for sorting of both standard and large letters (so-called flats); reading and coding systems; postal information technology; mail security solutions; and postal services such as product-

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related after-sales services and general contracting. As part of the Group s reorganization, the parcel and systems business was transferred to the Postal Automation division. Key customers for this business are the traditional post and parcel services, including the German and United States postal services. The United States Postal Service is our largest customer in this division, accounting for more than 5% of L&A s sales in fiscal 2004. Our target customers include private parcel and package carriers, of whom FedEx, UPS and DHL are current customers.

In the Distribution and Industry Logistics, Airport Logistics and Postal Automation divisions, we deliver value to our customers through the intelligent combination of electronics, software and mechanical elements in our integrated systems, solutions and services. Our products feature a wide range of transport systems and sorters. They are designed, using our industry specific knowledge, for precise control of materials flow and utilize optical character recognition systems in conjunction with complex computer software. These divisions are involved in the design, manufacture, integration, installation and service of systems and solutions. Other Siemens businesses and outside sources typically supply us with various components. For example, we purchase our electro and electronic equipment, including drives and programmable logic controllers, and some software from A&D. In fiscal 2004, the market for logistics continued to be negatively affected by weak capital spending by the manufacturing industry and logistics and postal service providers, resulting in excess capacity in our Airport Logistics and Distribution and Industry Logistics divisions. In the first quarter of fiscal 2004, the Airport Logistics division was able to secure the order for the installation of automated baggage and cargo handling systems at Dubai International Airport. In the second quarter of fiscal 2004, the Postal Automation division was awarded a large order from the United States Postal Service to supply systems and equipment for optimizing existing mail sorting systems.

We expect that going forward, our Distribution and Industry Logistics division will benefit from an increase in demand from traditional customers investing in integrated solutions. We believe that these integrated solutions including information technology systems and our industry knowledge create opportunities to increase our customer base. In addition, as formerly government-owned postal and airport authorities are deregulated and privatized, we believe that competition in the markets in which they operate will continue to increase. We expect that companies attempting to compete effectively will be likely to increase their investment in integrated, automated systems and technologies in order to improve their productivity and speed, creating an opportunity for us. We also expect that postal and parcel services in Eastern Europe will increasingly invest in automation. Furthermore, due to our large installed base of postal, logistics and production automation systems, we aim to continue generating sales over the coming years through value-added upgrading and servicing of this equipment base.

Our *Electronics Assembly Systems* division s principal products are surface mount technology (SMT) placement systems that automate the mounting of components onto printed circuit boards. These systems are capable of processing numerous component types and can be tailored to the requirements of individual line configurations by a complete modular platform concept. Our principal customers are manufacturers in the electronics field that use SMT, including manufacturers of mobile phones, handheld computers and automotive, industrial and consumer electronics, and, increasingly, electronic manufacturing services providers. Until recently, our focus has been on the technical qualities, speed and precision of our placement systems. Increasingly, we are designing, manufacturing and selling entire standardized SMT production line configurations, which integrate our SMT placement systems with the products of our strategic partners. Since our customers continue to be under pressure to reduce assembly costs, we support them with our know-how and expertise in process planning and improvement methodologies, the most common being lean manufacturing , a system cutting out anything from the manufacturing process that does not add value to the customer.

In fiscal 2004, the global assembly automation industry experienced a recovery, following several years of weakness in the electronics industry market. We are shifting our business focus to the Asia-Pacific region, where many of our customers in the electronics industry have moved their manufacturing locations. We are also penetrating new market segments for our placement systems through the introduction of products designed for mid-range companies with low-to medium-volume production requirements, variable batch sizes and frequent product changes. The market for electronics assembly systems, particularly in Asia, continues to be sensitive to pricing, which increases the pressure to contain costs in this division.

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L&A distributes its products primarily through its sales force in Germany and its local distribution companies throughout the world.

We derive the majority of our sales from Europe and the United States and an increasingly important portion from Asia-Pacific.

We have four significant manufacturing and assembly facilities in Germany and two in the United States. In fiscal 2004, we opened a new electronics assembly production facility in Singapore.

In fiscal 2004, our research and development costs were 5.5% of L&A s total sales, compared to 5.2% of total sales in fiscal 2003. Main areas of focus in the Electronics Assembly business include a new high performance SMT placement product, as well as the development of standardized modules which can be used across our various placement machine platforms. In the Distribution and Industry Logistics division, a main area of focus is so-called mechatronics. The objective of this initiative is the development of a globally applicable standard product family for conveyors. The aim is to reduce product and project costs (through increased economies of scale in manufacturing and project engineering, and reduction of project technical risks) and to increase the efficiency of our system development by improving repeatability, through increased modularity of our products and solutions.

In fiscal 2004, we continued to focus on improving profitability, including through consolidation of our production facilities, and shifting our resources and attention to what we view as the most promising markets. We have also focused on improving revenue generation from our service business. Furthermore, we have placed special emphasis on project management initiatives, in particular leadership development, additional training of project managers, performance controlling and benchmarking. Other measures designed to enhance profitability included increasing our efficiency in purchasing and reviewing our portfolio with a view toward divesting non-core activities. For example, in fiscal 2004, we sold to GEA AG our Colby Powder Systems, a business focused on the supply of equipment and integrated systems for handling and packing of powdered products.

Our main competitors in our Distribution and Industry Logistics, Airport Logistics and Postal Automation businesses are FKI Logistex (including the former Crisplant), Daifuku, Swisslog, Northrop Grumman (including Solystic), Lockheed Martin, Elsag, NEC, Toshiba, Pitney-Bowes and Bell & Howell. Other competitors operate within niche markets or offer market specialized technologies to their customers; these include Vanderlande, Schaeffer-Noell and Duerr. Competition in this area, including price competition, is strong due to weakened demand and excess capacity. Several of our competitors in the Distribution and Industry Logistics business are strengthening their presence in the United States market, a region from which we derive a substantial portion of our revenues. Major competitors of our Electronics Assembly Systems division include Panasonic Factory Solutions; Fuji Machine; Universal Instruments, a subsidiary of the Dover Group; and Assembleon. In the growing and price-sensitive market segment for mid-range placement machines, we compete with Yamaha and Juki.

The large size and complexity of some projects performed by our Distribution and Industry Logistics, Postal Automation and Airport Logistics divisions expose us to risks related to technical performance. For additional information with respect to our long-term contracts, see Item 3: Key Information Risk Factors and Item 5: Operating and Financial Review and Prospects Segment Information and Analysis Operations Automation and Control Logistics and Assembly Systems.

Based on the results of the analysis of current projects in conjunction with the changing markets described above, as well as the structural challenges to attaining originally targeted profitability, management revised its related business plan and concluded that goodwill for the Distribution and Industry Logistics and Airport Logistics division was impaired. For further information with respect to the goodwill impairment, see Item 5: Operating and Financial Review and Prospects Segment Information and Analysis Operations Automation and Control Logistics and Assembly Systems and Notes to Consolidated Financial Statements.

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Siemens Building Technologies (SBT)

	Year ended September 30, 2004
Total sales	4.247 billion
External sales as percentage of Siemens net sales	5.55%
Group profit	108 million

SBT provides products, systems, solutions and services for monitoring and regulating the temperature, fire safety, ventilation, electricity, lighting and security of commercial and industrial property, tunnels, ships and aircraft. In addition, we also provide planning, management and technology-related electrical contracting services in connection with building projects.

During fiscal 2004, SBT consisted of the following six divisions:

Security Systems offers solutions and services for electronic building security, including intruder detection and alarm systems, closed-circuit television video-surveillance, personal identification and building access control systems, as well as managed services such as centralized monitoring and control of each of these individual systems.

Fire Safety offers solutions and services to the non-residential markets for fire detection and protection, including computerized gas leakage and fire alarms and non-water based fire extinguishing systems, as well as comprehensive computer-based danger management systems that centrally monitor and control each of these individual systems.

Fire & Security Products manufactures and sells system components for the global fire safety and security industry. Our products serve to protect against fire, burglary, unauthorized access and loss of assets. We market our products primarily to system builders and integrators, installers and original equipment manufacturers (OEM). Our products are also used by other Siemens Groups and are incorporated into solutions and services offered by SBT s other divisions, in particular Security Systems and Fire Safety.

Building Automation offers solutions to the non-residential markets for automating and regulating heating, ventilation and air conditioning (HVAC), electricity and lighting, including computerized building automation systems that integrate and manage all of these functions for an entire building. In addition, the division offers maintenance and training services for its systems. Building Automation also provides energy solutions and services, aiming to improve a building s energy costs, reliability and performance while minimizing impact on the environment. For example, we refurbish buildings to improve their energy efficiency and provide our customers with a guaranteed level of energy cost savings. We also arrange for financing of the refurbishment.

HVAC Products manufactures and sells controls, sensors, detectors, valves and actuators used in systems that regulate heating, ventilation and air conditioning, electricity and lighting in buildings and factories. This division sells to the Building Automation division and to original equipment manufacturers (OEM), value-added partners, resellers and installers.

During fiscal 2004, we divested the majority of our *Facility Management Services* division. To optimize our portfolio, we disposed of the operations of the division s facility management unit which operated and maintained entire building sites for tenants and owners as an outsource provider and offered facility management consulting services to building operators. In addition, we significantly downsized the activities of the project business unit which provides services relating to the planning and management of electrical contracting projects.

Effective as of October 1, 2004, the divisions Fire Safety and Fire & Security Products will be merged to form a new division, Fire Safety and Security Products, that will be responsible for all activities including products, systems, solutions and services for the fire safety business and the security products business.

Our customers consist of a large, widely dispersed group of locally-based building owners, operators and tenants, building construction general contractors, mechanical and electrical contractors, OEM of HVAC systems, wholesalers, specialized system builders and installers. The project business in Security Systems, Fire Safety and Building Automation generated sales of approximately 2.1 billion in 2004. More than 75% of this volume is

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attributable to orders with a volume less than 750,000. The average project size is 30,000 and most projects are 25,000 or less.

SBT has a decentralized business organization that combines a small central headquarters, design and manufacturing at sites in seven countries in Europe, North America and Asia and our own distribution network, consisting of approximately 400 local sales, project execution and services branch offices in more than 40 countries. In order to improve cost synergies with Siemens regional companies, we integrated the majority of SBT s local organizations with the Siemens regional companies during fiscal 2004. For some markets, we also distribute our products and systems through a network of independent field offices and distributors. Our services businesses and sales network have significant local presences arising from the need to be close to the customers and buildings that use our products, systems and services. Our manufacturing and design sites and our regional sales units with their branch offices are connected to each other and to our central management by a central communications network.

We sell our products and systems throughout the world, and derive nearly two thirds of sales from Europe, nearly one third from the Americas, primarily the United States, and the remainder from Asia Pacific.

We have 11 manufacturing and assembly facilities worldwide, including 7 in Europe, of which three are located in Germany. In fiscal 2004, we continued to take measures to scale back our production capacity and finalized the closure of production plants in Staefa (Switzerland) and Redditch (United Kingdom). We have relocated most operations at those locations to our existing sites in Switzerland and Germany and outsourced some operations to the Czech Republic. We also disposed of an assembly factory in Nelm (Switzerland).

In fiscal 2004, our research and development costs were 3.6% of SBT s total sales, compared to 3.3% in fiscal 2003. The trend in our industry is toward the use of open platforms which are compatible with all current standards used in the building management systems market. We are working to develop open system platforms and systems with backward and forward compatibility that will enhance product flexibility and protect a customer s investment by allowing our customers to create linked systems with products from different suppliers. We are also working to develop remote control building automation systems that will allow the user to control a building s maintenance, safety and security systems offsite via the Internet. We strive to become a market leader in new technologies. In fiscal 2004, for example, we established a partnership with ZN Visage to develop and market 3-D face recognition systems for use in building security.

Traditionally, the HVAC, electricity, security and fire safety systems used in buildings have been designed and sold as separate, stand-alone systems that could not be integrated to combine functions or allow for centralized control. During the past several years, the increased use of computers in building systems has allowed manufacturers to link individual systems and to offer multi-function building automation systems. We continue our efforts to develop and offer building management solutions, which use a common technological platform and can therefore integrate various building management features. SBT offers such integrated building automation systems globally. Sales have occurred primarily in the United States, Europe and other selected countries, such as Australia.

Our near-term strategy is to grow profitable business fields at rates that at least keep pace with the market overall. We expect our Security Systems division to grow in part through cross-selling to existing customers of the Building Automation and Fire Safety divisions. The Fire & Security Products and HVAC Products divisions are making a wider range of their products available to third-parties and are refocusing their sales and marketing functions to achieve stronger growth in third-party customer channels. In addition, both divisions are expanding their offering of products and components for OEM, making more of our existing products available for offering on an OEM-basis. Our Systems and Services divisions (Security Systems, Fire Safety and Building Automation) are using their current large installed base of building technology products and systems as a means of generating service and maintenance contracts. Going forward, we intend to increase the portion of sales generated from services.

Our focus is on improved profitability and growth. We have strengthened our productivity improvement initiatives, which include process improvements, enhanced purchasing coordination, reduction of our product

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portfolio, reducing sales of low-margin segments and headcount reductions. We also consolidated our manufacturing capacity, as described above, in order to improve productivity.

SBT has a leading position in the worldwide markets for fire safety and building automation. Three of our divisions, Fire Safety, Building Automation and HVAC Products, which account for approximately 80% of SBT s sales, each operate in very concentrated markets in which the top three or four providers control more than half of the market. The main global competitors for Fire Safety, are Tyco and Honeywell; for HVAC Products, they are Honeywell, Invensys, Danfoss and recently Schneider, through its acquisition of TAC and Andover Controls; while for Building Automation, Johnson Controls and Honeywell are the largest competitors. In the building automation field, we face additional competition from niche competitors offering web-based solutions and from new entrants, such as utility companies and consulting firms, exploiting an increased demand for energy cost management. The recent downturn in the building automation market has created overcapacity and prompted downward pressure on prices. Likewise, the market for fire safety solutions has experienced increased price competition as a result of a shift of production to low-cost countries.

The security solutions and products markets are fragmented, with many locally based companies and, in certain instances, a few large globally-based competitors holding relatively small market shares. In the electronic security solutions and products market, Tyco is a market leader. Telecommunication companies and defensecontractor firms are also beginning to enter the market for security solutions. Consolidation is beginning to occur in certain areas. For example, General Electric and United Technologies have become active competitors in the security products market through acquisitions. Despite this emerging consolidation trend, the market remains fragmented. Many of our competitors focus on a particular product, system or service, or have a regional orientation. We plan to continue to expand our customized solutions business, where we can build close relationships with our end-user customers by providing high value-added services. We will further focus on providing security solutions integrated with Fire Safety and/or Building Automation systems.

POWER

Power Generation (PG)

	Year ended September 30, 2004
Total sales	7.527 billion
External sales as percentage of Siemens net sales	9.98%
Group profit	961 million

PG provides customers worldwide with a full range of equipment necessary for the efficient conversion of energy into electricity and heat. We also customize gas and steam turbines in the smaller output range, which can be used as drives for compressors or large pumps, to meet specific project needs. We offer a broad range of power plant technology, with activities that include: development and manufacture of key components, equipment, and systems; planning, engineering and construction of new power plants; and comprehensive servicing, retrofitting and modernizing of existing facilities.

PG consists of three businesses, each with a clear market focus on specific customer groups and technologies: Fossil Power Generation; Industrial Applications; and Instrumentation and Control. Fossil Power Generation is by far the largest of our businesses, accounting for approximately 67% of total sales in fiscal 2004.

Power plants, together with transmission and distribution grids, are the fundamental parts of a system that meets the requirements of individual households and business and industrial customers for a reliable supply of power delivered to a high quality standard.

A power plant s function is the efficient conversion of primary energy, such as coal or gas, into electricity. In a fossil fuel plant, the power generation process begins with working media such as water, steam or compressed air, which are initially transferred to high pressure states by heating in boilers or combustion sections of gas turbines. Thereafter, steam and gas turbines convert this energy into mechanical energy, which in turn is converted into electricity by generators. In so-called combined cycle plants, a combination of gas and steam

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turbines is used to reach highly efficient conversion rates of nearly 60%. At the end of the process, electricity is fed into transmission grids from the plant site.

Fossil Power Generation includes power plants and systems engineering, as well as components and equipment engineering and manufacturing, such as fossil fuel-fired power plants, co-generation heat and power plants. Our fossil fuel power generation business concentrates on turbo generators, gas and steam turbines in the larger power range, with an emphasis on combined-cycle gas and steam power plants. We also perform power plant service, such as maintenance, rehabilitation and operations.

