SIEMENS AKTIENGESELLSCHAFT
Form 20-F
December 06, 2002

Table of Contents

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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

OF THE SECURITIES EXCHANGE ACT OF 1934 o

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2002. þ

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________. o

Commission file number: 1-15174

Siemens Aktiengesellschaft

(Exact name of Registrant as specified in its charter)

Federal Republic of Germany

(Jurisdiction of incorporation or organization)

Wittelsbacherplatz 2

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

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

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

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

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

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

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

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

Yes þ No o Not applicable o

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

Item 17 o Item 18 þ

TABLE OF CONTENTS

Table of Contents

TABLE OF CONTENTS

FORWARD LOOKING STATEMENTS

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

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

PART I

Item 1: Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2: Offer Statistics and Expected Timetable

Not applicable.

Item 3: Key Information

Selected Consolidated Financial and Statistical Data

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

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

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

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

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

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

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

Table of Contents

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

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

Income Statement Data

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

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

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

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

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

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

Table of Contents

Balance Sheet Data

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

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

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

Dividends

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

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

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

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

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

Exchange Rate Information

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

Table of Contents

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

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

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

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

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

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

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

Risk Factors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

invest are unsuccessful. Siemens evaluates such financing requirements on a very selective basis and has forgone and will continue to forgo new business contracts if the financing risks are not justifiable.

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

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

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

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

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

Table of Contents

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

Item 4: Information on the Company

Overview

History and Strategy

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

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

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

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

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

Table of Contents

The five major action areas of Operation 2003 include:

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

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

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

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

Atecs Mannesmann:

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

Table of Contents

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

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

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

Infineon Technologies AG:

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

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

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

Other dispositions:

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

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

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

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

We will continue to concentrate on expanding our business with services related to products, solutions and projects. Three of our groups, Power Generation, Medical Solutions and Transportation Systems have already

Table of Contents

been successful with this strategy. For example, in the past year, all of our significant power plant and rail transportation orders were combined with maintenance and service contracts.

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

Corporate Structure

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

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

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

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

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

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

Table of Contents

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

Table of Contents

Information and Communication Networks (ICN)

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

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

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

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

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

Our Wireline Networks products include the following:

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

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

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

The SURPASS architecture enables us to provide our customers with a broad range of cost-saving and revenue-generating solutions. Our IP-based local switch introduces local switch functionality into the next-generation Internet. Virtual trunking provides carrier-grade telephone services over IP with complete network services and features. Carrier-grade means that all single system components and the network as a whole are designed so that their proven reliability exceeds 99.99%. For multimedia applications, we provide open application programming interfaces to members of our SURPASS partner program, we SURPASS. This allows we SURPASS partners to develop features and applications that enhance the value of SURPASS for its users.

On July 1, 2002, we sold the bulk of our Unisphere Networks division to Juniper Networks of Sunnyvale, California, and in partial consideration acquired approximately 10% of Juniper Networks. We retained Unisphere s voice convergence portfolio (softswitch, media gateway), which is an integral component of the Siemens SURPASS family of next generation networking products. We also entered into an agreement with Juniper Networks for sales and R&D, under which we became a global reseller of all of their IP routing products and solutions. Their comprehensive portfolio of IP routing products is designed to ensure a high level of service quality in the IP backbone and to provide optimal support for our SURPASS network systems.

During the fiscal 2002, we also included our network systems business in the United Kingdom, France and Italy in the portfolio of business activities sold by Siemens to a private equity investor, effective September 24, 2002. See Item 5: Operating and Financial Review and Prospects Fiscal 2002 Compared to Fiscal 2001 Acquisitions and Dispositions.

Our *Enterprise Networks* division provides comprehensive communication products and solutions for enterprises, government agencies and other organizations. Its product and service portfolio is based on ICN s new enterprise convergence architecture, called HiPath®. This architecture contains:

- a comprehensive range of communications platforms, harmonized and optimized for the needs of enterprises of all sizes, together with any required applications, as well as features to address the mobility needs of employees, and interaction between different sites;

- a rich offering of workpoints such as time division multiplexing (TDM) and IP phones and software-based telephone applications for personal computers, suitable for use in both circuit- and packet-switched environments;

- portable applications for customer relationship management and mobile office environments, including unified messaging, which permits the delivery of messages through multiple communication channels such as voice mail and e-mail;

- technology consulting, design and implementation services intended to provide system integration, maintenance and optimal performance for all solution components; and

- network security products, systems and services, which are of increased importance for enterprise customers, including tailor-made security systems featuring security analyses, integration and training in order to provide maximum security, confidentiality and integrity for our customers data transmissions and communications.

We provide IP convergence products and services that are based on standard interfaces and are therefore designed for a wide range of information and communication infrastructures. These products and solutions integrate information from both voice and data networks in areas such as customer relationship management and multimedia messaging and may be deployed across different platforms, including communication servers or on personal computer workstations allowing them to receive voice and fax as well as e-mail communications. An important customer relationship management application is the integration of media other than telephones such as fax, Internet and video into existing call center systems.

Enterprise Networks operates globally and has installed products and systems for customers in more than 160 countries. We serve our customers with system installation, systems integration, maintenance, consulting and training services worldwide through local Siemens companies and a growing number of independent distributors.

Our *Optical Networks* division provides end-to-end solutions to telecommunication operators that carry voice and data over long distances using optical or electrical transmission. The technologies applied include dense wave division multiplexing (DWDM), synchronous digital hierarchy (SDH) and time division multiplexing (TDM), as well as a proprietary software management system for DWDM, SDH, IP and third-party network elements. Our DWDM systems are developed for long-span transmission with ultra-high capacity and equipped with all optical add drop multiplexing (OADM), which permits operators to dispense with the use of costly electro-optical converters. Our SDH solutions provide reliable transport of voice and data signals in communication networks so that growing Ethernet and Internet traffic can be integrated into approved network solutions and handled with high efficiency. We provide our customers with system installation, systems integration, maintenance, consulting and training services worldwide.