Industrial Applications includes steam and gas turbines in the small and medium power ranges, as well as turbo generators, turbo compressors, compressor solutions for the oil and gas industry, and offers complete engineering services for power plants. Our activities encompass design, engineering, supply and service. We develop and manufacture steam turbines for application in industrial, municipal and independent heat and power generation and for mechanical drives, as well as turbo compressors. In addition, we offer our customers combined cycle power plants. In the renewable energy sector, we also offer biomass power plants.

We expanded our product portfolio in this area in fiscal 2003, through the acquisition of the small gas turbine (3-15 megawatts) and medium gas turbine (15-50 megawatts) businesses and industrial steam turbine businesses of Alstom S.A., Paris (Alstom). We see the products and services we acquired from Alstom as complementing the pre-existing portfolio of our Industrial Applications division. In particular, the acquisition has strengthened our product offering for the oil and gas industry, including gas and steam turbines for power generation and mechanical drives which complement our compressor products. The acquisition has furthered our efforts to provide a complete range of products and services from one source to our customers and gives PG a leading position worldwide in the marketplace for industrial power and compressor solutions. With an installed base of approximately 3,500 gas turbines and 4,100 steam turbines, the acquisition has also created new opportunities to grow our service business.

Our installed base of thermal power plant capacity (all power ranges) of more than 650 gigawatts provides us with a good opportunity to grow our service business.

Instrumentation and Controls designs, installs and commissions instrumentation and control systems and related equipment for use in power generation, including information technology solutions providing management applications from the plant to the enterprise level. We also provide a wide variety of related services.

Additional areas of PG s activity include the development and production of systems based on emerging technologies such as fuel cells.

We also have minority stakes in joint ventures in the areas of nuclear and hydropower generation. We account for these investments under the equity method.

Although we aim to expand primarily through internal growth, we will continue to make acquisitions and form alliances where appropriate to increase market penetration, share costs or technologies and adapt to market changes. In July 2004, we announced a proposed joint venture with Interros. This joint venture, which is subject to regulatory approvals, would own a majority stake in OAO Power Machines, a Russian turbine manufacturer. Siemens plans to hold an at-equity investment in the joint venture. We have committed to make an ongoing investment in OAO Power Machines over the next three to five years. Furthermore, on October 20, 2004, we entered into an agreement to acquire the Danish company, Bonus Energy A/ S, one of the major suppliers of wind energy systems worldwide. With the acquisition, we are expanding our product portfolio and are entering the growing international wind energy business. The acquisition is conditional upon the approval of the relevant competition authorities. The closing is planned in December 2004.

PG s principal customers are large power utilities and independent power producers, as well as construction engineering firms and developers. Because certain areas of our business, such as power plant construction, involve working on medium- or longer-term projects for customers who may not require our services again in the short term, our most significant customers may vary significantly from year to year. The Ministry of Electricity, in Kuwait; Union Fenosa, in Spain; and Calpine Corporation and Bechtel Power Corporation, in the United

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States, are among our largest customers. We also generate an increasing portion of sales from industrial customers, who represent an important market for smaller power plants, turbines and compressor solutions.

Our business activities vary widely in size from component delivery and comparatively small projects to turnkey contracts for new power plant construction with contract values of more than half a billion euro each. The large size of some of our projects occasionally exposes us to risks related to technical performance, a customer or a country. For additional information with respect to our long-term contracts, see Item 3: Key Information Risk Factors.

Our sales efforts are conducted by our own dedicated sales organizations in Germany, the United States and Asia, supported by Siemens worldwide network of regional sales units.

We derive more than one third of our sales from Europe. The remainder of our sales is geographically well balanced.

We have 14 significant manufacturing and assembly facilities worldwide, including three in the Americas and eleven in Europe. Of these, six are located in Germany. We manufacture steam turbines principally at the Mülheim (Germany) plant, turbo generators in Charlotte (United States), 60 Hertz gas turbines in Hamilton (Canada), 50/60 Hertz gas turbines in Berlin (Germany) and turbo compressors in Duisburg (Germany). Through our acquisition of Alstom s industrial turbine businesses, we have added manufacturing sites in Brno (Czech Republic), Finspong (Sweden), Lincoln (United Kingdom) and Nuremberg (Germany).

PG s research and development efforts are currently focused on advancing products and concepts that combine turbo machinery technologies (gas and steam turbines, generators and compressors), particularly for use in new power plant designs combining high efficiency and lower emissions. Our research and development is also targeted at improving a plant s capability to meet short-term variations in power demand and the reduction of life-cycle costs for new power plants, particularly by enhancing the durability of parts and components. Weare also working to further boost operating efficiency and performance of new and existing power plants while reducing the emissions of such plants. In fiscal 2004, our research and development costs were 4.0% of PG s total sales, compared to 3.7% of total sales, in fiscal 2003.

The worldwide market for new power plants has stabilized near the high level experienced in the late 1990s. The development has been driven primarily by the strong economic development in China, which accounts for almost half of worldwide power equipment orders. The demand for gas turbines in the United States in fiscal 2004 remained relatively unchanged at historically low levels due to overcapacity built up during the recent gas turbine power plant boom. Project cancellations have created a market, mainly in the United States, for turbines that have been already manufactured but are not in operation. This trend has had a negative effect on overall demand and prices.

In the medium term, we anticipate a moderate growth in demand for new power plants, especially for combined-cycle plants. We believe that fossil fuel-fired power plants will likely continue to dominate the power market, accounting for the majority of total new units sold. Although the power generation industry is a long-cycle business, it is affected by trends in cyclical industries and fluctuations in fuel prices that can have implications for demand for certain product types. Rising gas prices, for example, are creating focus on fuel diversification and coal-fired power plants. Factors contributing to worldwide demand for new plants and retrofitting services include deregulation and the need for reduced emissions and higher fuel efficiency. Furthermore, we expect that power plant retirement in industrialized countries will create an additional market in which we plan to participate. We believe that competition in deregulated power supply markets will give our customers an incentive to replace existing units which have ceased to be competitive.

In fiscal 2004, we continued to adapt our workforce at various locations, in line with lower market capacities. We have implemented a cost containment program by further process improvement efforts and optimization of our manufacturing network. We are working to further boost operating efficiency and performance of our service activities.

Our industry is one in which a relatively small number of companies, some with very strong positions in their domestic markets, play a key role. Our principal competitors vary by business, but primarily include General

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Electric, Alstom Power, Mitsubishi Heavy Industries, as well as Hitachi and Toshiba in fossil power generation. Within industrial applications, we face competition from General Electric, Solar, MAN Turbo and Dresser Rand. In instrumentation and controls, where the market is more fragmented, ABB is our main competitor. The decreased demand in our markets has intensified competition. Potential new competitors face significant barriers, including high capital investments in engineering and production capacity, the high cost of research and development and of developing a customer base, the need for broad systems know-how and global economies of scale.

Power Transmission and Distribution (PTD)

	Year ended September 30, 2004
Total sales	3.611 billion
External sales as percentage of Siemens net sales	4.38%
Group profit	238 million

PTD supplies energy utilities and large industrial power users with equipment, systems and services used to process and transmit electrical power from the source, typically a power plant, to various points along the power transmission network and to distribute power via a distribution network to the end-user.

At the first step of the power transmission and distribution process, power generated by a power plant is transformed to a high voltage that can be transported efficiently over long distances along overhead lines or underground cables. This step occurs at or near the site of the power plant, and requires transformation, control, transmission, switching and protection systems. At the second stage of the process, the power passes through one or more substations, which use distribution switchgear to control the amounts delivered and circuit breakers and surge arresters to protect against hazards in transmitting the power. At this stage, transformers step down the voltage to a medium level at which it can be safely distributed in populated areas. In the final stage of the process, distribution transformers step down the voltage again to a level usable by end-users and metering systems measure and record the locations and amounts of power transmitted.

We provide our customers with turn-key transmission systems and distribution substations, discrete products and equipment for integration by our customers into larger systems; information technology systems and consulting services relating to the design and construction of power transmission and distribution networks. We offer the following solutions, products and services, presented roughly in the order in which they are used in a power transmission and distribution network. Our internal divisions are organized around the following products:

power systems control equipment and information technology systems, including computerized power management systems used to operate power transmission networks, determine customer needs and regulate the flow of power from power plants to the distribution network (offered through our Energy Management and Information Systems division, which, as of the beginning of fiscal year 2005, has been combined with our Power Automation division and renamed Energy Automation);

transformers including both the power transformers used at the beginning of the transmission process to step up the voltage of the power generated by power plants to a voltage that can be carried efficiently on the power network, and the distribution transformers and their components used at the end of the distribution process to step down power from high voltage to lower voltage levels for the end-user;

high voltage products and ready-to-use systems, in both alternating and direct current, used in the physical transmission of power from power plants to the distribution network before the voltage is stepped down for distribution in populated areas, including ready-to-operate indoor and outdoor high voltage substations and the switchgear and protection systems required to control the flow of power and prevent damage to the power transmission network;

protection and substation control systems including equipment and systems used at power distribution network substations, such as relays and computerized protection and control equipment (offered through

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our Power Automation division, which, as of the beginning of fiscal year 2005, has been combined with our Energy Management and Information Systems division and renamed Energy Automation); and

medium voltage equipment including circuit breakers and distribution switchgear systems and components that regulate the flow of power on the distribution network before it is stepped down to a low voltage level for the end-user.

In addition to our equipment and systems, we offer a growing range of services and integrated solutions for various stages in the power transmission and distribution process. These include: technical support and maintenance services and, to an increasing extent, outsourcing projects and operations; consulting relating to the planning, design and optimization of power transmission and distribution networks; information technology services and solutions to support customer management and energy trading; training programs; and metering services for electric, gas and heat. We also provide analytical and consulting services, as well as equipment and systems, in the power quality field that are designed to improve the availability and reliability of power transmitted by analyzing and reducing the causes of power fluctuations and failures. Power quality systems and services have become increasingly important with the growing use of sensitive computerized, electronic and other equipment requiring continuous power with very little fluctuation in voltage or frequency. Our PTD Services division aims specifically at responding to our customers increasing demands for these services.

In July 2004, we acquired Trench Electric Holding, B.V. (Trench), a leading manufacturer of components of high voltage power distribution and transmission systems. In 2003, Trench employed approximately 1,800 employees and had annual sales of roughly 250 million. The acquisition is expected to strengthen our high-voltage product portfolio, allowing us to offer our customers a full spectrum of high voltage products from a single source, and to expand our market position in China and North and South America.

Our power transmission and distribution customers are primarily power utilities and independent power distributors. Due to deregulation in the power industry, our customer base continues to diversify from one formerly composed almost exclusively of power utilities responsible for all stages in power transmission and distribution to one that includes an increasing number of independent system operators and power distributors supplying services at different points of the power transmission and distribution network. We have increased our sales to industrial customers, providing them with equipment and systems for power networks associated with manufacturing facilities. We distribute our systems and components through our sales force in Germany and through dedicated personnel in the regional Siemens sales units worldwide.

We generate our sales from project business, as well as from sales of systems, components and services. A relatively small portion of our project business involves construction of large power networks and other projects with values of more than 50 million. Most of our business is generated from smaller projects and sales of systems and components to a variety of smaller customers. We strive to provide our customers with complete solutions.

Demand for our products and services depends on several factors, including investment in building and upgrading of power transmission and distribution networks in developing countries, demand for new power generation primarily in industrializing countries and demand for new products, systems and services in connection with deregulation and liberalization in the power industry. In light of these factors, future demand is likely to come, to a large extent, from emerging industrialized countries and regions with growing energy requirements, including Asia, especially China and India, Eastern Europe and the Americas. We continue to evaluate opportunities to penetrate these markets, including formation of joint ventures with local partners to help us secure future project work.

Although the power transmission industry in industrial countries is a mature business, additional demand for our products, systems and services arises in the industrial world as utilities and private power companies respond to deregulation by seeking ways to improve efficiency and reduce costs. Deregulation has also increased demand for more sophisticated products, such as systems used in energy trading among suppliers, and for related services, such as metering. New orders to replace old equipment have also been driven by changing requirements due to environmental regulation. In addition to responding to these new sources of demand, we continue to seek new

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markets for expansion, in particular in the United States and Asia, and to develop innovative new products and systems to respond to ongoing pricing pressures in our markets.

We derive approximately forty percent of our sales from Europe and more than one quarter from the Asia-Pacific region. While regions in the developing world represent growth markets for power transmission and distribution products and systems, our activities there can also expose us to risks associated with economic, financial and political disruptions that could result in lower demand or affect our customers ability to pay. Our largest projects in the developing world currently include two developments in the People s Republic of China: the Three Gorges Dam project and the construction and equipping of converter stations for a new high-voltage direct-current transmission line for the transportation of 3,000 megawatts of electricity across 940 kilometers. Our other ongoing significant projects include the supply of two converter stations for a submarine cable link across the Bass Straits between Tasmania and the state of Victoria on the Australian mainland. As a consortium leader of the project, we supply and install the high-voltage direct-current equipment which allows transmission of electrical power with low energy losses over long distances.

The large size of some of our projects occasionally exposes us to risks associated with technical performance, a customer or a country. For additional information with respect to our long-term contracts, see Item 3: Key Information Risk Factors.

We have significant manufacturing and assembly facilities worldwide, including in the Americas, Asia, and Europe, in particular in Germany. In fiscal 2004, we acquired additional manufacturing capacity as part of our acquisition of Trench. In fiscal 2004, our research and development costs were 2.5% of PTD s total sales, compared to 3.1% of total sales, in fiscal 2003.

Competition in our markets comes primarily from a small group of large, multinational companies offering a wide variety of products, systems and services, although a few notable specialists maintain strong positions in certain niches. Globally, our most significant competitors include ABB, the Areva Group, which acquired Alstom s power transmission and distribution activities in 2004, and General Electric, as well as Japanese competitors. In some of our markets, increasing international competition is emerging from low-cost countries, such as China and India. To improve our competitive position, in recent years we have located new production facilities and expanded production in the Asia-Pacific region, allowing us to work more closely with our customers, reduce costs and meet local content requirements. We are party to several joint ventures in China, our second largest market. During fiscal 2004, we continued initiatives to improve productivity and enhance the efficiency of our business processes.

TRANSPORTATION

Transportation Systems (TS)

	Year ended September 30, 2004
Total sales	4.310 billion
External sales as percentage of Siemens net sales	5.70%
Group profit	(434) million

We are a leader in the global rail industry, offering a full range of products and services for railway transportation. We offer our customers innovative solutions and systems in such areas as modular vehicle concepts for mass transit and mainline systems; technology for driverless metros and computer-controlled electronic switches; optical sensor systems; and global positioning system (GPS)-based service and diagnostic concepts, among others. We combine rolling stock with automation and power product offerings in our turnkey systems business, and combine service and maintenance activities in our integrated services unit. Rolling stock refers to all major components of rail vehicles, including locomotives, railway cars, subway cars and streetcars.

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We develop, manufacture and sell a full range of rolling stock in three product-focused divisions:

Mass Transit This division includes both the former light rail and heavy rail divisions, which we merged as of October 1, 2003, as part of a wider realignment to strengthen our market position in rolling stock. Our products include subway and suburban rapid transit trains, subway cars, as well as their subsystems and components and streetcars, light rail vehicles and their components.

Locomotive Our products include electric and European standard diesel-electrical locomotives for passenger or freight rail. In addition to our manufacturing operations, we also refurbish and maintain locomotives and locomotive pools and provide locomotive leasing services tailored to meet the requirements of deregulated local rail operators.

Trains Our products comprise rail vehicles with traction equipment integrated into the running gear and distributed over the entire train, including high speed trains, tilting trains, regional and rapid transit units and passenger coaches, as well as subsystems and components.

Our rolling stock business was our largest in terms of sales in fiscal 2004.

In our automation and power business, we conduct our operations in two divisions:

Rail Automation For passenger and freight railway operations, we develop, manufacture and sell central control systems, signaling systems and equipment, interlockings and automated train control systems that regulate a train s speed through automatic application of its brakes when it exceeds speed limits or fails to respond to a signal. We sell entire systems and networks, as well as individual products for integration into existing signaling systems. For mass transit, we develop, manufacture and sell operation control centers for the operation of signals and switches in rail yards and between destinations, and signaling and vehicle control systems (including automated, driverless systems).

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

Our automation and power business was our second largest in terms of sales in fiscal 2004.

In our *Turnkey Systems* division, we aim to optimize the design and construction of entire railway systems. We cooperate closely with the other TS businesses, integrating their products and services to offer turnkey projects from a single source. Among our active projects during fiscal 2004, were the Transrapid project in China (an electromagnetically elevated and propelled high-speed train), the construction of the new Kaohshiung subway system in Taiwan, and a new light rail transit system in the Venezuelan city of Maracaibo. We also assist our customers with arranging financing in cooperation with Siemens Financial Services.

With our *Integrated Services* division, we are placing an increasing emphasis on our service and maintenance activities. We provide corrective and preventive maintenance services, replacement and spare parts for our own products and for products manufactured by others. We also provide training, documentation and consulting services relating to a wide variety of customer needs, with a particular focus on extending the life-cycle of our customers investments in their rail products and systems.

Our primary customers are transport authorities and national and private rail companies worldwide. Deutsche Bahn is a significant customer of TS. We distribute our products through our own sales force in Germany and through dedicated personnel in the local Siemens companies worldwide.

Germany and other European countries have traditionally been our most important regional markets. We believe the most important regional growth markets are in the Americas and the Asia-Pacific region. Demand in the German market for railway transportation products has continued to decline in recent years, especially in fiscal 2004, as a result of reduced government funding of, and low investment in, the German rail transportation systems and we expect that trend to continue for the foreseeable future. We derive approximately three quarters of our sales from Europe with 32% in Germany and a smaller but significant amount from Asia-Pacific.

We have approximately fifteen significant manufacturing, assembly and testing locations worldwide, including eleven in Europe, of which five are located in Germany.

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In fiscal 2004, our research and development costs were 3.1% of TS total sales, compared to 3.2% of total sales in fiscal 2003.

The world markets for products and services in the railway transportation industry continue to be in flux. Despite the trend toward privatizing state-owned railways and liberalization of the railways markets, national authorities continue to have influence in areas such as security and deregulation, or as general watchdog authorities over transport or railway facilities. In many countries, governments impose local content requirements, the fulfillment of which is often a basic precondition for market entry. The number of rail operators is increasing, and both new and traditional operators, are focusing not only on quality but also on price and low life-cycle costs that drive their own profitability. Price pressure is further influenced by budget constraints faced by many state operators, requiring innovative financing solutions. In fiscal 2004, our industry continued to face increasing prices for some key components since there are only a limited number of suppliers, partly as a result of consolidation in the industry. There is a growing trend towards the outsourcing of servicing and maintenance of systems and equipment.

To address these market trends, we continue to pursue the following strategic goals:

Rolling Stock Focus on innovation in design and engineering; and to enter new geographic markets, in part by expanding our partnerships worldwide and tailoring them case-by-case to meet both project needs and local content requirements.

Automation and Power Capitalize on and expand our existing international presence, experience and technological leadership to become a global supplier of products and systems platforms, particularly in the area of traffic automation solutions.

Integrated Services Expand through strategic alliances in service enterprises; emphasize our System plus Service segment, which offers a complete package of new products plus service and maintenance; enter the market for third-party maintenance and improve our market penetration through e-business.

The large size of our projects occasionally exposes us to risks associated with technical performance, a customer or a country. In the recent past, we have experienced losses in connection with such risks. For example, in fiscal 2004, we experienced significant charges in our rolling stock business. The charges primarily related to our innovative low-floor light rail vehicle with a modular platform concept, marketed under the name Combino. Following an internal report on fatigue strength concerns with our Combino trams, as a precautionary measure, we advised our customers to take vehicles that have traveled distances of over 120,000 kilometers temporarily out of service. We have formed a specific subdivision with teams of internal and external experts working on a long-term solution for the Combino fleet. By the end of fiscal 2004, we have made considerable progress towards identifying suitable measures that will enable the affected Combino components to be improved and are also making headway towards a permanent repair solution. In this context, we are currently intensifying our quality program and are introducing new processes in order to enhance systematic detection and minimization of business risks and quality assurance of projects. We also continue to explore possibilities for cooperation with other companies in our industry as a means of reducing development costs, meeting local content requirements, improving market access, reducing risks and meeting customer requests. For additional information with respect to our long-term contracts, see Item 5: Operating and Financial Review and Prospects Segment Information and Analysis Operations Transportation Transportation Systems and Item 3: Key Information Risk Factors.

We compete in our industry, on a global scale, with a relatively small number of large companies and with numerous small to midsized competitors who are either active on a regional level or specialize within narrow product spectrums. Our principal competitors are Alstom and Bombardier.

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Siemens VDO Automotive (SV)

	Year ended September 30, 2004
Total sales	9.001 billion
External sales as percentage of Siemens net sales	11.96%
Group profit	562 million

SV designs, manufactures and sells integrated electrical, electronic and electromechanical systems and modules and individual components used in automotive applications. Our product range includes components and systems used in automobile powertrains, body electronic systems, safety and chassis systems, electric motor drives, information and cockpit systems, and driver information, communication and multimedia systems.

We offer our systems and products in the following four divisions:

Powertrain, including components, modules and systems for use in diesel and gasoline fuel injection handling, drive train transmission management and air intake systems, fuel pumps, supply units, as well as engine actuators and emissions controls and sensors;

Chassis & Carbody, including active and passive electronic safety systems, such as crash and occupant sensors for controlling airbags and seatbelts and for monitoring air pressure in tires; chassis electronics used in steering and braking; electric motor drives for use in antilock brakes, heating, ventilation and engine cooling systems and power windows and sunroofs; drive systems for electric and hybrid vehicles; access control and security systems with electric door and seat controls and radio receivers within the vehicle; intelligent switching units and climate control units;

Interior & Infotainment, including complete cockpit systems, driver s workplace systems in commercial vehicles, instrument clusters, tachographs, human-machine interface displays, heads-up displays for passenger and commercial vehicles; car audio, navigation and telematics and complex multimedia systems; and

Service & Special Solutions, which offers spare parts and accessories for passenger and commercial vehicles, fleet management systems and hardware and software products for car audio, navigation, and telematics.

Some of our recent product innovations and developments include:

common-rail injection systems with piezo-electronic actuators, resulting in quieter and lower emission diesel engines;

innovative gas sensors such as our NOx sensor and our Ozone sensor, which help car manufacturers comply with ever more stringent emission standards;

integrated powertrain management, allowing significant savings in fuel consumption;

color heads-up display that projects information about driving conditions and navigation instructions onto the windshield;

voice-controlled car communication computer for passenger cars, which includes a multimedia system, as well as climate and speed control function;

digital tachograph that collects important data concerning the operation of vehicles, allowing more sophisticated management of fleets;

contactless and modular fuel level sensors for long-life, high-performance fuel supply systems;

tire pressure monitoring system;

advanced weight sensing (AWS), which adjusts the safety settings on seat belts and airbags depending on the passenger s weight;

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an advanced radar system for crash avoidance and adaptive cruise control; and

an optical passenger detection device that makes airbags more intelligent and offers greater protection to passengers.

In addition to researching and developing these and other innovations, we also design and manufacture systems and modules, which typically offer superior profit margins and better opportunities for maintaining customer relationships, compared to selling individual components.

Most of our customers are large automobile manufacturers, including four of the world s five largest automobile manufacturers. We also sell components to suppliers of complete automotive systems and modules. Our car manufacturer customers frequently contract for a supplier to provide a system or set of components for the production run of a particular car model or engine line. In fiscal 2004, our ten largest customers together accounted for more than three-quarters of our total sales.

Base materials and components account for about half of the total cost of our products. We rely on a few suppliers to provide us with most of our semiconductors, other electronic components and some other base materials and components. These suppliers include Infineon, Philips and ST Microelectronics, for semiconductors; Tyco, for wire housings and connectors; and ALCOA for drives.

We have our own independent sales force, which is active worldwide. We generate two thirds of our sales in Europe, with 31% in Germany, and a smaller but significant amount from the Americas, mainly in the United States, with an increasing share in the Asia-Pacific region. In fiscal 2004, we continued our sales initiative directed at increasing our sales in China, Japan, Korea and other Asian countries. The Japanese market is still served mostly by local and in-house suppliers.

We have approximately 51 manufacturing and assembly facilities, including 16 in the Americas and 25 in Europe. Of these, 10 are located in Germany.

In fiscal 2004, our research and development costs were 8.4% of SV s total sales, compared to 8.3% of total sales in fiscal 2003. To secure competitiveness in markets with ongoing price pressure, we must continue to make productivity gains and develop innovative products. Investment in new technologies has also grown in importance due to the increasing use of electronics and related software in automobiles, and as more manufacturers offer former options such as theft protection and safety devices as standard features in an effort to increase margins. Additionally, environmental concerns have increased demand for direct injection and other new engine technologies offering improved efficiency, as well as for fuel cells and other possible alternatives to the internal combustion engine. In addition to continuing to invest in research and development, we must also continue to attract and retain skilled engineers and other technically proficient employees to remain technologically competitive.

For the last several years, automobile manufacturers and their suppliers have been going through a period of significant change and consolidation, and we expect this trend to continue. Opportunities and competition for independent suppliers have increased as car manufacturers have spun-off or exposed their former in-house suppliers to increased competition. For example, during fiscal 2004, we acquired from DaimlerChrysler its automotive electronic products facility, located in Huntsville, Alabama (United States). Manufacturers, in an effort to achieve cost efficiencies and ease of production, are also using more pre-assembled systems and modules instead of individual components. Systems and modules integrate all of the components needed for major automotive subsystems, such as the cockpit or vehicle safety systems. These systems and modules are assembled near or at the customer s production site on a just-in-time, just-in-sequence delivery basis for assembly directly onto the chassis without significant further modification, sometimes using the customer s production machinery. The trend toward greater use of modules and systems has increased pressure on suppliers of individual components and smaller companies to combine or form alliances, resulting especially in growing convergence of electronics and mechanical component suppliers and making the industry more capital intensive.

In fiscal 2004, demand in the mass market for passenger cars stagnated, whereas demand in the truck market increased. Automobile production levels declined in the Americas and Western Europe, especially Germany. The Asia-Pacific region, with a growing market in China, did not fully offset this worldwide trend. Globalization and

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the opening of markets to competition continue to put downward pressure on prices. Customers that incorporate our products into their own equipment make ever greater demands on both our performance and the quality of our products. In the current market environment, many automobile manufacturers extract price and other concessions from their suppliers, including SV, and some of our automobile manufacturer customers have cancelled or postponed new development projects with us. For SV, however, the impact of these developments is partly offset by our focus on automotive electronics, which constitutes an increasingly large percentage of the cost of each automobile produced. Increased demand for diesel engines also led to growth in sales of our common-rail injection systems with piezo-electronic actuators.

In response to these difficult market conditions, we are continuing our program to cut costs, increase productivity, optimize our product and project portfolio, and reduce inventory, personnel and the production and assembly facilities. In fiscal 2004, we continued to shift production facilities to locations where we can reduce our manufacturing costs and/or be closer to our customers. However, other major suppliers are also moving manufacturing and engineering capacities to China and Eastern Europe to contain costs.

We are a first-tier supplier to automobile manufacturers in North America, South America and Asia. Our most significant competitors are generalists with a broad product range, systems integration capabilities and global presence. These include Bosch, Toyota s Denso and the independent, former in-house suppliers Visteon and Delphi, all of which are significantly larger than we are. Moreover, in Europe, Denso, Visteon and Delphi continue to be aggressive competitors and Denso is expected to enter the common-rail diesel market in 2005. Competition from low-cost suppliers from Asia and Eastern Europe is increasing in commodity products, such as electrical motors. Finally, additional competitive pressure could also result from a vertical integration between semiconductor suppliers and traditional automotive suppliers, such as in the case of NEC and Nestec or Infineon and Sensonor.

MEDICAL

Medical Solutions (Med)

	Year ended September 30, 2004
Total sales	7.072 billion
External sales as percentage of Siemens net sales	9.27%
Group profit	1.046 billion

Med develops, manufactures and markets diagnostic and therapeutic systems and devices, as well as information technology systems for clinical and administrative purposes. We provide technical maintenance, professional and consulting services. We also work with Siemens Financial Services to provide financing and related services to our customers. We are one of the leading companies in our field.

Our offerings include:

medical imaging systems, representing a full range of systems including x-ray, computed tomography, magnetic resonance, nuclear medicine and ultrasound, as well as related computer-based workstations enabling the health care professional to retrieve and process relevant information. Our imaging systems are used to generate, in various modalities and without surgery, morphological and functional images of, and related information concerning, the human body, such as internal organs. This information is used both for diagnostic purposes and in preparation for potential treatment, including interventional and minimally-invasive procedures. We focus on technically innovative products, examples of which are our computed tomography scanner, Somatom Sensation 64; our magnetic resonance scanner, Magnetom Avanto with a total imaging matrix; and or our x-ray angiography platform Axiom Artis;

information technology systems, including image management systems and systems for clinical and administrative applications. Our information technology systems are used to facilitate digital storage, retrieval and transmission of medical images and other clinical and administrative information, facilitating efficient workflows in health care environments. Our offerings include web-based products using the Internet as the communication medium;

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electromedical systems, including patient monitoring systems, life support systems and electrophysiological measuring systems. These systems are primarily used in critical care situations and during surgery for the purpose of patient transport, monitoring vital functions via body sensors, supporting breathing and administering anesthetic agents. Our product portfolio further includes respiratory machines designed for home care and systems for intensive neonatal care. We provide such electromedical systems primarily through our joint venture with Dräger Medical of Lübeck, Germany, which was formed in fiscal 2003 in which we hold a 35% share. In October 2003, we sold our Life Support Systems business, which provided anesthesiology and ventilation equipment, to Getinge AB, a Swedish medical technology group, as a condition to European antitrust approval for the joint venture with Dräger;

oncology care systems, including linear accelerators, which are used for cancer treatment; and

hearing aids and related products and supplies.

Our medical imaging operations are the largest part of our business, representing about 70% of total sales in fiscal 2004. These businesses are organized into divisions according to the type of medical imaging system offered, including Magnetic Resonance, Computed Tomography, Ultrasound, Angiography, Fluoroscopic and Radiographic Systems, Nuclear Medicine and Special X-Ray Systems. Our Health Services division, which focuses on information technology systems, represents the second largest part of our business.

Over the long term, we expect worldwide demand for our products and services to continue to grow due to a variety of factors, including the growing population of older people, the trend toward early diagnosis and the improvement of health care delivery in developing countries. In addition, efforts in many industrialized countries to contain health care costs are driving a need for improved efficiency in diagnostic and therapeutic processes. For example, health care providers must be able to deliver patient information to every other caregiver who needs it. This need continues to fuel demand for integrated information technology systems, including electronic patient records, as well as related professional consulting and implementation services.

Our customers are health care providers such as hospital groups and individual hospitals, group and individual medical practices and outpatient clinics. Our products are sold and serviced primarily through our own dedicated personnel. A small portion of our sales involve delivery of certain of our products and components to competitors on an original equipment manufacturing (OEM) basis.

We have a strong worldwide presence. The United States is our largest single geographic market, representing 46% of our total sales in fiscal 2004. In addition, we derive nearly one third of our sales from Europe and a smaller but significant amount in the Asia-Pacific region.

Our worldwide business is reflected in our regional organization. The headquarters for our oncology care systems business and, in the medical imaging field, our Ultrasound and Nuclear Medicine divisions, as well as our Health Services division, are located in the United States. The remaining divisions are headquartered in Germany. Excluding our joint ventures, we have approximately 16 significant manufacturing and assembly facilities worldwide, including six in North America and five in Europe. Of these, three are located in Germany.

We have research and development and OEM cooperation agreements with various companies, including with Bruker, in the field of magnetic resonance imaging; Toshiba, in the field of ultrasound and magnetic resonance imaging; Philips, in computed tomography systems; and Matsushita, for low- and mid-range ultrasound systems. We also have joint ventures with CTI Molecular Imaging, Inc., to develop and manufacture Positron Emission Tomography systems which are new scanning systems capable of showing the chemical functioning of an organ or tissue; with Philips and Thales, to manufacture flat panel detectors for medical imaging; and with Mochida Pharmaceutical Co. Ltd., in the field of ultrasound in Japan.

R&D plays an important role in our business. We maintain research and development centers at locations in Europe, the United States and Asia. In fiscal 2004, our research and development costs were 8.8% of Med s total sales, compared to 9.1% of total sales in fiscal 2003. Approximately two-thirds of our research and development expenditure is typically spent on medical imaging systems. An important project within our information technology systems business is the continued development of a new workflow management system, Soarian, designed to optimize information-based processes throughout the entire cycle of a patient s diagnosis and

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treatment. Several applications of this workflow management system have already been sold and are in use at customer sites.