Access Solutions provides products and solutions that upgrade the last mile of public telephone networks to carry not only voice but data requiring very high bandwidth. The last mile refers to that part of the telephone network between a home or a business and the first network switching system the home or business is connected to. The last mile is often a copper wire originally intended solely for voice transmission.

Access Solutions offers a comprehensive line of hardware and software products for both customer premises and central office equipment. The products provide the following benefits to customers:

- a smooth migration from narrowband to broadband;
- end-to-end operability and ease of installation;
- a clear roadmap for the transition from circuit-switched to packet-switched voice transmission; and
- simultaneous delivery of voice, video and data services over a complete suite of access networking technologies.

Our line of broadband access products is based primarily on asymmetric digital subscriber line (ADSL) technology. Our U.S. subsidiary, Efficient Networks, is a leading provider of DSL broadband access equipment in the United States and offers a complete line of customer premises equipment. Our ADSL technology now comprises broadband access products such as the XpressLink Digital Subscriber Line Access Multiplexer (DSLAM) and the SpeedStream series of customer premises equipment products, which provide high data rate transmission and enable local exchange carriers to enter the market for broadband Internet access by reusing their high investment in the last mile of copper wires to the home. In addition, we offer wireless access solutions that enable new market entrants to bypass the last mile of copper wires. In fiscal 2002, the broadband access market, particularly in the United States, continued to be characterized by weak demand and heightened competition, which had a negative impact on our sales, earnings and cashflows. See Item 5: Operating and Financial Review and Prospects Fiscal 2002 Compared to Fiscal 2001 Segment Information Analysis Operations Information and Communications.

Beginning November 1, 2002, in order to optimize costs and to strengthen our sales and product development efforts, we further streamlined our organization by combining the product offerings of the Wireline Networks, Optical Networks and Access Solutions divisions into a new division named Carrier Networks. Services will be similarly merged and organized in a new division named Carrier Services. As a result, our business now consists of these two new divisions together with the existing Enterprise Networks division.

All of ICN s divisions offer services including network planning, maintenance and consulting services.

ICN operates its own sales force in Germany and uses dedicated personnel in Siemens worldwide network of regional sales units. Some of our more significant carrier customers include Deutsche Telekom, China Telecom, SBC, Telecom Italia and Telefonica, while our larger non-carrier customers include Coca Cola, Volvo, Deutsche Bank, Allianz and IBM. In spite of declining markets, 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 one customer who contributed between 5% and 10% of total sales in fiscal 2002. No other customer contributed more than 5%.

Table of Contents

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. See Item 5: Operating and Financial Review and Prospects Customer Financing below.

The following chart shows the geographic distribution of ICN s total sales in fiscal 2002:

ICN 2002 Total Sales by Region

Our global network of manufacturing sites and operation centers helps us develop products to meet local requirements. We have approximately 22 significant sites spread throughout the world, with 14 in Europe, including two in Germany.

In fiscal 2002, we spent 1.154 billion, or 11.96% of ICN total sales, on research and development, compared to 1.307 billion, or 10.1% of total sales, in fiscal 2001. Our recent product introductions and research and development efforts reflect our focus on next generation switching/IP convergence, next generation access and next generation optics. In the field of convergence, we continue to develop and refine our HiPath brand network products, which allow real-time voice and multimedia communications over local area networks, as well as our SURPASS brand, a carrier-grade network solution, that allows real-time voice and multimedia communications in public service provider networks.

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 ease market entry. A typical example is our Beijing International Switching Systems (BISC) joint venture. BISC manufactures our EWSD product line for delivery to the Chinese market. Siemens holds a 40% stake in BISC. Our partners are the Beijing Telecommunications Administration, Beijing C&W Electronics Group and Beijing Comprehensive Investment Company.

The worldwide communications industry continues to change in important ways:

Growth in data communications traffic. The growth of the Internet, company-based intranets and local area computer networks as means of transmitting information require networks that can carry large amounts of different types of information at high speeds.

Convergence of data, voice and video communications. With the blurring of distinctions between voice, data and video information in the form of digital transmission, there is a growing trend towards carrying all information over a single high-speed network able to handle large amounts of digital traffic, rather than through separate voice and data networks. This trend has been accompanied by higher traffic volatility within networks, which increasingly require systems that can manage such volatility automatically.

Deregulation of communications markets and privatization of communications providers. Throughout the world, governments have been deregulating communications markets and opening them to competition, as well as selling their stakes in state-owned communications providers. This trend originally led to higher investments in communications networks by new or newly private companies, as well as more rapid development of new communications products and applications. More recently, however, the inability of many carriers, especially new entrants, to increase revenues at anticipated rates has combined with financing constraints to reduce overall levels of network investment.

In response to these trends, ICN has focused its strategy on packet-switched network technology providing network solutions to our customers based on IP and designed to transport voice, video and data over a cost-

Table of Contents

efficient, future-oriented platform. For new entrants to the telecommunications market we offer consulting services, innovative products and, in cooperation with Siemens Financial Services, vendor financing.

Changes in the worldwide communications industry over the past several years continue to have an impact on our competitive environment. Like us, traditional voice communications competitors such as Alcatel, Lucent and Nortel have expanded their data communications activities. Conversely, companies such as Cisco Systems, which formerly focused on intra-company data networks, have in recent years acquired voice communication capacity and have begun to provide products and services to carriers. In addition to the companies mentioned above, other major competitors include Ericsson, Fujitsu and NEC. We also expect increasing competition from new entrants, for example Huawei from China. In the enterprise market, established PBX suppliers (PBX stands for private branch exchange, a telephone switching platform for private customers) have begun to focus on IP convergence solutions, and new IT providers have entered the market with the first versions of real-time communication and multimedia platforms.