Our goal is to become the preferred partner for health care providers around the world by supporting their efforts in optimizing their workflow, that is their diagnostic and therapeutic processes. Our strategy is to combine our knowledge and innovative products in medical engineering and information technology with our experience in process improvement and consulting to provide comprehensive customer solutions. In addition, we are intensifying our activities in molecular medicine.

We seek to make selective investments in innovative businesses to strengthen our product portfolio. In 2004, we acquired minority interests in several companies. These include peS Gesellschaft für Medizinische Diagnosesysteme mbH, a German company focused on the development of point of care immunoassay systems that allow rapid and accurate diagnosis of various diseases (so-called lab on a chip). We also acquired CADVision, a small Israeli company developing software for computer-aided detection and diagnosis of breast lesions. In addition, we acquired the remaining share from our partner Oxford Instruments plc in the Oxford Magnet Technology Ltd. joint venture and renamed the business to Siemens Magnet Technology Ltd.

Our principal competitors in medical imaging are General Electric, Philips, Toshiba, Hitachi and Hologic. Other competitors include McKesson HBOC, Cerner and IDX, for information technology systems; Phonak, Resound, Starkey, Widex and William Demant, for hearing aids; and Elekta and Varian Medical, for oncology care systems. The trend toward consolidation in our industry continues. General Electric recently acquired both Instrumentarium, a leading supplier of critical care and patient monitoring systems and solutions, and Amersham, a leading provider of imaging enhancing agents and systems for disease research and drug development. The latter acquisition was the first to combine medical technology and life sciences businesses, reflecting the growing importance of molecular medicine for diagnosis and therapy. Competition among the three leading companies in our field Siemens, General Electric and Philips continues to be strong, including with respect to price.

LIGHTING

Osram

	Year ended September 30, 2004
Total sales	4.240 billion
External sales as percentage of Siemens net sales	5.51%
Group profit	445 million

Our Lighting Group, Osram, offers a full spectrum of lighting products for a variety of applications. Osram designs, manufactures or sells the following types of lighting products and related materials, components and equipment through the following six divisions:

General Lighting: incandescent, halogen, compact fluorescent, fluorescent and high-intensity discharge lamps for household and commercial applications, and public buildings, spaces and streets;

Automotive Lighting: halogen, incandescent and xenon discharge lamps for use in motor vehicle headlights, brake lights, turn signals and instrument panels, and, through an equal joint venture with Valeo, completed head- and tail-light assemblies for distribution in North America;

Photo-Optic Lighting: special purpose halogen and high-intensity discharge lamps for lighting airport runways, film studios, microchip manufacturing plants, video and overhead projectors and medical and other applications requiring very intense lighting. Effective October 1, 2004, we renamed the division to Display/ Optic. The display applications within the General Lighting and the sale of LED products for displays of our Opto-Semiconductors divisions was transferred to the Display/ Optic division;

Opto-Semiconductors: light emitting diodes (LED), organic light emitting diodes (OLED), high power laser diodes and other semiconductor devices that generate visible light and ultraviolet and infrared radiation for use in interior and exterior automotive lighting and other applications, electronic equipment

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displays, traffic and signal lighting, signs and decorative lighting and infrared transmitters and sensors for industrial and consumer electronics;

Ballasts and Luminaires: electronic ballasts for optimized operation of compact fluorescent, fluorescent, high-intensity discharge low-voltage halogen lamps and LED modules, as well as consumer fixtures and, increasingly, lighting control systems; and

Precision Materials and Components: glass for bulbs, phosphor powders for fluorescent lamps, computer monitors and television screens, tungsten and other metals for filaments in incandescent lamps and heavy duty tools and electronic components and materials for lamps and applications in the automotive industry, as well as equipment used in the production of lighting products.

General lighting typically accounts for approximately half of Osram s total sales. The market for general lighting products is typically stable because of the large investments consumers, businesses and municipalities have in lighting fixtures. We market our products worldwide and have manufacturing locations throughout North and South America, Western and Eastern Europe and Asia, allowing us to stay close to our major customer regions and keep shipping charges low to help maximize the profitability of our lower margin products. We produce most of our own key precision materials and components to ensure that we have access to raw materials in the necessary amounts, prices and levels of quality. We also sell precision materials and components we manufacture to third parties. We have 53 significant manufacturing and assembly facilities worldwide, including 25 in the Americas, 8 in Asia and 20 in Europe. Of these, 12 are located in Germany.

In all our divisions, we focus on innovative products to sustain and improve our level of profitability. Although incandescent lighting continues to be widely used in general lighting, compact fluorescent, high intensity discharge and other newer technologies have been growing more rapidly because they save energy and are longer-lasting. Newer technologies also offer additional features and smaller lamp sizes. In our consumer luminaires business in selected markets, we offer models that demonstrate applications of some of these newer technologies. In the automotive lighting area, we recently introduced innovative 24-volt headlights for trucks and busses, which shed up to 100 percent more light onto the roads than conventional lamps and have almost twice the service life of conventional lamps.

In the area of opto-semiconductors, we are introducing new applications for LED products as it becomes possible to achieve greater brightness and more colors. We continue to increase the brightness of light emitting diodes through the use of an advanced thin-film technology, thus opening up a wide variety of new applications, for example in the long run in automotive exterior lighting. Recently, we have taken first steps in developing LEDs for use in projection systems. In the coming years, we expect electronics to become increasingly important across all areas of the lighting industry and that electronic ballasts, electronically-driven lighting systems and opto-semiconductors will account for an increasing portion of Osram s sales. By expanding opto-semiconductor production capacity at our advanced opto-chip factory in Regensburg (Germany), we have positioned ourselves to take advantage of this trend.

In fiscal 2004, our R&D costs were 5.0% of Osram s total sales, compared to 4.9% of total sales in fiscal 2003. We devote a significant portion of our research and development efforts to enhancing the performance and reducing the environmental impact of our products and processes. In the area of opto-semiconductors, we are working on R&D projects on OLED, LED and laser applications. OLEDs are self-luminous plastic films which allow the design of clearly legible, extremely flat and bright displays with a wide viewing angle, low power consumption and minimum weight. OLEDs are typically used in products such as mobile phones, digital video cameras, as well as certain medical equipment. In fiscal 2004, we began volume production of OLEDs at our facility in Malaysia. We are party to several patent license agreements in the opto-semiconductors field.

Our customers include wholesalers, retailers and manufacturers of lighting fixtures, lamp components and automotive systems. We distribute our products through Osram s own network of subsidiaries, sales offices and local independent agents in approximately 140 countries. The importance of the Internet as a sales channel is also increasing. Osram has successfully implemented business-to-business extranet services in several countries and we presently process over one third of our sales electronically.

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In recent years, the world market for lighting products has grown at moderate rates, with relatively higher growth in Asia-Pacific and Eastern Europe. In fiscal 2004, we generated 43% of our total sales in the Americas, primarily in the United States. More than one third of our total sales is derived from Europe and a significant amount from the Asia-Pacific region. In North America, we market most of our lighting products under the brand name Sylvania. In fiscal 2004, we significantly increased our sales presence in Asia, in particular China.

As a result of acquisitions and consolidations over the last decade, Osram, Philips and General Electric together represent almost two thirds of the world lighting market. Osram holds a number one or number two position worldwide in most of its product markets, such as lamps, electronic ballasts, automotive lamps and opto-semiconductors, competing principally with Philips and General Electric. Through joint ventures with Mitsubishi and Toshiba, we are the largest foreign manufacturer of lighting products in Japan, where Matsushita and Toshiba also hold strong market positions.

Price competition is intense in some areas of both the traditional and innovative lighting product markets, due to competition among Philips, Osram and General Electric, as well as rising competition from new entrants, including a growing number of Chinese manufacturers. Price competition is also intensifying in the more advanced halogen and compact fluorescent lamp types due to an increasing presence of Chinese manufacturers. To counteract price pressure and improve our competitiveness for mass market lighting products, we manufacture some of our lower-priced product lines in countries with lower labor costs. For example, we assemble our LED products in Malaysia. As part of our ongoing efforts to reduce labor costs, over the last several years, we have established or expanded manufacturing operations in China, India, Indonesia, Mexico and Eastern Europe. We have recently finalized the transfer of part of our coil production from the United States and Germany to the Czech Republic and continue to consolidate our United States glass manufacturing operations. In January 2004, we acquired a 90.7% stake in SVET, a leading Russian manufacturer of fluorescent tubes located in Smolensk. We have also initiated numerous projects aimed at reducing manufacturing and distribution costs. Quality, efficiency and innovation are very important factors in the newer and more specialized product areas, and we are actively promoting more advanced lamp types as alternatives to traditional products for general use.

The manufacture of many lighting products requires mercury, lead and other hazardous materials, as well as thorium and other radioactive materials. While we have not experienced any significant liability in the past as a result of our use of these materials, we are continuing to work to reduce their use in our products.

FINANCING AND REAL ESTATE

Siemens Financial Services (SFS)

	Year ended September 30, 2004
Total assets	9.055 billion
Total assets as percentage of Siemens assets	11.39%
Income before income taxes	250 million

SFS provides a variety of financial services and products both to third parties and, on arm s-length terms, to other Siemens business Groups and their customers. SFS is organized in six business divisions. Two of these divisions Equipment and Sales Financing and Equity have significant dealings with third parties including customers of other Siemens Groups. The four other divisions Project and Export Financing, Treasury and Financing Services, Investment Management, and Insurance currently support and advise Siemens and our other business Groups and have comparatively little external business. In its captive businesses, SFS makes an important contribution to Siemens through financing arrangements and services in the context of financing of goods and services sold by Siemens and financial services delivered to Siemens as a whole. More than 50% of our assets are derived from other Siemens business Groups through the customer financing and equipment leasing services provided by our Equipment and Sales Financing division.

In fiscal 2004, our total assets increased to 9.055 billion at September 30, 2004 from 8.445 billion at September 30, 2003. Our principal assets are lease receivables and equipment leased under operating leases (together accounting for 55% of our assets) and purchased trade receivables (accounting for 38% of our assets)

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attributable to our Equipment and Sales Financing division. Interest and fee income are the main sources of our earnings, with fee income stemming primarily from our internal advisory businesses. SFS acts according to banking industry standards in the international financial markets in its transactions with Siemens, as well as those with third parties.

Equipment and Sales Financing. This is our largest division and it combines our mid-market finance and credit portfolio management business activities.

Midmarket Finance our principal product is equipment lease financing, where we typically purchase equipment supplied by various Siemens Groups or third-party manufacturers and lease it to the customer for a specified term, generally with an option for the customer to purchase the equipment or renew the lease at the end of the term. Capital leases account for the largest portion of our leasing business (more than 80% of the book value of the leased assets). We also offer our clients services complementary to our leasing business, including services relating to the management of their leased equipment base and product upgrade services. Other products include asset-based lending, underwriting and syndication for larger credits.

Credit Portfolio Management we purchase, without recourse, receivables from other Siemens Groups, as well as from third parties. The selling companies remain responsible for collection and documentation. Our portfolio consists primarily of trade receivables. Centralizing a portion of the Siemens Groups receivables risk allows Siemens to more effectively manage its overall receivables exposure.

The Equipment and Sales Financing division finances both Siemens and third-party equipment. Siemens products come primarily from Medical Solutions (Med), Information and Communication Networks (ICN) and Logistics & Assembly Systems (L&A). Third-party products are primarily computers and other IT equipment.

Equity. This division participates in infrastructure projects as a project developer and equity investor, predominantly in projects for which Siemens provides capital goods. At September 30, 2004, the equity investment in these projects amounted to approximately 4% of the total assets of SFS and 0.5% of the total assets of Siemens worldwide. In recent years, we have shifted our focus from larger projects to diversifying our portfolio with smaller investments.

Project and Export Financing. This division, formerly called Structured Finance, advises other Siemens Groups on project and sales financing transactions. We have a global network of established contacts with multilateral financial institutions, such as the World Bank or the Asian Development Bank, as well as with national development and export banks and export credit agencies, such as Kreditanstalt für Wiederaufbau (KfW) and Hermes, in Germany, and Export-Import Bank, in the United States. By offering our services to other Siemens Groups, we ensure that they benefit from our in-house know-how and market presence. We also provide advice, management and documentation services in connection with guarantees issued by Siemens, related principally to long-term contracts of the Operations Groups.

Treasury and Financing Services. This division provides services to Siemens Corporate Treasury, including cash management and payment (including intercompany payments) and capital-market financing. In addition, we pool and analyze interest rate and currency risk exposure of the business Groups and, in the name and for the account of Siemens Corporate Treasury, enter into derivative financial instruments with third-party financial institutions to offset pooled exposures. Siemens believes that, from a practical standpoint, it is not cost efficient to avoid having any open positions due to timing differences, yet, we closely monitor these positions within pre-determined limits. Our derivative activities are described under Item 11: Quantitative and Qualitative Disclosure About Market Risk. We also offer consulting services with respect to treasury activities to third-party customers.

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

Insurance. This division acts as a broker and provides other Siemens Groups with liability, property, marine and project insurance brokerage coverage via third-party insurers. We provide these services not only to

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Siemens business Groups, but also to external customers. We also act as an insurance agent in offering private insurance policies to Siemens employees.

SFS main sources of risk are our external customers credit risk and the risk associated with SFS equity portfolio. Interest rate and currency exposures are typically matched. The funding for SFS is provided by Siemens Corporate Treasury.

Our competition mainly includes captive leasing and finance companies from both inside and outside the electronics industry, including those of General Electric, Hewlett Packard and IBM, as well as pure leasing companies and leasing and finance operations related to banks or investment banks and investment management companies.

Siemens Real Estate (SRE)

	Year ended September 30, 2004
Total sales	1.584 billion
External sales as percentage of Siemens net sales	2.11%
Income before income taxes	108 million

SRE offers the operating Groups of Siemens a range of services encompassing real estate development, real estate disposal and asset management, as well as lease and services management. SRE also rents, in certain limited circumstances, available space to third parties. The overall goal of our activities is to manage Siemens real estate needs in a professional and cost effective way.

On January 1, 2004, we changed our organizational structure from three divisions to two. Our two divisions are Real Estate Management (comprising the former Portfolio Management and Property Management & Services (German/ International) divisions and Development, Projects & Sales, formerly the Development & Sales division.

Real Estate Management is responsible for the active management of Siemens real estate portfolio. First, it formulates the general strategy for our real estate business and contributes support in real estate decision-making by providing portfolio analysis, economic analysis, development of financing alternatives, market research, risk analysis and valuation and similar services, including preparing recommendations for divestitures, as well as rental rates. Second, it provides pure property management and leasing services to Siemens Groups and, to a limited extent, to third-party lessees. These services include billing and collecting lease payments and related charges such as utilities and providing other general services of a landlord. Third, it arranges facilities services to Siemens Groups and external tenants on an arm s-length contract basis. The services we arrange include cleaning, maintenance, security, catering and a variety of other services. We generally subcontract these services with third-party suppliers, thereby leveraging the purchasing power of the entire Siemens group.

Development, Projects & Sales is responsible for the sale of land, office and commercial real estate that is surplus to the operational needs of the Siemens group and for internal construction projects. It also acts as a developer of Siemens-owned properties.

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The book value of Siemens worldwide real estate assets, at September 30, 2004, amounted to approximately 4.646 billion, of which approximately more than half was managed by SRE. The following table sets forth the key balance sheet and statistical data for SRE:

SRE Balance Sheet and Statistical Data

	At September 30,	
	2004	2003
	(and square meters in millions)	
Total assets (in euros)	3,455	3,607
Real estate assets under management (in euros)	2,826	3,075
Total site area (in square meters)	20.1	21.4
Total building area (rentable space) (in square meters)	10.0	10.2

Over the past few years, operational adjustments by some Siemens Groups resulted in the consolidation of Siemens locations and the divestment by SRE of surplus property. However, while we will continue to divest surplus property over the next few years, we expect that we will not be able to dispose of properties as quickly or the same extent as we have previously.

EMPLOYEES AND LABOR RELATIONS

The following tables show the division of our employees by business Group and geographic region at September 30 for each of the years shown:

EMPLOYEES BY BUSINESS GROUP

	At September 30,		
	2004	2003	2002
	(in thousands)		
Information and Communication Networks	34	33	39
Information and Communication Mobile	27	27	29
Siemens Business Services	36	35	34
Automation and Drives	52	50	51
Industrial Solutions and Services	30	26	29
Logistics and Assembly Systems	10	10	12
Siemens Building Technologies	28	33	36
Power Generation	31	30	26
Power Transmission and Distribution	19	16	17
Transportation Systems	18	18	17
Siemens VDO Automotive	48	44	43
Medical Solutions	32	31	31
Osram	37	36	35
Siemens Financial Services	2	1	1
Siemens Real Estate	2	2	2
Other[1]	24	25	24
Total	430	417	426

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

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EMPLOYEES BY GEOGRAPHIC REGION

	At September 30,		
	2004	2003	2002
	(in thousands)		
Germany	164	170	175
Europe (other than Germany)	110	108	106
The Americas	96	87	93
Asia-Pacific	51	44	45
Africa, Middle East, CIS	9	8	7
Total	430	417	426

A significant percentage of our manufacturing employees, especially in Germany, are covered by collective bargaining agreements determining working hours and other conditions of employment, and are represented by works councils. Works councils have numerous rights to notification and of codetermination in personnel, social and economic matters. Under the German Works Constitution Act (*Betriebsverfassungsgesetz*), works councils are required to be notified in advance of any proposed employee termination, they must confirm hirings and relocations and similar matters, and they have a right to codetermine social matters such as work schedules and rules of conduct. Management considers its relations with the works councils to be good.

During the last three years we have not experienced any major labor disputes resulting in work stoppages.

ENVIRONMENTAL MATTERS

In each of the jurisdictions in which it operates, Siemens is subject to national and local environmental and health and safety laws and regulations that affect its operations, facilities, products, and, in particular, its former nuclear power generation business. These laws and regulations impose limitations on the discharge of pollutants into the air, soil and water, establish standards for the treatment, storage and disposal of solid and hazardous waste and might sometimes require us to clean up a site at significant cost. Because of our commitments to protecting the environment and conservation and because we recognize that leadership in environmental protection is an important competitive factor in the marketplace, we have incurred significant costs to comply with these laws and regulations and we expect to continue to incur significant compliance costs in the future.

In 1994, we closed a site in Hanau, Germany, that we had used for the production of uranium and mixed-oxide fuel elements. We are in the process of cleaning-up the facility in accordance with the German Atomic Energy Act. We have developed a plan to decommission the Hanau facilities that involves the following steps: clean-out, decontamination and disassembly of equipment and installations, decontamination of the facilities and buildings, sorting of radioactive materials and intermediate and final storage of radioactive waste. This process will be supported by ongoing engineering studies and radioactive sampling under the supervision of German federal and state authorities. The German Atomic Energy Act requires that radioactive waste be transported to a government-developed storage facility, which, in our case, we do not expect to be available until 2030. We expect that the process of decontamination, disassembly and sorting of radioactive waste will continue until 2009, and we will be responsible for storing the material until the government-developed storage facility is available. The ultimate costs of this project will depend, in part, on where the government-developed storage facility is located and when it becomes available. We have an accrual of 513 million at September 30, 2004 with respect to this matter. This accrual is based on a number of significant estimates and assumptions as to the ultimate costs of this project. We believe this amount to be adequate to cover the present value of the costs associated with this project, based on current estimates. See Notes to Consolidated Financial Statements.

Two Directives of the European Parliament and of the Council on Waste Electrical and Electronic Equipment (2002/96/EC WEEE) and on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (2002/95/EC RoHS) have an impact on some of our products. The WEEE Directive regulates the collection, reuse and recycling of waste from many electrical and electronic products, and the RoHS Directive bans the use in electrical and electronic equipment of certain hazardous materials, such as lead, cadmium, mercury, chromium, brominated biphenyls and diphenylethers. The required collection of

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electrical and electronic waste from end users under the WEEE Directive will begin in August 2005. Siemens has been working together with national trade and environmental associations to timely establish collection systems for electronic scrap. Starting August 13, 2005, producers will be obliged to finance the collection systems for electronic scrap. Because certain of the specific legal requirements to be set up in the European States have not yet been finalized, we are presently unable to estimate the potential costs of complying with these new requirements. With respect to the RoHS Directive, a transition period until July 1, 2006 has been established to allow manufacturers to make necessary production adjustments. Siemens has identified its products which are affected by the restrictions and has formulated strategies to help ensure a timely transition from lead to lead-free soldering technology. The other substances mentioned are either not in our products or their substitution is not a problem. Our first lead-free products have already been developed. Restrictions of the use of certain substances comparable to those of the RoHS Directive are under discussion in several other states, such as the U.S., China, Japan and Switzerland.

On April 30, 2004, a new EU-Directive (2004/35/CE) addressing the prevention and remediation of environmental damage became effective. It has to be transposed into national law by April 30, 2007. A significant number of our production sites is affected by this directive. The directive requires remediation measures for damage to protected species and natural habitats, which go beyond current legal requirements. However, the directive will only apply for damages caused by emissions made after 2007. We believe that in 2007, there will continue to be adequate insurance coverage or other financial security instruments available to cover the increased risks.

It is our policy to comply with environmental requirements and to provide workplaces for employees that are safe, environmentally sound, and that do not adversely affect the health or environment of their communities. We have obtained all material environmental permits required for our operations and all material environmental authorizations required for our products. Although we believe that we are in substantial compliance with all environmental and health and safety laws and regulations, there is a risk that we may incur expenditures significantly in excess of our expectations to cover environmental liabilities, to maintain compliance with current or future environmental and health and safety laws and regulations and/or to undertake any necessary remediation.

PROPERTY

Siemens and its consolidated subsidiaries have, as of September 30, 2004, approximately 274 production and manufacturing facilities throughout the world. Approximately 148 of these are located in Europe, with approximately 89 in Germany, and approximately 82 are located in the Americas, with approximately 57 in the United States. We also have 39 facilities in Asia. Siemens also owns or leases other properties including office buildings, warehouses, research and development facilities and sales offices in approximately 190 countries.

Siemens principal executive offices are located in Munich, Germany.

None of our properties in Germany are subject to mortgages and other security interests granted to secure indebtedness to financial institutions. We have granted security interests in other jurisdictions.

We believe that our current facilities are in good condition and adequate to meet the requirements of our present and foreseeable future operations.

INTELLECTUAL PROPERTY

Siemens as a whole has several thousand patents and licenses, and R&D is a priority on a Siemens-wide and business Group basis. For a discussion of the main focus of our current R&D efforts of each business Group see Description of Business. Siemens also has many thousand trademark registrations worldwide. However, neither the Company, nor any of our business Groups, is dependent on any single patent, license or trademark or any group of related patents, licenses or trademarks.

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LEGAL PROCEEDINGS

In 1994, a Siemens subsidiary was sued in the United States District Court for the Northern District of Georgia by five independent service organizations and two customer end users for alleged monopoly pricing of parts and maintenance services. The case was originally filed as a class action but class certification was denied by the court. After discovery, the plaintiffs claimed treble damages of approximately $156.36 million. Siemens counterclaimed for misappropriation of trade secrets, interference with contractual relationships and patent and copyright infringement. In 1999, a jury rendered a verdict in favor of Siemens on these claims and awarded Siemens $7 million in damages, which the court reduced to just under $2 million. In 2000, the court dismissed the plaintiffs case in its entirety, with prejudice, holding that the lawful exercise of Siemens intellectual property rights insulated it from anti-trust liability. On October 21, 2004 the United States Circuit Court of Appeals for the 11th Circuit affirmed the jury s verdict and the dismissal of the anti-trust claims.

We have requested arbitration against the Republic of Argentina before the International Center for Settlement of Investment Disputes (ICSID) of the World Bank. We claim that Argentina unlawfully terminated our contract for the development and operation of a system for the production of identity cards, boarder control, collection of data and voters registers and thereby violated the Bilateral Investment Protection Treaty between Argentina and Germany (BIT). We are seeking damages for expropriation and violation of the BIT of approximately $500 million. Argentina has disputed jurisdiction of the ICSID arbitration tribunal and has argued in favor of jurisdiction of the Argentine administrative courts. The arbitration tribunal rendered a decision on August 4, 2004 finding that it has jurisdiction of Siemens claims and that Siemens is entitled to present its claims. A hearing before the ICSID arbitration tribunal on the merits of the case is scheduled to be held in April 2005.

Italian and German prosecutors are conducting investigations regarding allegations that Siemens provided improper benefits to former employees of Enel in connection with the awarding of Enel contracts. We are cooperating with the authorities. On May 5, 2004, an Italian investigating magistrate issued a preliminary injunction imposing a one-year ban prohibiting Siemens AG (but not its subsidiaries) from entering into delivery contracts for gas turbines with the Italian public administration. We have appealed the magistrate s ruling.

In May 2004, the European Commission launched an investigation into possible anti-trust violations involving the major European producers of high-voltage gas-insulated switchgear, including Siemens AG. Gas-insulated switchgear is electrical equipment used as a major component for turnkey powersubstations. We are cooperating with the investigation of the European Commission which is still ongoing. The European Commission has not yet announced a schedule for the completion of the investigation. Furthermore, the authorities of Australia, Hungary, Mexico and New Zealand initiated investigations into the same possible anti-trust violations.

German prosecutors are conducting an investigation against certain Siemens employees regarding allegations that they participated in fraud and in providing improper benefits related to the awarding of an EU contract for the refurbishment of a power plant in Serbia. The investigation is still ongoing.

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

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ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS

INTRODUCTION

This Form 20-F contains forward-looking statements and information that is, statements related to future, not past, events. These statements may be identified by words as expects, anticipates, intends, plans, believes, seeks, estimates, will or words of similar meaning. Such are based on our current expectations and certain assumptions, and are, therefore, subject to certain risks and uncertainties. A variety of factors, many of which are beyond Siemens control, affect our operations, performance, business strategy and results and could cause the actual results, performance or achievements of Siemens worldwide to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. For us, particular uncertainties arise, among others, from changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products or technologies by other companies, lack of acceptance of new products or services by customers targeted by Siemens worldwide, changes in business strategy and various other factors. More detailed information about certain of these factors is contained throughout this report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the relevant forward-looking statement as anticipated, believed, estimated, expected, intended, planned or projected. Siemens does not intend or assume any obligation to update or revise these forward-looking statements in light of developments which differ from those anticipated.

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The following discussion of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and the related Notes prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) as of, and for the years ended, September 30, 2004, 2003 and 2002.

The comparability of our Consolidated Financial Statements between different periods is affected by currency translation effects resulting from our international operations. In fiscal 2004, 2003 and 2002, foreign currency translation effects impacted our results arising from the comparison of the euro, in which our Consolidated Financial Statements are denominated, to other currencies, most notably the U.S. dollar and to a lesser extent the Swiss franc, the British pound and the Japanese yen. All of our business Groups are subject to foreign currency translation effects; however, the business Groups Med, Osram and L&A are particularly affected

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since they generate a significant portion of their operations through subsidiaries whose results are subject to foreign currency translation effects particularly in the U.S. For significant quantitative effects of currency translation on sales of our business Groups, see Segment Information Analysis Operations. For additional information on foreign currency translation, see Item 11: Quantitative and Qualitative Disclosure About Market Risk Foreign Currency Exchange Rate Risk and Notes to Consolidated Financial Statements. In addition, the effect of acquisitions and dispositions on our consolidated revenues and expenses also affects the comparability of our Consolidated Financial Statements between different periods.

FINANCIAL OVERVIEW

In fiscal 2004, ended September 30, 2004, Siemens achieved its goals of double-digit income growth accompanied by revenue and order growth.

Siemens reported net income of 3.405 billion, up 39% from 2.445 billion in fiscal 2003. Basic earnings per share rose to 3.82 compared to 2.75 in the prior year. Net income in fiscal 2004 benefited from a pre-tax gain of 590 million and a reversal of 246 million in deferred tax liabilities related to the sale of shares of Infineon, partially offset by a goodwill impairment of 433 million related to L&A. Excluding these effects, net income was up 23% year-over-year.

Siemens achieved its goal of restoring revenue growth in fiscal 2004 with sales of 75.167 billion compared to 74.233 billion a year earlier. Sales were up 3% year-over-year on a comparable basis, excluding currency translation effects and the net effect of acquisitions and dispositions. Orders rose to 80.830 billion from 75.056 billion in the prior fiscal year, a 9% increase on a comparable basis. A majority of the Groups in Operations increased both sales and orders for the year, despite declining business volume in Germany.

Net cash from operating and investing activities was 3.262 billion in fiscal 2004 compared to 1.773 billion a year earlier. The difference is due primarily to net proceeds of 1.794 billion from the sale of Infineon shares in fiscal 2004. Net cash from operating activities within Operations was more than 4 billion in both fiscal 2004 and fiscal 2003, including supplemental cash contributions to Siemens pension plans in both years, totaling 1.255 billion in fiscal 2004 and 1.192 billion a year earlier. Fiscal 2004 included 1.477 billion used in investing activities for acquisitions, up from 1.055 billion a year earlier.

Based on their current performance, our Groups can currently be divided into four categories:

A&D, Med, PG, Osram, SV, SFS and PTD are in the first category. These Groups met or exceeded the specific earnings margin targets established with the Managing Board, proving that sustainable success can be achieved by utilizing all the tools of our *top*$^{+}$ business excellence management system.

The second category comprises SBT, I&S and L&A. These Groups have not yet met their earnings margin targets. However, they have overcome their earlier difficulties and are now on the right track.

The Groups in our Information and Communications business area, the third category, have come through the industry problems that began in 2001. The two Groups, ICN and ICM, were combined into one Group named Communications (Com) as of October 1, 2004, which offers a complete range of information and communications technologies in the areas of wireless and wireline networks and devices and related services. As for SBS, the Group faced declining demand for IT solutions in fiscal 2004, particularly in Germany. These Groups are working to achieve long-term stability and profitability.

TS is in the fourth category. After rebounding in the last few years, railway systems incurred losses in fiscal 2004. This was largely due to technical problems in our Combino low-floor trams and the related provisions. The Group identified technical solutions during the year and is beginning to implement them.

To further improve overall earnings, our weak Groups must intensively utilize the tools in our management system in order to approach their margin targets and achieve steady, sustainable progress. In particular, we are focusing on solving project-related problems at TS and positioning Com and SBS for future success. Our strong Groups which have demonstrated their abilities to optimize processes and achieve growth through innovation

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and customer loyalty must also move forward. These Groups will continue their efforts and further strengthen their position.

External factors also affect our business and our success depends on anticipating and reacting early to trends in the global economy and major currencies. In fiscal 2004, the global economy grew moderately overall with significant regional variations. For example, the economy remained stalled in Germany, our largest national market, but expanded rapidly in China. Despite price increases for raw materials, commodities and energy, which put upward pressure on cost of goods sold, the Groups were able to mitigate the related margin impact in fiscal 2004. The most important currency trend for us in recent years has been the weakening of the U.S. dollar against the euro. This trend moderated in fiscal 2004 compared to fiscal 2003, but still had a significant influence on our reported sales and orders for the fiscal year.

BASIS OF PRESENTATION

To help shareholders understand and follow our progress, we present our results in aggregate, for Siemens worldwide, and also break out the major components of our business. The sum of results for the components equals the result for Siemens worldwide.

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

We measure the performance of these Groups using Group profit, which is earnings before centrally managed items including income taxes, financing costs, and certain pension costs. For additional information with respect to Group profit, see Notes to Consolidated Financial Statements.

Another component of our Company is made up of two Groups involved in non-manufacturing activities such as financing, leasing, investing, and real estate. We call this component of our business Financing and Real Estate. We evaluate the profitability of our Financing and Real Estate Groups using income before income taxes.

In breaking out the Operations and Financing and Real Estate components and in order to show more clearly our external performance, we exclude the business they conduct with each other and with our Corporate Treasury department, which provides cash management services for our Groups and corporate finance activities. These internal transactions are therefore included into a component called Eliminations, reclassifications and Corporate Treasury. This component is the difference between the results for Operations and Financing and Real Estate and the results of Siemens worldwide.

For additional information, see Notes to Consolidated Financial Statements.