For ICN, market conditions continued to deteriorate in fiscal 2002, due largely to the ongoing downturn in capital expenditures among telecommunications operators, particularly in the United States and Germany. The demand for voice over IP and multimedia applications in the enterprise market has also been lower than anticipated. Given these difficult market conditions, ICN s orders declined by approximately 31% in fiscal 2002.

In response to these market conditions, ICN has undertaken comprehensive adjustments to its cost structure and business portfolio and intensified its efforts in working capital management. We are continuing to implement our Profitability and Cash Turnaround (PACT) Program, begun in fiscal 2001, which is aimed at improving management of working capital, cutting costs, reducing personnel, consolidating our worldwide manufacturing structure and optimizing portfolio management. In connection with our PACT Program, we are proceeding toward the goals of reducing our overall worldwide headcount by 20,500 and cutting our worldwide manufacturing capacity by approximately half. See Item 5: Operating and Financial Review and Prospects Fiscal 2002 Compared to Fiscal 2001 Segment Information Analysis Operations Information and Communications.

The large size of some of our projects occasionally exposes us to risks associated with technical performance, a customer, or a country. See Long-Term Contracts and Contract Losses. In the recent past, we have not suffered significant losses in connection with such risks.

Information and Communication Mobile (ICM)

	Year ended September 30, 2002
Total sales	11.045 billion
External sales as percentage of Siemens net sales	12.99%
EBIT	96 million
Net capital employed	1.973 billion
Employees	29 thousand

Information and Communication Mobile designs, manufactures and sells a broad range of communication devices, applications and interfaces, and mobile network products and systems including mobile, cordless and corded fixed-line telephones and radio base stations, base station controllers and switches for mobile communications networks as well as mobile and intelligent network systems. Since its formation in fiscal 2000, ICM has become one of the world s leading providers of mobile devices and mobile infrastructure.

Our structure comprises five divisions: Mobile Phones, Cordless Products, Wireless Modules, Networks and Solutions.

Mobile Phones: We offer digital mobile phones in GSM 900, 1800 and 1900 MHz as well as in GPRS technologies for all customer segments. In addition, we offer mobile phones with combined GSM and time division multiplexing access (TDMA) technology. We build our major mobile phone products from a common platform 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 such as smart phones and wireless PDAs. The core of our sales come from medium- and lower-priced phones designed for the consumer market.

During fiscal 2002, we launched a variety of new products, including: the S46, designed for the United States market and our first mobile phone to combine GSM and TDMA technology; the M50/MT50, a mid-class Java-based gaming phone with magic buttons for direct access to applications and services; the A50, a phone for the low-end segment that supports enhanced messaging service (EMS), which allows the transmission of very long short messaging service (SMS) messages and specific graphics; the CL50, created for the Asian market with a clamshell design, a polyphonic sound chip and dual display; and the C55, our first phone that can be completely personalized, with recordable sounds, CLIPit covers, smart screen images and community building applications (such as instant messaging finders, friend finders and event guides). We sold 33.3 million mobile handsets in fiscal 2002, compared with 28.7 million mobile handsets in fiscal 2001. ICM is among the leading vendors of mobile phones worldwide, based on market share data as of June 30, 2002 (Source: Gartner Dataquest, November 2002).

Since the end of fiscal 2002, in order to take advantage of the shift to GSM wireless networks in the United States, we have launched several new phones tailored for the United States market: the A56, designed to meet everyday communication needs; the M46, which offers personalization options and JAVA technology, and which will be marketed exclusively through T-Mobile US (Voicestream); two new models that offer consumers expanded entertainment options, the CT56, which we designed for Cingular Wireless, and the C56; and the S56, which has a color display, Multi Media Messaging (MMS) capability, Bluetooth technology and an attachable camera. In addition, Siemens and AT&T are now co-branding the SX56, a combination phone and pocket personal computer already available in the United States. We have also announced the launch of the Asian and European counterparts of the S56 (the S57 and the S55, respectively).

In addition, we recently shipped our first third generation (3G) consumer product, the U10, to selected operators for testing in connection with 3G network trials. The U10 is the first product to result from our technical collaboration with Motorola described below.

Currently, we rely on Infineon and Intel as significant suppliers of semiconductors and other components for mobile handsets.

Cordless Products: Our cordless products portfolio, based on digitally enhanced cordless technology (DECT), covers the entire range of products for the consumer, home office, and small business segments.

In fiscal 2002, we launched the newest member of the Gigaset 4000 family, the Gigaset H49xx, which allows wireless home networking with higher data rates. Cordless Products has also played an important part in the introduction of standardized SMS protocols for the fixed network in Europe.

Wireless Modules: Our Wireless Modules division produces communication modules based on the GSM standard. We have also developed communications modules based on the GPRS standard, including the first dual-band 900/1800 MHz GPRS class 8 Module MC35, which came on the market in October 2001, and the newer class 10 Module, offering an increased data rate. Our communication modules 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.

Networks: The Networks division provides wireless network operators with a complete range of products for building, expanding, and enhancing GSM, GPRS and UMTS (W-CDMA, TD-SCDMA) mobile network technologies as well as microwave networks. The division s product portfolio includes base stations and switching systems for mobile communications networks and microwave technology systems for faster and more cost-effective network rollout. Additionally, the division offers hardware and software platforms that enable the delivery of prepaid, payment and location-based services. Based on estimated market share at September 30, 2002, our Networks division is among the leading global providers of GSM networks and prepaid services.

ICM s current mobile network products, systems and solutions are designed to support the GSM standard and GPRS and EDGE technology, as well as an entirely new generation of ICM products based on the international UMTS standard (3G). UMTS offers faster and more reliable transmission of voice, data and multimedia communications over mobile phones through higher efficiency and speed of radio transmission. These new types of mobile network 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 currently involved in 18 contracted 3G network projects. Despite the uncertainty surrounding the timing of the buildout and deployment of UMTS networks, we believe we are well positioned in the European UMTS market at this early stage. We are currently working on the rollout of W-CDMA infrastructure in several Western European markets.