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STRATEGIC OVERVIEW

Siemens success depends on *innovation*, *customer focus*, *global competitiveness*, and *portfolio optimization*. Our commitment to innovation includes spending more than 5 billion in R&D in fiscal 2004. We bring innovation to market as rapidly and profitably as possible, such as by using cross-Group technology platforms. All Siemens Groups are required to conduct frequent innovation benchmark studies. This means that they compare their power of innovation with that of their leading competitors and implement specific programs to rapidly close any gaps they discover. We are in the process of further expanding our global R&D activities and new research centers have been opened in China, Russia and India. In our global R&D activities, all facilities including those in Germany can leverage their specific strengths and the Groups are able to internationalize their R&D departments as well. For additional information with respect to the R&D activities of our Groups, see Item 4: Information on the Company Description of Business.

Customer focus means meeting our customers needs rather than simply selling a product or service. We maximize our customers satisfaction and our market penetration through various initiatives, including cross-selling programs and our service businesses. In recent years, change in this area has been particularly dramatic as our customers have also undergone major transformations themselves. Some who were previously public-sector companies or governmental authorities have now been privatized and now must contend with tough competitive environments. Accordingly, we have adapted our corporate culture to accommodate this shift as we strive to strengthen our customers to keep them competitive. We treat them as partners, involving them in our own development processes to ensure market-oriented solutions.

Customer orientation is also a primary focus of our Siemens One initiative, in which several Groups cooperate on large-scale projects. Similar measures have been implemented or initiated in nearly 40 regions. We have also established a Siemens One team that generates its own business and assists the Groups and regional companies in creating an appropriate local framework. Siemens One helps our Groups present one face to the customer in key segments and enables us to complement the vertical organization of our Groups by strengthening horizontal cross-Group cooperation. This strategy sets us apart from our competitors who operate

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in only one or a few businesses. Our customers expect us to approach them as a single team and we intend to exploit this strategy even more rigorously in the future.

We secure and enhance our *global competitiveness* by utilizing and optimizing all parts of our worldwide value chain, which reaches approximately 190 countries. In addition, we identify and execute on opportunities to expand our presence in our growth regions. Customer proximity everywhere in the world is a key principle of our corporate philosophy that applies to more than just our sales activities. Global presence can be achieved only when all links in the value chain R&D, hardware and software development, procurement, production, service and sales are combined within a global network. In recent years, there have been fundamental geopolitical changes. A prime example is the opening of China s market, which began 20 years ago and has created vast new business opportunities for Western companies. Russia is undergoing a similar transformation and the changes that have taken place in Central, Eastern and Southern Europe are just as fundamental. The eastern expansion of the European Union has also created extraordinary business opportunities. As a result, the world map of regional strengths and weaknesses now looks very different than it did before a development that we will continue to monitor.

Siemens is a diversified company with businesses in both short-cycle and long-cycle industries. This cross-industry advantage helps to limit our risks. As part of this diversification, power engineering, communications technology and medical solutions have been the three main pillars of our business for decades. Our key tasks include: strengthening weak businesses with acquisitions and cooperative ventures, withdrawing from stagnant markets and investing in high-growth sectors. In the future, we plan to continue generating growth both organically, as well as through acquisitions.

As we strive to optimize our businesses through strategic acquisitions and dispositions, we will continue to enter into transactions as we did during fiscal 2004, including the following:

In July 2004, we entered the U.S. market for municipal and industrial water supply and wastewater treatment through the acquisition of USFilter;

In September 2004, as part of exiting the banking software business, we sold a 74.9% interest of our Kordoba unit; and

In October 2003 (the first quarter of fiscal 2004), in connection with the creation of a joint venture with Drägerwerk AG, we completed the sale of our Life Support Systems (LSS) business to Getinge AB of Sweden.

FISCAL 2004 COMPARED TO FISCAL 2003

CONSOLIDATED OPERATIONS OF SIEMENS WORLDWIDE

Results of Siemens worldwide

The following discussion presents Siemens worldwide selected information for the fiscal year ended:

	2004	2003
	(in millions)	
New orders	80,830	75,056
New orders in Germany	*16,001*	*16,796*
International orders	*64,829*	*58,260*
Sales	75,167	74,233
Sales in Germany	*17,073*	*17,100*
International sales	*58,094*	*57,133*

Orders for Siemens worldwide increased 8% to 80.830 billion. Sales for Siemens worldwide in fiscal 2004 were 75.167 billion, up from 74.233 billion a year earlier. On a comparable basis, excluding currency translation effects and the net effect of acquisitions and dispositions, orders and sales rose year-over-year 9% and 3%, respectively. Both orders and sales increased primarily on the strength of international business. In Germany,

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sales of 17.073 billion were level with the prior year and orders of 16.001 billion came in 5% lower. International sales increased 2% year-over-year, to 58.094 billion, and international orders climbed 11%, to 64.829 billion.

Sales in Europe, excluding Germany, were nearly level year-over-year at 25.151 billion and orders rose 12% to 28.745 billion. Sales in the Asia Pacific region increased 7% year-over-year to 9.349 billion and orders rose 10% to 10.028 billion. Sales in China were up 1% at 2.873 billion and orders rose 12% year-over-year to 3.134 billion. Sales in the U.S. were 13.621 billion, 11% lower compared to the same period a year earlier. U.S. orders of 14.043 billion were 4% lower year-over-year. Excluding currency translation effects, sales were level and orders increased 8% in the U.S.

In Operations, the main driver of Siemens worldwide revenues, sales increased to 74.573 billion in fiscal 2004 from 73.744 billion in the prior year. Sales growth was broad-based, including Groups in the automotive, industrial automation, lighting, power and wireless communication businesses. For example, sales at ICM grew 11% year-over-year on strong demand for both mobile networks and mobile phones, while SV benefited from continued strong demand in the automotive sector and was strengthened by the acquisition of an automotive electronics business. These increases were partially offset by revenue declines at SBT and SBS. SBT intentionally reduced its revenue basis by divesting its facility management business, while declining demand for IT solutions, particularly in Germany, resulted in a sales decline at SBS.

	2004	2003
	(in millions)	
Gross profit on sales	21,645	20,883
as percentage of sales	*28.8%*	*28.1%*

Gross profit as a percentage of sales in fiscal 2004 increased to 28.8% from 28.1% in the prior year. Ten of the 13 Groups in Operations increased their gross profit in fiscal 2004, led by ICM, A&D and PG. Productivity improvement programs were largely responsible for the improvement, particularly when combined with sales growth such as at ICM and A&D. The gross profit increase at PG benefited from full-year inclusion of the industrial turbine businesses acquired from Alstom midway through fiscal 2003 and higher inventory allowances in the prior year. At Med, gross profit declined in fiscal 2004 primarily due to the divestment of its Electromedical Systems business and increased competition. At TS, the Group took significant charges for resolution of technical problems in its rolling stock business.

	2004	2003
	(in millions)	
Research and development expenses	5,063	5,067
as percentage of sales	*6.7%*	*6.8%*
Marketing, selling and general administrative expenses	13,567	13,534
as percentage of sales	*18.0%*	*18.2%*

Research and development (R&D) expense remained nearly unchanged year-over-year at 5.063 billion. Due to rising sales, R&D spending as a percentage of sales came in at 6.7%, lower than 6.8% in fiscal 2003. For additional information about R&D at our Groups, see Item 4: Information on the Company Description of Business.

Siemens held marketing, selling and general administrative expenses nearly level at 13.567 billion, even as sales rose. Company-wide cost-control efforts were evident across the Groups, particularly at ICN. As a result, marketing, selling and general administrative expenses fell to 18.0% of sales compared to 18.2% in fiscal 2003.

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	2004	2003
	(in millions)	
Other operating income (expense), net	(156)	642
Income from investments in other companies, net	1,031	142
Income (expense) from financial assets and marketable securities, net	70	61
Interest income of Operations, net	18	31
Other interest income (expense), net	254	214

Other operating income (expense), net was a negative 156 million compared to a positive 642 million in fiscal 2003. The prior year benefited from 359 million in gains from project cancellations at PG and also included a gain resulting from Med s contribution of assets to a joint venture with Drägerwerk AG. In contrast, fiscal 2004 included the 433 million goodwill impairment related to L&A. The impairment was partially offset by gains from divestments, particularly the sale of Med s LSS business and SBS sale of a 74.9% interest in its Kordoba banking software business.

Income from investments in other companies, net increased to 1.031 billion, up from 142 million in the prior year. The largest factor in the change is the pre-tax gain of 590 million from the sale of Infineon shares. In addition, Siemens equity share of Infineon s net income in fiscal 2004 was 14 million compared to a negative 170 million equity share of Infineon s net loss in fiscal 2003. In the second quarter of fiscal 2004, Siemens relinquished its ability to exercise significant influence over the operating and financial policies of Infineon. Consequently, we ceased accounting for our investment in Infineon under the equity method and began accounting for it as a marketable security. For further information with respect to our ownership interest in Infineon, see Notes to Consolidated Financial Statements.

	2004	2003
	(in millions)	
Income before income taxes	4,232	3,372
Income taxes	(661)	(867)
as percentage of income before income taxes	*16%*	*26%*

Siemens effective tax rate for fiscal 2004 was 16%, well below the rate of 26% in fiscal 2003. The difference was driven by a 246 million reversal in deferred tax liabilities related to the Infineon share sale, tax-free dispositions of business interests including the sale of Infineon shares, and a number of positive tax effects outside of Germany in the current year. Fiscal 2003 also benefited from effects related to dispositions of business interests.

	2004	2003
	(in millions)	
Net income	3,405	2,445

Net income was 3.405 billion, up 39% from 2.445 billion a year earlier. Net income in fiscal 2004 benefited from a pre-tax gain of 590 million and a reversal of 246 million in deferred tax liabilities related to the sale of shares of Infineon, partially offset by a goodwill impairment of 433 million related to L&A. Excluding these effects, net income was up 23% year-over-year. Basic and diluted earnings per share were 3.82 and 3.66, respectively, well above basic and diluted earnings per share of 2.75 in the prior year.

	2004	2003
	(in millions)	
Net cash provided by operating activities	5,080	5,712
Net cash used in investing activities	(1,818)	(3,939)
Net cash provided by operating and investing activities	3,262	1,773

Net cash provided by operating activities was 5.080 billion, after Siemens made a supplemental cash contribution of 1.255 billion to its pension plans and Operations used 198 million in cash for net working capital. Net cash used in investing activities of 1.818 billion included

1.794 billion in proceeds from the sale of

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Infineon shares and 822 million in cash paid for the acquisition of USFilter. For additional information, see Liquidity and Capital Resources Cash Flow Fiscal 2004 compared to Fiscal 2003.

Siemens Managing and Supervisory Boards propose a dividend of 1.25 per share. The prior-year dividend per share was 1.10.

As a result of the adoption of Statement of Financial Accounting Standards (SFAS) 143, *Accounting for Asset Retirement Obligations*, on October 1, 2002, income of 59 million (36 million net of income taxes, or 0.04 per share) was recorded in fiscal 2003 as a cumulative effect of a change in accounting principle.

SEGMENT INFORMATION ANALYSIS

Operations

Information and Communications

Information and Communication Networks (ICN)

	Year ended September 30,		% Change	
	2004	2003	Actual	Comparable*
	(in millions)			
Group profit	222	(366)		
Group profit margin	3.2%	(5.1)%		
Sales	6,994	7,122	(2)%	0%
New orders	7,011	7,070	(1)%	1%

* Excluding currency translation effects of (3)%, and portfolio effects of 1% on sales and orders.

ICN posted profits in all four quarters and delivered Group profit of 222 million for the full fiscal year. The loss of 366 million a year earlier included significant charges for severance, as well as write-downs of venture capital and other investments. ICN s Carrier Networks and Services businesses accounted for much of the profit improvement year-over-year. While sales remained virtually unchanged year-over-year, at 3.426 billion, carrier activities delivered 98 million in earnings compared to a loss of 439 million a year earlier. The Enterprise Networks division earned 208 million on sales of 3.578 billion, close to prior-year levels. For ICN overall, sales of just under 7.0 billion for the fiscal year were level with the prior year on a comparable basis. Orders also remained stable year-over-year.

Effective October 1, 2004, our ICN and ICM Groups were combined to form our new Siemens Communications (Com) Group. Com is organized into three businesses around the telecommunications industry with eight divisions. The devices business consists of *Mobile Devices*, *Customer Premises Equipment Devices* and *Wireless Modules*; the enterprise networks business consists of the two divisions *Enterprise Systems* and *Enterprise Services*; and the carrier networks business consists of the *Mobile Networks*, *Fixed Networks* and *Carrier Services* divisions.

Information and Communication Mobile (ICM)

	Year ended September 30,		% Change	
	2004	2003	Actual	Comparable*
	(in millions)			
Group profit	347	180	93%	
Group profit margin	3.1%	1.8%		
Sales	11,042	9,964	11%	13%

New orders	11,459	9,960	15%	17%

* Excluding currency translation effects.

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In fiscal 2004, ICM substantially increased its Group profit compared to fiscal 2003 and also achieved double-digit growth in sales and orders. The improvement was due primarily to the Mobile Networks division, which delivered 396 million in earnings on sales of 4.979 billion. Both figures were up strongly from the prior year, when the division earned 116 million on 4.311 billion in sales. The Cordless Products division also contributed increases in both earnings and sales year-over-year. ICM s Mobile Phones division sold 51.1 million handsets during the year, well above the 39.1 million handsets sold a year earlier. Competitive pressures reduced average selling price per unit, however, and quality issues delayed both the rollout and full profitability of the division s new 65 series of mobile handsets. As a result, Mobile Phones posted a loss of 152 million on sales of 4.979 billion compared to earnings of 27 million on sales of 4.474 billion in the prior year.

As mentioned above, effective October 1, 2004, our ICN and ICM Groups were combined to form our new Siemens Communications (Com) Group.

Siemens Business Services (SBS)

	Year ended September 30,		% Change	
	2004	2003	Actual	Comparable*
	(in millions)			
Group profit	40	13	208%	
Group profit margin	0.8%	0.2%		
Sales	4,716	5,205	(9)%	(9)%
New orders	6,293	5,226	20%	8%

* Excluding portfolio effects of 12% on orders.

SBS posted Group profit of 40 million compared to 13 million a year earlier. The current year includes a 93 million gain from the sale of 74.9% of SBS Kordoba unit to its strategic partner Fidelity Information Services (FIS), largely offset by charges for severance. For additional information with respect to the Kordoba disposition, see Notes to Consolidated Financial Statements. The prior year included significant charges for risks associated with a long-term business process outsourcing contract. Declining demand for IT solutions, particularly in Germany, resulted in sales of 4.716 billion compared to 5.205 billion a year earlier. SBS won two major outsourcing contracts in England, which pushed orders up 20% year-over-year, to 6.293 billion.

Automation and Control

Automation and Drives (A&D)

	Year ended September 30,		% Change	
	2004	2003	Actual	Comparable*
	(in millions)			
Group profit	1,077	806	34%	
Group profit margin	12.2%	9.6%		
Sales	8,829	8,375	5%	7%
New orders	8,980	8,476	6%	8%

* Excluding currency translation effects of (3)%, and portfolio effects of 1% on sales and orders.

A&D exemplified the success of Siemens profit and growth initiative in fiscal 2004, driving Group profit up to 1.077 billion for the year on solid gains in sales and orders. A&D further improved its earnings margin, as a result of increased productivity and higher capacity utilization. Stronger demand in international markets, including 25% growth with external customers in Asia-Pacific, increased sales to 8.829 billion for the year. Orders rose 6% year-over-year, to 8.980 billion.

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Industrial Solutions and Services (I&S)

	Year ended September 30,		% Change	
	2004	2003	Actual	Comparable*
	(in millions)			
Group profit	95	(41)		
Group profit margin	2.2%	(1.0)%		
Sales	4,290	4,012	7%	7%
New orders	4,356	3,955	10%	9%

* Excluding currency translation effects of (3)% on sales and orders, and portfolio effects of 3% and 4% on sales and orders, respectively.

I&S contributed 95 million in Group profit for the year, on broad-based earnings improvement. Group profit also benefited from positive effects related to capacity reduction programs. In contrast, severance charges contributed to a loss a year earlier. Sales at I&S were up 7% year-over-year, to 4.290 billion, and orders rose 10%, to 4.356 billion, benefiting from the USFilter acquisition between the periods under review. For additional information, see Notes to Consolidated Financial Statements.

Logistics and Assembly Systems (L&A)

	Year ended September 30,		% Change	
	2004	2003	Actual	Comparable*
	(in millions)			
Group profit	2	(218)		
Group profit margin	0.1%	(8.4)%		
Sales	2,338	2,600	(10)%	(5)%
New orders	2,687	2,599	3%	9%

* Excluding currency translation effects.