Solutions: This division offers its customers the integration of mobile applications and content packages. The Solutions division focuses on customized solutions in the areas of multimedia streaming, messaging, Java download services and location-dependent services, which use the Networks division s platforms as well as third-party technology platforms to provide applications tailored to customer needs. The division provides these solutions in conjunction with a comprehensive partner program, including a strategic partnership with PacketVideo, a leading global provider of videostreaming technology. In addition, we offer first-class messaging solutions together with our strategic partner Openwave. Our main customers are mobile network operators, and also mobile internet service providers. We offer them customized solutions including project-driven design, integration and hosting services.

Fujitsu Siemens Computers, ICM s 50% joint venture with Fujitsu headquartered in Amsterdam, has manufactured and marketed personal computers, laptops, workstations, servers, mainframes and high capacity data storage devices since 1999. The Managing Board has determined that the operations of this joint venture do not fit within the product portfolio of ICM. Accordingly, as of October 1, 2002, the 50% joint venture investment in Fujitsu-Siemens was transferred from ICM and is now managed as a centrally-held investment to allow Siemens to assess its options with respect to the strategic direction of the joint venture.

In July 2001, we established Siemens Mobile Acceleration GmbH to make strategic investments in start-up companies in the mobile business field. Our Networks division has continued to be involved in its joint venture Mobisphere, located in the United Kingdom, to develop 3G mobile radio infrastructure elements. Siemens holds a 51% stake in Mobisphere, while NEC of Japan holds 49%.

In fiscal 2002, our Mobile Phones division established collaborative relationships with Nokia, Motorola and Symbian. These include the following:

In May 2002, we agreed with Nokia on a framework for the implementation of mobile terminal software based on open standards, with the goal of achieving maximum interoperability between mobile devices and applications. In addition, our Mobile Phones division has licensed the Nokia Series 60 software platform, which is designed to be one of the main software standards for smart phones and next generation handsets, and started working with Nokia on its further development.

Motorola has agreed to provide our Mobile Phones division with specially customized versions of its 3G terminals for use in its handsets. Our Mobile Phones division has also agreed to develop its own mainstream UMTS terminals using Motorola s i.300 Innovative Convergence 3G platform.

We have also acquired a 5% stake in Symbian, a joint venture involving wireless industry leaders, such as Nokia, Ericsson, Matsushita, Motorola, Psion and Sony Ericsson for the development of open standard operating systems, to promote smartphones based on Symbian operating systems and to contribute our experience to the future technical, product and strategy development of Symbian operating systems.

Other collaborative ventures include our Solutions division s strategic partnerships with PacketVideo, a leading global provider of videostreaming technology, and our Networks division s Original Equipment Manufacturing (OEM) agreement with Idetic, an innovative mobile Internet company. ICM is also a member of OMA, the Open Mobile Alliance, which is a standardization body for mobile applications. OMA has approximately 230 member companies covering the entire value chain of the mobile telecommunications business: mobile operators, wireless vendors, IT vendors and content/service vendors. OMA s goal is the creation of an open mobile software and services market through the global standardization of mobile services architecture.

In fiscal 2002, we spent 1.231 billion, or 11.1% of ICM s total sales, on research and development, compared to 1.257 billion, or 11.1% of total sales, in fiscal 2001. In addition to our significant long-term development efforts in UMTS, we have focused development efforts on GPRS and EDGE technology. We are also continuing our collaboration with the China Academy of Telecommunications and Technology, particularly with respect to air interface standards (TD-SCDMA).

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.

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

In fiscal 2002, we made progress in building our North American customer base as network providers in the United States shift to GSM technology. The Networks division made a significant entry into the United States market with a large order from Cingular. The Mobile Phones division has added AWS (AT&T Wireless), T-Mobile US (Voicestream), and Cingular as its major customers.

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. See Item 5: Operating and Financial Review and Prospects Customer Financing.

Our products and services are sold through our own sales units in over 70 countries, as part of Siemens worldwide network of regional sales units.

The following chart shows the geographic distribution of ICM s total sales in fiscal 2002:

ICM 2002 Total Sales by Region

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

With increasing mobile phone penetration and the maturing of the GSM network market, the markets for mobile phones and wireless network products have continued to suffer, particularly in Europe. In fiscal 2002, as in fiscal 2001, demand for mobile phones was impacted by unfavorable economic conditions and saturation, and the industry suffered from excess inventories, oversupply and significantly reduced market prices for mobile handsets. Demand in the wireless network market declined significantly in fiscal 2002, and we currently expect a further decline in the current fiscal year. The prospects for stabilization and recovery in both the mobile phone and network markets will depend on various factors, including: the timing and rate of investment in third-generation (UMTS) infrastructure and products, the timing and success of the commercial launch of 3G products and services and their widespread acceptance by consumers, and a general improvement in consumer confidence. These developments remain problematic, in part due to uncertain worldwide economic conditions and the severe financial constraints to which many wireless network providers are subject.

Table of Contents

In response to these difficult market conditions, ICM initiated various cost-cutting programs in fiscal 2001 and has continued to execute them in fiscal 2002. Our Mobile Phones division has reduced its inventories significantly and instituted cost-cutting measures so as to restore its profitability in fiscal 2002. We also outsource a portion of our mobile phone production to third parties. Our Top on Air program, an additional program to reduce costs, including headcount reductions, has been implemented at our Networks division in fiscal 2002. We will continue the program in fiscal 2003 in order to further reduce our costs and adjust to the ongoing challenges of the market environment. See Item 5: Operating and Financial Review and Prospects Fiscal 2002 Compared to Fiscal 2001 Segment Information Analysis Operations Information and Communications.

On an ongoing basis, demand for our products, systems and solutions depends on continuing growth in communications and information technology use in the areas and standards we serve. The mobile phone industry is in transition from a voice-centered market to one that includes significant data services, and future demand for wireless equipment may depend on the availability and acceptance of such data services, as well as worldwide economic conditions. Demand for wireless equipment will continue to be affected by the financial constraints facing most telecommunications operators, especially in Europe, which limit their ability to invest in wireless infrastructure. Demand for our mobile and cordless phone products also typically fluctuates by season, with most of our sales historically occurring around the Christmas holidays. Due to generally short product life cycles in our mobile handset and personal computer 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 handset and network telecommunications manufacturers and computer companies with a broad focus as well as smaller start-up companies concentrating on particular market niches. Although competition differs by type of product, consolidation in this industry is occurring rapidly as companies adjust to address the increasing convergence of voice, data and multimedia communications. Some of our most significant competitors include Nokia, Motorola, Lucent Technologies, Nortel, Ericsson, Sony-Ericsson and Samsung in mobile phones and mobile networks and Matsushita, Atlinks, Panasonic and VTech in other digital communications products. In mobile networks we are beginning to face new low-cost competitors, such as Huawei of China. In mobile phones Nokia and Microsoft have begun licensing their open standard operating systems to other handset manufacturers that compete with us. As a general matter, the most important competitive factors in our business include speed in technological innovation and product design, the ability to design products compatible with the existing dominant standards, the ability to manufacture products in sufficient quantities to meet demand and the ability to attract and retain engineering talent necessary to develop products for emerging standards.

Several recent or proposed governmental actions may have an impact on our sales and costs. These include the harmonization of consumer warranty periods at 24 months in member states of the European Union (EU), which doubles the length of the warranty period in Germany; the possible establishment in the EU and other major markets of limits on the Specific Absorption Rate or SAR for hand-held phones and other devices (the SAR is a measure of the rate at which radio frequency energy is absorbed by the body); and possible environmental regulations, especially in Europe, concerning the disposal of used electronic equipment and the reduction of hazardous waste. See Environmental Matters. At present, it is too early to tell what impact these developments might have on our sales or profitability.

Siemens Business Services (SBS)

	Year ended September 30, 2002
Total sales	5.773 billion
External sales as percentage of Siemens net sales	5.01%
EBIT	101 million
Net Capital Employed	264 million
Employees	34 thousand

Siemens Business Services provides information and communications services to customers in industry, the public sector, telecommunications, transport, utilities and financial services. SBS designs, builds and operates

Table of Contents

both discrete and large scale information and communications systems, and provides related maintenance and support services.

Siemens established SBS in 1995 to provide information technology services to Siemens and build external business. SBS became a separate segment of Siemens in October 1998. SBS has expanded its activities to encompass the design and building of information technology systems, initially for Siemens and increasingly for external customers, who now account for approximately 73% of total sales. SBS has also expanded into the operation of communications systems to provide comprehensive information technology and communications solutions from a single source. We create these solutions for customers by drawing on our management consulting resources to redesign customer processes, our professional services to integrate, upgrade, build and install information technology systems, and our operational capabilities to run these systems on an ongoing basis. In fiscal 2002, we generated approximately 32% of our total sales from our project-driven solutions business, 46% from operations-related services and 22% from product-related services.

In fiscal 2002, we reorganized our divisions from a regional-oriented structure to one that reflects the types of services we offer: project-driven solutions, operations-related services and product-related services. This structure continues to be supported by a regional organization according to geographic area.

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

- customer relationship management, to assist business 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 s 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 and 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 in different industries; SBS tailors standard software packages to a customer s requirements to create a solution, optimizes it, makes it available throughout the enterprise and offers global, around-the-clock support for it; 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.

Most of the design and consulting services provided by our consultants relate to information technology and communications systems that we also build or operate. As required by the customer, in a information technology outsourcing arrangement we can operate an entire information technology system or provide only one or more discrete services, from data storage and processing to billing. We also provide technical support and maintenance of existing information and communication systems. Going forward, SBS will focus its outsourcing activities on its IT core competencies. SBS is a partner of SAP, Microsoft, Siebel, i2 Technologies, Oracle, Toshiba and Computer Associates and can design and build systems and provide services using their software.

Our group s focus is on industry (including Siemens), the public sector, telecommunications, transportation, utilities and financial services. Siemens businesses collectively continue to be our largest customer. Nevertheless, the percentage of our revenue derived from Siemens has declined, due in part to market conditions, which have led to a general decline in IT budgets across all Siemens business segments, and in part to the deconsolidation of Infineon. Although we compete with external service providers for all Siemens contracts and each Siemens business segment 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.

SBS is active worldwide in more than 50 countries. We have traditionally generated most of our sales in Germany, followed by a significant percentage of sales to European countries outside Germany. SBS has its own sales and delivery force, as well as relationships with local companies that act as dedicated delivery partners in certain smaller countries.

The following chart shows the geographic distribution of SBS s total sales in fiscal 2002:

SBS 2002 Total Sales by Region

Continuing weakness in the IT services market, and in the e-business sector in particular, has reduced demand across our market segments. In response, we continue to concentrate on improving our profitability through cost-cutting measures, including adaption of capacity, primarily through work-hour reductions and limitations on personnel outsourcing, as well as several programs intended to enhance our operational efficiency. See Item 5: Operating and Financial Review and Prospects Fiscal 2002 Compared to Fiscal 2001 Segment Information Analysis Operations Information and Communications.

Our most significant competitors vary by region and type of service. A few are global, full-service IT providers of 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 AG, in Germany and Atos/Origin in France and the Netherlands. Those focusing on a particular service include Accenture (formerly Andersen Consulting) in consulting, Cap Gemini/E&Y in systems integration and Affiliated Computer Services in outsourcing. As a service business, SBS needs a strong local presence and the ability to build close customer relationships and provide customized solutions while achieving economies of scale and successfully managing risks in large projects.