L&A finished in the black following a loss in fiscal 2003. Fiscal 2004 included charges related to excess capacity and cost overruns, while the prior year included substantial loss provisions related to two large contracts. The Electronics Assembly division was the Group s leading earnings contributor, and also increased its sales, orders, and earnings margin year-over-year. Completion of major projects led to lower sales, at 2.338 billion. Orders of 2.687 billion were up 3% year-over-year. Following an extensive internal review of the outlook for the L&A airport logistics activities and distribution and industry logistics activities, during the second quarter, management concluded that goodwill related to L&A was impaired. Because the businesses were acquired at the corporate level as part of the Siemens Atecs transaction, the resulting goodwill impairment was taken centrally. For additional information, see Corporate items, pensions and eliminations.

Siemens Building Technologies (SBT)

	Year ended September 30,		% Change	
	2004	2003	Actual	Comparable*
	(in millions)			
Group profit	108	101	7%	
Group profit margin	2.5%	2.0%		
Sales	4,247	4,990	(15)%	(4)%

New orders	4,358	4,775	(9)%	2%

* Excluding currency translation effects of (4)%, and portfolio effects of (7)% on sales and orders.

SBT increased Group profit to 108 million despite lower sales following the divestment of its facility management business early in the year. Group profit of 101 million a year earlier included substantial severance

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charges. On a comparable basis, SBT s sales of 4.247 billion for fiscal 2004 were 4% below the prior-year level and orders of 4.358 billion were up 2% year-over-year.

Power

Power Generation (PG)

	Year ended September 30,		% Change	
	2004	2003	Actual	Comparable*
	(in millions)			
Group profit	961	1,171	(18)%	
Group profit margin	12.8%	16.8%		
Sales	7,527	6,967	8%	0%
New orders	9,243	7,302	27%	14%

* Excluding currency translation effects of (4)% on sales and orders, and portfolio effects of 12% and 17% on sales and orders, respectively.

PG contributed 961 million in Group profit for the year. Fiscal 2004 included gains related to the cancellation of orders of 47 million compared to the prior year, which benefited from gains of 359 million, partly offset by 92 million in allowances on inventories associated with the cancellations. Excluding the net effect of cancellations, Group profit was stable year-over-year. Sales at PG rose 8% year-over-year, to 7.527 billion. Orders climbed 27%, to 9.243 billion, driven in part by full-year inclusion of the industrial turbine businesses PG acquired in the second half of fiscal 2003. For additional information with respect to the Alstom acquisition, see Notes to Consolidated Financial Statements. Order growth was regionally widespread, as PG won new business in Africa, Asia, Europe, the Near East, and Latin America. PG s service business also continued to grow year-over-year.

Power Transmission and Distribution (PTD)

	Year ended September 30,		% Change	
	2004	2003	Actual	Comparable*
	(in millions)			
Group profit	238	207	15%	
Group profit margin	6.6%	6.1%		
Sales	3,611	3,399	6%	9%
New orders	3,863	3,586	8%	11%

* Excluding currency translation effects of (4)% and (5)% on sales and orders, respectively, and portfolio effects of 1% and 2% on sales and orders, respectively.

PTD increased Group profit to 238 million for the year on broad-based earnings growth within the Group. PTD also achieved solid sales growth, particularly in Europe and Asia-Pacific. Overall, sales rose 6% year-over-year, to 3.611 billion, and orders were up 8%, at 3.863 billion, particularly as a result of the volume growth in the fourth quarter, which included PTD s acquisition of Trench Electric Holding and new orders in Africa and the Middle East.

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Transportation

Transportation Systems (TS)

	Year ended September 30,		% Change	
	2004	2003	Actual	Comparable*
	(in millions)			
Group profit	(434)	284		
Group profit margin	(10.1)%	6.0%		
Sales	4,310	4,697	(8)%	(7)%
New orders	4,321	4,674	(8)%	(7)%

* Excluding currency translation effects.

In fiscal 2004, TS responded decisively to the technical problems and associated issues that affected its rolling stock business, particularly the innovative low-floor light rail vehicle with a modular platform concept, marketed under the name Combino. The Group identified technical solutions during the year and is beginning to implement them. These actions and associated charges, accompanied by a corresponding slow-down in rolling stock sales, led to a loss of 434 million. For additional information with respect to the Combino, see Item 4: Information on the Company Description of Business Transportation Transportation Systems. In addition to these factors, TS also faced generally slower demand for rail transportation systems, particularly in Germany. As a result, sales and orders at TS were 4.310 billion and 4.321 billion, respectively, 8% below fiscal 2003 levels.

Siemens VDO Automotive (SV)

	Year ended September 30,		% Change	
	2004	2003	Actual	Comparable*
	(in millions)			
Group profit	562	418	34%	
Group profit margin	6.2%	5.0%		
Sales	9,001	8,375	7%	9%
New orders	9,029	8,375	8%	10%

* Excluding currency translation effects of (3)%, and portfolio effects of 1% on sales and orders.

Group profit of 562 million at SV enabled the Group to break even relative to its full-year cost of capital for the first time. Earnings improved at all divisions within SV, with the fastest growth coming at the Interior & Infotainment division. Revenue growth was also broad-based, as sales rose 7% compared to the prior year, to 9.001 billion. Orders rose 8%, to 9.029 billion. The development also includes SV s acquisition of a United States automotive electronics business from DaimlerChrysler during the second quarter of fiscal 2004.

Medical

Medical Solutions (Med)

	Year ended September 30,		% Change	
	2004	2003	Actual	Comparable*

	(in millions)			
Group profit	1,046	1,118	(6)%	
Group profit margin	14.8%	15.1%		
Sales	7,072	7,422	(5)%	6%
New orders	8,123	7,835	4%	15%

* Excluding currency translation effects of (6)% and (7)% on sales and orders, respectively, and portfolio effects of (5)% and (4)% on sales and orders, respectively.

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Med again delivered more than 1 billion in full-year Group profit. Fiscal 2004 included 118 million in gains from portfolio transactions, primarily the sale of Med s Life Support Systems (LSS) business. For comparison, fiscal 2003 included a 63 million gain related to the contribution of a portion of Med s electromedical systems business to a joint venture with Drägerwerk AG. While these transactions reduced Med s revenue base compared to the prior year, sales of 7.072 billion were up 6% year-over-year, excluding currency translation and portfolio effects. Orders climbed to 8.123 billion, up 15% on a comparable basis. For additional information with respect to the disposition of LSS, see Notes to Consolidated Financial Statements.

Lighting

Osram

	Year ended September 30,		% Change	
	2004	2003	Actual	Comparable*
	(in millions)			
Group profit	445	410	9%	
Group profit margin	10.5%	9.8%		
Sales	4,240	4,172	2%	8%
New orders	4,240	4,172	2%	8%

* Excluding currency translation effects.

Osram increased its Group profit 9% for the year, to 445 million, leveraging higher manufacturing productivity to achieve a double-digit earnings margin for the year. Sales increased to 4.240 billion, up 8% year-over-year on a comparable basis. Higher revenue year-over-year was highlighted by particularly strong growth in Asia-Pacific and Latin America.

Other Operations

Other Operations consist of centrally held equity investments and other operating businesses not related to a Group, such as Siemens joint ventures for household appliances (BSH Bosch und Siemens Hausgeräte GmbH) and computers (Fujitsu Siemens Computers). Equity earnings from these joint ventures again were the primary contributor to earnings from Other Operations, which totaled 289 million in fiscal 2004 compared to 212 million in fiscal 2003.

Corporate items, pensions and eliminations

Corporate items, pensions and eliminations were a negative 1.207 billion in fiscal 2004 compared to a negative 1.576 billion in the same period a year earlier. Corporate items totaled a negative 450 million for the year compared to a negative 747 million in fiscal 2003. Corporate items in fiscal 2004 included the pre-tax gain of 590 million from the sale of Infineon shares, partly offset by the 433 million goodwill impairment related to L&A. This impairment is taken centrally because the relevant businesses were acquired at the corporate level as part of Siemens Atecs Mannesmann transaction. Corporate items a year earlier benefited from the positive resolution of an arbitration proceeding. Siemens equity share of Infineon s net result was a positive 14 million, compared to a negative 170 million in fiscal 2003. In the second quarter of fiscal 2004, Siemens relinquished its ability to exercise significant influence over the operating and financial policies of Infineon. Consequently, we ceased accounting for our investment in Infineon under the equity method and began accounting for it as a marketable security. Centrally carried pension expense was 730 million in fiscal 2004, compared to 828 million a year earlier. Domestic pension service costs were carried centrally in fiscal 2003 but are allocated to the Groups beginning in fiscal 2004. The effect of this change was partly offset by higher amortization of unrealized pension plan losses in fiscal 2004. For additional information with respect to the Atecs Mannesmann transaction, ownership in Infineon and pension plans, see Notes to Consolidated Financial Statements.

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Financing and Real Estate

Siemens Financial Services (SFS)

	Year ended September 30,		% Change
	2004	2003	Actual
	(in millions)		
Income before income taxes	250	269	(7)%
Total assets	9,055	8,445	7%

Income before income taxes at SFS in fiscal 2004 was 250 million compared to 269 million a year earlier. The difference is due in part to higher write-downs of receivables in the Equipment & Sales Financing (ESF) division compared to the prior year. Income at SFS for the year also reflects an expansion of the ESF division in Europe and North America, resulting in a corresponding increase in total assets compared to fiscal 2003.

Siemens Real Estate (SRE)

	Year ended September 30,		% Change
	2004	2003	Actual
	(in millions)		
Income before income taxes	108	206	(48)%
Sales	1,584	1,592	(1)%

Income before income taxes at SRE in fiscal 2004 was 108 million compared to 206 million a year earlier. While sales were level with the prior year, weakness in the market for commercial real estate reduced returns. Market conditions also led the Group to terminate a major development project in Frankfurt during fiscal 2004, and the associated charges contributed to the decline in income for the year.

Eliminations, reclassifications and Corporate Treasury

Income before taxes from Eliminations, reclassifications and Corporate Treasury of 224 million for fiscal year 2004 included higher interest income. In comparison, the prior year amount of 266 million included higher positive effects from hedging activities not qualifying for hedge accounting, as well as a 35 million gain related to the buyback of a note exchangeable into Infineon shares.

ECONOMIC VALUE ADDED

Siemens ties a portion of its executive incentive compensation to achieving economic value added (EVA) targets. EVA measures the profitability of a business (using Group profit for the operations Groups and income before income taxes for the Financing and Real Estate businesses as a base) against the additional cost of capital used to run a business (using Net capital employed for the operations Groups and risk-adjusted equity for the Financing and Real Estate businesses as a base). A positive EVA means that a business has earned more than its cost of capital, whereas a negative EVA means that a business has earned less than its cost of capital. Depending on the EVA development year-over-year, a business is defined as value-creating or value-destroying. Other companies that use EVA may define and calculate EVA differently.

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FISCAL 2003 COMPARED TO FISCAL 2002

CONSOLIDATED OPERATIONS OF SIEMENS WORLDWIDE

Results of Siemens worldwide

The following discussion presents Siemens worldwide selected information for the fiscal year ended:

	2003	2002
	(in millions)	
New orders	75,056	86,214
New orders in Germany	*16,796*	*17,812*
International orders	*58,260*	*68,402*
Sales	74,233	84,016
Sales in Germany	*17,100*	*18,102*
International sales	*57,133*	*65,914*

Orders in fiscal 2003 were 75.056 billion compared to 86.214 billion a year earlier, and sales in fiscal 2003 were 74.233 billion compared to 84.016 billion. Excluding currency translation effects and the net effect of acquisitions and dispositions, orders and sales were 5% and 4% lower, respectively, than a year earlier. Orders in Germany in fiscal 2003 were 16.796 billion compared to 17.812 billion the same period a year earlier. Sales in Germany were 17.100 billion compared to 18.102 billion a year earlier. International orders were 58.260 billion compared to 68.402 billion a year earlier. Excluding currency translation and the net effects of acquisitions and dispositions, the decline in international orders was 6%. International sales were 57.133 billion compared to 65.914 billion in fiscal 2002. Excluding currency translation and the net effects of acquisitions and dispositions, the decline in international sales was 4%.

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

	2003	2002
	(in millions)	
Gross profit on sales	20,883	23,206
as percentage of sales	*28.1%*	*27.6%*

Gross profit as a percentage of sales in fiscal 2003 increased to 28.1% from 27.6% in the prior year. Most of the Groups increased their gross margins, particularly SV, ICN, PTD, and Med. ICN s improvement reflects the results of its Profitability and Cash Turnaround (PACT) program, and PTD and SV made significant improvements in reducing materials costs and other productivity measures. Osram, A&D and TS maintained their gross margins levels in fiscal 2003. Partly offsetting these results were gross margin declines at L&A (reported as Siemens Dematic (SD) until the second quarter of fiscal 2004) and SBS, as these Groups took charges relating to long-term contracts during fiscal 2003. ICM s gross margin decreased less sharply in fiscal 2003, in part due to lower average earnings per mobile phone sold.

	2003	2002
	(in millions)	
Research and development expenses	(5,067)	(5,819)
as percentage of sales	*(6.8)%*	*(6.9)%*

R&D expenses were 5.067 billion in fiscal 2003 compared to 5.819 billion in the prior year. R&D spending represented 6.8% of sales, compared to 6.9% in fiscal year 2002. Among the Groups in fiscal 2003,

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Med increased its R&D spending and ICN and ICM maintained stable R&D expenditures relative to declining sales.

	2003	2002
	(in millions)	
Marketing, selling and general administrative expenses	(13,534)	(15,455)
as percentage of sales	*(18.2)%*	*(18.4)%*

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

	2003	2002
	(in millions)	
Other operating income (expense), net	642	1,321
Income (loss) from investments in other companies, net	142	(114)
Income from financial assets and marketable securities, net	61	18
Interest income (expense) of Operations, net	31	94
Other interest income, net	214	224

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

Income (loss) from investments in other companies, net in fiscal 2003 was a positive 142 million compared to a negative 114 million in the prior year. In Operations, fiscal 2003 included higher contributions from joint ventures compared to fiscal 2002. In addition, the fiscal 2002 included higher losses associated with Siemens equity share of Infineon partly offset by a 133 million gain on the sale of two investments.

	2003	2002
	(in millions)	
Income before income taxes	3,372	3,475
Income taxes	(867)	(849)
as percentage of income before income taxes	*26%*	*24%*

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

	2003	2002
	(in millions)	
Net income	2,445	2,597

In fiscal 2003 net income was 2.445 billion and earnings per share were 2.75. Fiscal 2002 included a tax-free gain of 936 million on sales of shares in Infineon, which boosted net income in that period to 2.597 billion and earnings per share to 2.92. Excluding the Infineon gain, net income rose 47% year-over-year from 1.661 billion.

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	2003	2002
	(in millions)	
Net cash provided from operating activities	5,712	5,564
Net cash used in investing activities	(3,939)	(810)
Net cash from operating and investing activities	1,773	4,754

In fiscal 2003, net cash from operating and investing activities was 1.773 billion, including 5.712 billion in net cash from operating activities. Net cash provided by operating activities included cash outflows of 1.192 billion in supplemental cash contributions to Siemens pension trusts. Net cash used in investing activities of 3.939 billion included increases in investments and marketable securities of 957 million, and 929 million for a strategic acquisition at Power Generation.

For fiscal 2003, the Company paid a dividend of 1.10 per share. The prior-year dividend per share was 1.00.

On October 1, 2002, Siemens adopted Statement of Accounting Financial Standards (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 associated asset retirement costs. As a result of the adoption of SFAS 143, income of 59 million (36 million net of income taxes, or 0.04 per share) was recorded as a cumulative effect of a change in accounting principle.

ACQUISITIONS AND DISPOSITIONS

Alstom

In July 2003, Siemens completed the acquisition of the industrial turbine business of Alstom, which was structured in two transactions. In the first transaction in April 2003, effective April 30, PG acquired the small gas turbine business of Alstom. In the second transaction in July 2003, PG acquired Alstom s medium-sized gas and steam turbine businesses. The two transactions resulted in an aggregate net purchase price of 942 million, net of cash acquired.