Difficult market conditions have led to a consolidation among our larger competitors, as reflected by the following developments: the acquisition of PwC Consulting by IBM s Global Services division, the acquisition of KPMG Consulting s United Kingdom and Netherlands businesses by Atos/Origin, and the merger of Hewlett-Packard with Compaq. In addition, many recently founded companies have either become marginal competitors or gone out of business. Nevertheless, the markets in which we operate remain fragmented.

The large size of some of our projects occasionally exposes us to technical performance, customer or country-related risks. In the recent past, we have suffered significant losses in connection with such risks. Risks associated with long-term business process outsourcing contracts also remain a management focus at SBS. See Long-Term Contracts and Contract Losses.

Table of Contents

Automation and Drives (A&D)

	Year ended September 30, 2002
Total sales	8.635 billion
External sales as percentage of Siemens net sales	8.84%
EBIT	723 million
Net capital employed	2.197 billion
Employees	51 thousand

Our Automation and Drives group is a market leader for 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, which link products and systems together and to building automation 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 automobile 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. Recent product introductions include a motor whose winding made of high-temperature superconducting materials enables energy-efficient operation over long time periods.

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.

In all of our business groups, we supply consulting, design and support services to our customers, both independently of 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.

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 offices. For example, we reach customers for 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 products tailored to specific industry segments, thus increasing efficiency in the planning, construction and commissioning of plants. 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% of our total sales in fiscal 2002. Since a portion of our business involves contracts for large scale automation solutions, our list of significant customers may vary significantly from year to year.

The following chart shows the geographic distribution of A&D s total sales in fiscal 2002:

A&D 2002 Total Sales by Region

We have 53 significant manufacturing and assembly locations around the world, including 22 in the Americas, nine in Asia, and 22 in Europe, of which eleven are located in Germany.

In fiscal 2002, we spent 511 million, or 5.92% of A&D s total sales, on research and development, compared to 498 million, or 5.6% of total sales, in fiscal 2001. 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 usability of our products; and enlarging the field of our activities.

Worldwide economic conditions have deteriorated over the past year, causing a sharp drop in investment in machinery and equipment. This development had a negative effect on our sales volumes and order intake. Our business activities in the United States have experienced the most significant decline, following a downward trend in the North American automotive and machinery sectors where a large number of our customers is concentrated. Our European business was less severely affected because the European automotive industry was able to better withstand the market downturn due to favorable exchange rates and strong product portfolio.

An important goal in light of current economic conditions is sales growth in our traditional markets in Germany and Western Europe and continued expansion in 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 this regard, we have reduced headcount at our U.S. operations, consolidated production facilities and shifted production to lower cost locations. We have also optimized our portfolio through disposal of low-margin and non-core operations during fiscal 2002, such as the sale of Elmo Vacuum Technology GmbH, a company specializing in vacuum pumps and compressors. See also Item 5: Operating and Financial Review and

Over the last several years, consolidation in our industry has occurred 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 form comprehensive automation suppliers. The rate of consolidation has slowed due to the economic downturn, however, which has compelled some competitors to divest parts of their businesses.

Intense competition and rapid technical progress within this 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 circuitry. We estimate that approximately 75% of our total sales in fiscal 2002 was generated by products that were introduced within the last five years.

Our principal competitors ABB, Emerson, Honeywell, Rockwell and Schneider have broad business portfolios similar to ours. We also compete with specialized companies such as Eaton, Omron and Fanuc. Our U.S. competitors traditionally have had strong positions in software technologies, while some Japanese companies have generally focused on large-scale production and cost cutting. 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, 2002
Total sales	4.480 billion
External sales as percentage of Siemens net sales	4.02%
EBIT	(198) million
Net capital employed	315 million
Employees	29 thousand

Industrial Solutions and Services provides innovative solutions and services designed to enable our customers to improve their competitiveness. Our offerings cover the entire life cycle of industrial and infrastructure facilities, from consulting and planning through installation, operation, integration of IT-solutions, maintenance and modernization.

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.

Table of Contents

In fiscal 2002, I&S was organized into six divisions. Four of our current divisions use their industry-specific expertise to design and deliver industry sector solutions tailored to customers needs in the industry sectors listed below:

Metals, Mining and Paper Technologies provides 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.

Oil & Gas and Water Technologies offers solutions for off- and onshore operations of the oil and gas industry, including power- and integrated drive systems, automation, process control and information technology. In this industry, our solutions and services address both upstream exploration as well as midstream transportation and pipeline activities. In the water/wastewater sectors, our offerings range from industry specific solution packages (e.g., process simulation) to supplying the entire spectrum of automation, process control, drive systems and electrical equipment for plants.

Infrastructure and Marine Solutions provides automated airport ground traffic guidance and control systems and the electrical equipment used in seaport freight handling systems. We also deliver propulsion drives and integrated electrical systems for ships as well as fuel cells for submarines. In addition, we provide alternative power solutions such as combined heat and power plants. We also specialize as a general contractor for large- and medium-sized wind farms.

Intelligent Traffic Systems offers automated systems for urban and interurban 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 other two divisions complete our scope by providing IT solutions and life-cycle services.

Industrial Services is our largest division, typically accounting for over half of I&S total sales. It is responsible for our *industrial technical services* activities, providing a wide range of technical services covering each stage of the life cycle 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 also provide plant decommissioning services. We are active globally on a local basis through a network of about 300 service locations in more than 90 countries with nearly 21,000 employees. Our strong local presence allows us to be close to our customers, increasing speed and efficiency in delivering our services.

IT Plant Solutions is our division responsible for *information technology plant solutions.* It provides high value-added solutions for the growing market in advanced industrial information technology and industry-specific manufacturing execution solutions. This division provides consulting services, software applications and system integration to deliver solutions tailored to specific industries, such as oil and gas, petrochemicals, food and beverage, metals and mining and pulp and paper. By integrating the shop floor with production operations and business management, our information technology solutions manage the intricate flow of information among these levels and optimize production processes, thereby creating an intelligent plant.