Dräger Medical

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

SEGMENT INFORMATION ANALYSIS

Operations

Information and Communications

Information and Communication Networks (ICN)

		Year ended September 30,	
	Change	2003	2002
		(in millions)	
Group profit	47%	(366)	(691)

Group profit margin		(5.1)%	(7.2)%
Total sales	(26)%	7,122	9,647
New orders	(19)%	7,070	8,697

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

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

Information and Communication Mobile (ICM)

		Year ended September 30,	
	Change	**2003**	**2002**
		(in millions)	
Group profit	88%	180	96
Group profit margin		1.8%	0.9%
Total sales	(10)%	9,964	11,045
New orders	(14)%	9,960	11,538

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

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

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Siemens Business Services (SBS)

	Change	Year ended September 30, 2003	2002
		(in millions)	
Group profit	(87)%	13	101
Group profit margin		0.2%	1.7%
Total sales	(10)%	5,205	5,773
New orders	(16)%	5,226	6,256

SBS posted a Group profit of 13 million in fiscal 2003 compared to 101 million in fiscal 2002. The decline predominantly reflects 77 million in charges for risks associated with a long-term business process outsourcing contract in the United Kingdom. Sales of 5.205 billion and orders of 5.226 billion were lower than in the previous year, driven in part by weakness in the IT consulting market and intense pricing pressure in the IT maintenance and outsourcing markets.

Automation and Control

Automation and Drives (A&D)

	Change	Year ended September 30, 2003	2002
		(in millions)	
Group profit	11%	806	723
Group profit margin		9.6%	8.4%
Total sales	(3)%	8,375	8,635
New orders	(3)%	8,476	8,728

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

Industrial Solutions and Services (I&S)

	Change	Year ended September 30, 2003	2002
		(in millions)	
Group profit	79%	(41)	(198)
Group profit margin		(1.0)%	(4.4)%
Total sales	(10)%	4,012	4,480
New orders	(4)%	3,955	4,120

I&S significantly improved its bottom line in fiscal 2003, posting a Group profit of negative 41 million compared to a negative 198 million a year earlier, in part due to lower charges for severance of 24 million in fiscal 2003 compared to 118 million in fiscal 2002. A continuing

contraction in the market for industrial solutions led to orders of 3.955 billion compared to 4.120 billion a year earlier, and sales of 4.012 billion compared to 4.480 billion in the prior year. Five percentage points of the decrease in orders resulted from the effects of currency translation and acquisitions and dispositions.

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Logistics and Assembly Systems (L&A) (formerly reported as SD)

	Change	Year ended September 30, 2003	2002
		(in millions)	
Group profit		(218)	45
Group profit margin		(8.4)%	1.5%
Total sales	(13)%	2,600	2,995
New orders	(8)%	2,599	2,810

L&A posted a Group loss of 218 million for fiscal 2003 compared to Group profit of 45 million in fiscal 2002. A substantial increase in loss provisions and charges, in an aggregate of 209 million related to two large contracts in Europe was the key factor in this result, together with other charges. The majority of the loss provisions occurred at the Material Handling Automation division. The charges are related primarily to a contract for the design and installation of a complete logistical infrastructure for a postal sorting center in the United Kingdom. The Postal Automation division increased its profit and earnings margin and won large orders from the United States Postal Service, while the Electronics Assembly Systems division narrowed its loss year-over-year and restored sales growth in its large pick-and-place equipment business on a breakeven basis.

In fiscal 2003, L&A as a whole, sales were 2.600 billion compared to 2.995 billion in fiscal 2002, and orders were 2.599 billion compared to 2.810 billion a year earlier. Excluding the effects of currency translation and portfolio activities, sales were down 4% and orders rose 2% for the year.

Siemens Building Technologies (SBT)

	Change	Year ended September 30, 2003	2002
		(in millions)	
Group profit	(48)%	101	195
Group profit margin		2.0%	3.5%
Total sales	(11)%	4,990	5,619
New orders	(15)%	4,775	5,601

Group profit at SBT was 101 million in fiscal 2003, which included 80 million in severance charges taken to realign the Group s workforce with market conditions. Group profit a year earlier was 195 million. Sales were 4.990 billion compared to 5.619 billion in fiscal 2002, and orders were 4.775 billion compared to 5.601 billion a year earlier. Excluding the effects of currency translation, sales were down 5% and orders were down 9% year-over-year.

Power

Power Generation (PG)

	Change	Year ended September 30, 2003	2002
		(in millions)	
Group profit	(26)%	1,171	1,582

Group profit margin		16.8%	16.7%
Total sales	(26)%	6,967	9,446
New orders	(31)%	7,302	10,586

In fiscal 2003, PG led all Siemens Groups with 1.171 billion in Group profit and a Group profit margin of 16.8%. In fiscal 2003, PG increased the percentage of its revenues and profits coming from services, acquired the industrial turbine businesses of Alstom to complement its existing large turbine business, and further diversified its business base with significant orders in Asia, Europe and the Middle East. The negative demand trend in the United States market continues to affect comparison of PG s sales and orders with prior periods, resulting in 26%

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lower sales for PG overall, or 6.967 billion in fiscal 2003 compared to 9.446 billion in fiscal 2002, and orders of 7.302 billion, down from 10.586 billion. Currency translation effects accounted for seven and four percentage points of the decline in sales and orders, respectively.

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

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

Power Transmission and Distribution (PTD)

		Year ended September 30,	
	Change	2003	2002
		(in millions)	
Group profit	90%	207	109
Group profit margin		6.1%	2.6%
Total sales	(19)%	3,399	4,199
New orders	(19)%	3,586	4,429

In fiscal 2003, PTD delivered 207 million in Group profit generated particularly at its High Voltage and Medium Voltage divisions. Group profit of 109 million in the prior year included a 54 million loss on the sale of PTD s Metering division. Fiscal 2002 also included charges of 34 million primarily for a severance program. Sales of 3.399 billion and orders of 3.586 billion both decreased 19%, impacted by the divestment of Metering and currency translation effects. Excluding the effects of currency translation and portfolio activities, both sales and orders were 2% and 3% lower, respectively, compared to the prior fiscal year.

Transportation

Transportation Systems (TS)

		Year ended September 30,	
	Change	2003	2002
		(in millions)	
Group profit	15%	284	247
Group profit margin		6.0%	5.7%
Total sales	8%	4,697	4,367
New orders	(11)%	4,674	5,247

In fiscal 2003, TS increased its Group profit 15%, to 284 million, despite having to take higher warranty provisions, particularly in the fourth quarter. The Group-wide productivity program also continued to yield results. Sales for the year rose to 4.697 billion, as TS converted large orders from prior years into current business. Orders for the year of 4.674 billion included large new rolling stock contracts in China, England, Norway and Switzerland, as well as major new maintenance contracts in the U.K. The Group s order backlog remained at 11.2 billion, the same level as at the end of fiscal 2002.

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Siemens VDO Automotive (SV)

	Change	Year ended September 30, 2003	2002
		(in millions)	
Group profit		418	65
Group profit margin		5.0%	0.8%
Total sales	(2)%	8,375	8,515
New orders	(2)%	8,375	8,515

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

In fiscal 2003, sales and orders of 8.375 billion were down 2% year-over-year, partly due to SV s third-quarter transfer of its automotive cockpit module business, with annual revenues of approximately 800 million, to an existing joint venture with Faurecia S.A. Excluding this transaction and currency translation effects, both sales and orders at SV rose 8% for the year.

Medical

Medical Solutions (Med)

	Change	Year ended September 30, 2003	2002
		(in millions)	
Group profit	10%	1,118	1,018
Group profit margin		15.1%	13.4%
Total sales	(3)%	7,422	7,623
New orders	(7)%	7,835	8,425

Med increased its Group profit 10%, to 1.118 billion, and its Group profit margin climbed above 15% in fiscal 2003. Innovative new products, particularly for diagnostic imaging applications, again led the way. Group profit in fiscal 2003 benefited also from a 63 million gain related to the contribution of a portion of Med s electromedical systems business to a new joint venture, Dräger Medical, in return for a 35% equity stake. The divestment of the remaining portion of the electromedical systems business, announced in the fourth quarter, did not close until after the close of the fiscal year. Med s sales for fiscal 2003 were 7.422 billion compared to 7.623 billion in fiscal 2002, and orders were 7.835 billion compared to 8.425 billion a year earlier. Excluding currency translation effects, sales rose 7% and orders increased 3% year-over-year, in part due to continued growth in the highly competitive United States market.

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Lighting

Osram

	Change	Year ended September 30, 2003	2002
		(in millions)	
Group profit	12%	410	365
Group profit margin		9.8%	8.4%
Total sales	(4)%	4,172	4,363
New orders	(4)%	4,172	4,363

In fiscal 2003, Osram generated 410 million in Group profit, a 12% increase over 365 million in the prior year, and improved its Group profit margin still further, to 9.8%. The Opto Semiconductors division improved sales and earnings year-over-year and stringent cost containment Group-wide helped offset intense pricing pressure. Sales and orders for fiscal 2003 were 4.172 billion compared to 4.363 billion a year earlier, as the General Lighting division strengthened its market position in the United States and the Group expanded its business in the Asia-Pacific region and eastern Europe. Excluding strong currency translation effects, sales and orders increased 6% year-over-year.

Other Operations and Reconciliation to Financial Statements

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

Other Operations

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

Reconciliation to Financial Statements

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

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

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

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

Financing and Real Estate

Siemens Financial Services (SFS)

		Year ended September 30,	
	Change	2003	2002
		(in millions)	
Income before income taxes	25%	269	216
Total assets	(3)%	8,445	8,681

In fiscal 2003, income before income taxes rose 25% at SFS, to 269 million compared to 216 million a year ago. The Equity division again contributed to higher earnings for the Group, in particular due to equity earnings from an investment in an Indonesian power station. Income before income taxes also benefited from lower provisions and write-offs at the Equipment and Sales Financing division.

Siemens Real Estate (SRE)

		Year ended September 30,	
	Change	2003	2002
		(in millions)	
Income before income taxes	(10)%	206	229
Total sales	(1)%	1,592	1,612

In fiscal 2003, SRE earned 206 million before income taxes compared to 229 million a year earlier, as lower interest costs were more than offset by the effects of lower occupancy rates. Sales edged down 1% to 1.592 billion compared to 1.612 billion in fiscal 2002.

Eliminations, reclassifications and Corporate Treasury

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

Income before income taxes from Eliminations, reclassifications and Corporate Treasury in fiscal 2003 was 266 million, up from a loss of 284 million in the prior year. The improvement in fiscal 2003 resulted from positive effects from Corporate Treasury, due primarily to lower short-term interest rates, a 35 million gain from the buyback of a nominal 1.440 billion of a bond exchangeable into shares of Infineon and net gains from financial instrument transactions not qualifying for hedge accounting. Reclassifications in fiscal 2002 include gains of 936 million resulting from the Infineon share sales, reclassified from gains on sales and disposition of significant business interests to other operating income for Siemens worldwide.

From December 2001 until the second quarter of fiscal 2004, Infineon was accounted for under the equity method. The results of Infineon for the first two months of fiscal 2002, a loss of 115 million, are included in Eliminations, reclassifications and Corporate Treasury.

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LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW FISCAL 2004 COMPARED TO FISCAL 2003

	Year ended September 30,	
	2004	2003
	(in millions)	
Cash and cash equivalents at end of period	12,190	12,149
Cash and cash equivalents at beginning of period	12,149	11,196
Net increase in cash and cash equivalents	41	953

	Operations		Other*		Siemens worldwide	
	Year ended September 30,					
	2004	2003	2004	2003	2004	2003
	(in millions)					
Net cash provided by/(used in):						
Operating activities	4,008	4,123	1,072	1,589	5,080	5,712
Investing activities	(1,523)	(3,655)	(295)	(284)	(1,818)	(3,939)
Financing activities					(3,108)	(487)
Effect of exchange rates on cash and cash equivalents					(113)	(333)
Net increase in cash and cash equivalents					41	953

* incl. SFS, SRE and Corporate Treasury.

In fiscal 2004, Siemens again generated more than 5.0 billion of net cash from operating activities, maintaining a high level of liquidity and flexibility for ongoing operating, investing and financing activities.

Net cash provided by operating activities in fiscal 2004 was 5.080 billion compared to 5.712 billion in fiscal 2003. Net working capital within Operations used cash of 198 million in fiscal 2004 compared to 482 million a year earlier, primarily due to business growth, as well as a shift in customer payment patterns in project-oriented markets such as transportation and energy. For example, ICM had double-digit sales and order growth in fiscal 2004, which is reflected in turn in expanded inventories but also in significantly higher accounts payable compared to fiscal 2003. In the current year, higher inventories at TS were due mainly to the use of advance project payments not being replenished with current payments from orders. Lower sales resulted in accounts receivable decreases at ICN and PG in the prior year. In fiscal 2003 at PG, a decrease in other current liabilities was due to lower advance payments on large orders. Both years included cash used to reduce the underfunding of Siemens pension plans, including supplemental contributions of 1.255 billion and 1.192 billion in fiscal 2004 and 2003, respectively. In fiscal 2003, when exchange rate fluctuations included a major change in the euro relative to the U.S. dollar, Corporate Treasury activities undertaken to manage Siemens exchange rate exposure provided more than 1 billion to net cash from operating activities, primarily related to intercompany financing. In fiscal 2004, effects from exchange rate fluctuations for Siemens were far more moderate.

Net cash used in investing activities in fiscal 2004 was 1.818 billion compared to 3.939 billion in fiscal 2003. The change year-over-year is primarily due to 1.794 billion in proceeds from the sale of Infineon shares in fiscal 2004. Cash used for acquisitions and purchases of investments totaled 1.851 billion, near the level of 1.791 billion a year earlier but weighted toward acquisitions of businesses within Operations

in fiscal 2004. For example, the current year included 822 million for the acquisition of USFilter, representing a strategic entry into the U.S. water systems and service market by I&S. Other acquisitions included BBC Technology in the U.K. (SBS), Trench Electric Holding B.V. (PTD) and a U.S. automotive electronics business (SV). Fiscal 2003 included PG s acquisition of Alstom s industrial turbine businesses for 929 million, along with higher purchases

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of investments and marketable securities. The higher level of cash used in investing activities in the Financing and Real Estate component reflects asset growth in the financing business at SFS in fiscal 2004.

Net cash used in financing activities in fiscal 2004 was 3.108 billion compared to 487 million in fiscal 2003. The primary difference between the periods was 2.5 billion in proceeds from the issuance of notes convertible into Siemens shares in fiscal 2003. Both periods included repurchases of notes exchangeable into Infineon shares, contributing to repayments of debt totaling 1.564 billion in fiscal 2004 and 1.742 billion in fiscal 2003. Dividend payments of 978 million in fiscal 2004 were higher than in fiscal 2003.

CASH FLOW FISCAL 2003 COMPARED TO FISCAL 2002

	Year ended September 30,	
	2003	2002
	(in millions)	
Cash and cash equivalents at end of period	12,149	11,196
Cash and cash equivalents at beginning of period	11,196	7,802
Net increase in cash and cash equivalents	953	3,394

	Operations		Other*		Siemens worldwide	
	Year ended September 30,					
	2003	2002	2003	2002	2003	2002
	(in millions)					
Net cash provided by/(used in):						
Operating activities	4,123	4,277	1,589	1,287	5,712	5,564
Investing activities	(3,655)	(250)	(284)	(560)	(3,939)	(810)
Financing activities					(487)	(859)
Effects of exchange rates and deconsolidation of Infineon in fiscal 2002 on cash and cash equivalents					(333)	(501)
Net increase in cash and cash equivalents					953	3,394

* incl. SFS, SRE and Corporate Treasury.

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

Net cash used in investing activities within Operations was 3.655 billion in fiscal 2003. Expenditures for intangible assets and property, plant and equipment were 2.468 billion, 681 million lower than in the previous fiscal year. Cash outflows for acquisitions in fiscal 2003 include 929 million for the purchase of the industrial turbine businesses of Alstom. Purchases of investments and marketable securities include an aggregate 599 million for the acquisition of various debt and fund securities. Total outlays within Operations for investments and marketable securities were 841 million. Net cash used in investing activities within Operations

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in fiscal 2002 was 250 million. Cash used for acquisitions in fiscal 2002 was 3.787 billion which included a 3.657 billion payment to complete the Atecs-Mannesmann acquisition initiated in fiscal 2001. Proceeds from sales and dispositions of businesses in fiscal 2002 totaled 6.097 billion, including sales of businesses related to Atecs including Rexroth AG and Mannesmann Sachs AG, as well as the sale of a portfolio of businesses to KKR. Other dispositions included the sale of Unisphere Networks, Inc. and the Hydraulik-Ring business of SV. Fiscal 2002 also included proceeds of 1.522 billion related to sales of shares of Infineon.

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

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

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

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

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

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