Beginning with fiscal year 2003, we will reorganize our business into four divisions: Industrial Plants, Industrial Services, IT Plant Solutions and Intelligent Traffic Systems.

Together with the planned reorganization of our divisions in fiscal 2003, in the current fiscal year, we initiated a plan to rationalize our organization and business portfolio to address declining earnings and improve competitiveness. Our goal is to focus I&S on its core competencies and higher margin businesses. In this regard, we have initiated productivity improvement and cost reduction programs. In addition, we intend to optimize our business portfolio. Activities which we have identified as outside of our main competencies, such as the development and production of printed circuit boards and the operation of repair facilities, will be divested or transferred to other Siemens groups. The rationalization plan will result in the reduction of headcount through attrition, early retirement and voluntary and involuntary terminations. In fiscal 2002, I&S incurred severance

Table of Contents

charges in connection with the plan to eliminate approximately 1,600 positions. Talks on further arrangements with the employee organizations are underway. See also Item 5: Operating and Financial Review and Prospects Fiscal 2002 Compared to Fiscal 2001 Segment Information Analysis Operations Automation and Control.

We are a multiple source vendor and selectively purchase products and systems regardless of their manufacturer. We cooperate extensively with Siemens A&D and PTD groups, integrating their products and systems into the solutions we design and deliver.

In Europe, our primary goal is to increase our business outside of Germany. We are also seeking to continue our growth in the Americas and Asia.

Our industry sector divisions derive their sales revenues primarily from projects awarded on the basis of internationally solicited tenders. Our Industrial Services division provides its services to numerous customers across a variety of industries, as well as to our industry sector divisions and other Siemens businesses. While services provided to Siemens traditionally account for the most significant portion of the total sales of Industrial Services, accounting for approximately 50% of its sales in fiscal 2002, our goal is to expand the portion of services we provide to outside customers.

We market our services to our customers primarily through our own 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. In fiscal 2002, we generated about 51% of our total sales from projects and services performed outside Germany. The following chart shows the geographical distribution of I&S total sales in fiscal 2002:

I&S 2002 Total Sales by Region

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 2002, we spent 44 million, or 0.98% of I&S total sales, on research and development, compared to 48 million, or 1.1% of total sales, in fiscal 2001. 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 efficiency in areas such as production output and energy consumption.

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 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 our competitive advantage is our unique combination of competence in the industry sector, information technology and technical services fields.

Table of Contents

The large size of the projects performed by our industry sector divisions occasionally exposes us to risks related to our technical performance, to a customer or to a country. For further information on such risks, see Long-Term Contracts and Contract Losses. We have not experienced material losses in the past in connection with these risks.

Siemens Dematic (SD)

	Year ended September 30, 2002
Total sales	2.995 billion
External sales as percentage of Siemens net sales	3.44%
EBIT	45 million
Net capital employed	975 million
Employees	12 thousand

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. SD was formed by the merger in April 2001 of the former Siemens Production and Logistics Systems with Atecs Mannesmann Dematic Systems group. As a result, we became the largest participant in the material handling automation market overall. Our business consists of three divisions: Material Handling Automation, Postal Automation and Electronics Assembly Systems.

Our *Material Handling Automation* division designs, manufactures and assembles integrated distribution and factory logistic systems. We are organized into three regional business groups covering Europe, the Americas and Asia-Pacific. Each group consists of local market oriented units serving different customer segments. We automate materials flow, handling and logistics processes for major retail and wholesale operations and durable and non-durable goods manufacturers through our Distribution, Industrial and Automotive units. Our Warehousing, Government, Postal & Parcel Operations (for government contracts) and Airport-Baggage/Cargo units automate parcel, freight, baggage and cargo handling for third-party warehousing and forwarding agents. Our core competencies in this division are globally standardized product and systems development, planning, information technology, material handling automation architecture and consulting in support of our systems sales. This division represents more than half of SD s total annual sales.

Postal Automation provides equipment for: sorting of both standard and large letters (so-called flats); reading and coding systems; postal information technology; and postal services such as product-related after-sales services, general contracting and presort operations. Key customers for this business are the traditional post and parcel services, including the German and U.S. postal services. Our potential customers include private parcel and package carriers, of whom UPS and TNT are current customers, and are served jointly with the Material Handling Automation division.

In both our Material Handling Automation 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. Both businesses 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 Automation & Drives (A&D). Our Material Handling Automation and Postal Automation divisions have been negatively affected by declining capital spending by the manufacturing industry and logistics and postal service providers. The effect has been exacerbated by excess capacity resulting in part from the cessation of operations by many Internet retail businesses, whose relatively new product-handling and logistics systems are offered for sale in secondary markets. In this adverse environment, the Postal Automation division secured in June 2002, an important order from the U.S. Postal Service for the production and installation of a new mail forwarding system, after the U.S. Postal Service lifted its investment freeze. Due to our large installed base in the postal market, we expect to

Table of Contents

maintain a profitable business volume over the coming years through value-added upgrading and servicing of this equipment base.

We expect that going forward our Material Handling Automation 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 an opportunity 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 increase their investment in integrated, automated systems and technologies in order to improve their productivity and speed, creating an opportunity for us.

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 service providers whose emergence reflects a growing industry trend towards outsourcing. 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. With increased pressure on our customers to reduce assembly costs, we can now bring our total process knowledge to benefit the customer through these standard line configurations.

This business has continued to experience the downturn which began in calendar year 2001 caused primarily by the decline in technology investment in the U.S. and the recession in the global telecommunications industry. The ongoing slow-down has negatively affected the level of sales and new orders and profitability in this division. We have reduced our production capacity in Germany and are shifting business focus to the Asia-Pacific region where many of our customers have moved their manufacturing locations.

In addition to our core placement systems business, we are also actively developing new business opportunities in various innovative areas. For instance, we have recently began production of laser structuring machines that use a CAD-data controlled laser to transfer microstructures onto printed circuit boards. It enables high-density 50-micrometer structures adapted to the requirement of the trend toward miniaturization in the electronics manufacturing industry.

In fiscal year 2002, we announced our intention to sell our Assembly and Plastics Technology business because the nature of this business, engineering and building unique equipment for customers, does not fit our overall strategy of offering standardized solutions.

We distribute our products primarily through our own sales force in Germany and our own local Siemens Dematic distribution companies throughout the world.

The following chart shows our sales broken down by region in fiscal 2002:

SD 2002 Total Sales by Region

We have four significant manufacturing and assembly facilities in Germany and two in the United States.

Table of Contents

In fiscal 2002, we spent 153 million or 5.1% of SD s total sales on research and development, compared to 147 million, or 5.8% of total sales, in fiscal 2001. Main areas of focus include our laser structuring machines in the Electronics Assembly business, as well as a new high performance SMT placement product. In the Material Handling Automation business, 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.

The current economic downturn has led us to increase our emphasis on improving profitability, including reducing costs by lowering headcount and consolidating our production facilities. In addition, we implemented a design-to-cost strategy that keeps customization of products within a targeted cost structure. These efforts also include a shift of resources and attention to what we view as the most promising markets, for example, in the case of Electronics Assembly Systems, from Europe and the Americas to the Asia-Pacific region. 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. See also Item 5: Operating and Financial Review and Prospects Fiscal 2002 Compared to Fiscal 2001 Segment Information Analysis Operations Automation and Control.

Our main competitors in our Material Handling Automation and Postal Automation businesses are FKI Logistex (including the former Crisplant), Daifuku, Swisslog, Northrop Grumman, Lockheed Martin, Elsag, NEC and Pitney-Bowes. Other competitors operate within niche markets or market specialized technologies to their customers; these include Vanderlande, G&T Conveyor (which acquired BAE Division of Invensys) and Duerr. Competition in this area is strong due to weakened demand and excess capacity. Several of our competitors in the Material Handling Automation business have recently entered the U.S. market, a region from which we derive a substantial portion of our revenues. Major competitors of our Electronics Assembly Systems division include Fuji Machine, Panasonic, Assembleon (formerly Philips Electronics Manufacturing Technology) and Universal Instruments, a subsidiary of the Dover Group. In fiscal 2002, Panasonic introduced a product which competes directly with our key high speed electronic assembly system HS-50.

Siemens Building Technologies AG (SBT)

	Year ended September 30, 2002
Total sales	5.619 billion
External sales as percentage of Siemens net sales	6.3%
EBIT	195 million
Net capital employed	1.778 billion
Employees	36 thousand

Siemens Building Technologies provides products, systems and services for monitoring and regulating the temperature, safety, electricity, lighting and security of commercial and industrial property, tunnels, ships and aircraft. We also provide planning, management and technology-related electrical contracting services in connection with building projects. Finally, we operate and maintain entire building sites as an outside technical facility management service provider.

SBT consists 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 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 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 electronic security and hazard protection products and systems, including complete computerized fire, gas leakage and intruder detection and alarm systems. It sells these components to our solutions providers, the Security Systems and Fire Safety divisions, and also sells its products and systems to small electrical installers through its own branded distribution channel.

Building Automation offers solutions to the non-residential markets for 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 performance contracting solutions, refurbishing buildings to improve their energy efficiency and provide the customer 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 (OEMs), value-added partners and installers.

Facility Management Services has two businesses. The Project Business unit of this division provides services relating to the planning and management of electrical contracting projects. The Facility Management unit operates and maintains entire building sites for tenants and owners as an outsource provider and also offers facility management consulting services to building operators. We provide these technical facility management and consulting services both for buildings that use SBT products and systems as well as for buildings using those of our competitors.

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, original equipment manufacturers of HVAC systems and wholesalers, specialized system builders and installers. Most of our sales are attributable to a large number of relatively small orders and we generate a significant portion of our sales from orders of 25,000 or less. Siemens is traditionally the only customer responsible for more than five percent of SBT s total sales, accounting for 5.8% of SBT s total sales in fiscal 2002.

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 500 wholly owned local sales, project execution and services branch offices in more than 40 countries. In order to improve synergies with Siemens regional companies, over the next few years, we plan to integrate SBT s local organizations with the Siemens regional offices. For some markets, we also distribute our products, systems and services through a network of independent field offices and distributors. Our services businesses and sales network have a significant local presence 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.

The geographic focus of our business differs significantly by division. Security Systems, Fire Safety, Fire & Security Products, Building Automation and HVAC Products sell their products and systems throughout the world, with the majority of sales in Europe and the United States. These divisions currently aim to expand in selected Asian and South American markets. In contrast, our Facility Management Services division offers services primarily in Germany, Switzerland, Norway, Austria, Italy and Turkey.

Table of Contents

We generate most of our sales in Europe and the United States. The following chart shows the geographic distribution of SBT s total sales in fiscal 2002:

SBT 2002 Total Sales by Region

We have 14 significant manufacturing and assembly facilities worldwide, including ten in Europe, of which three are located in Germany.

In fiscal 2002, we spent 171 million, or 3% of SBT s total sales, on research and development, compared to 168 million, or 3% of total sales, in fiscal 2001. 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 of different ages 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 from a distance via the Internet.

Traditionally, the HVAC, electricity, security and 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 these individual systems and to offer multifunction building automation systems. Sales of such integrated building automation systems have until recently occurred primarily in the United States, and it remains difficult to determine at what pace a significant market for them will develop in other regions.

In recent years, our business experienced double-digit growth, in part through acquisitions, with some of our divisions growing faster than the market. In the near term, we plan to continue to grow profitable business fields at roughly the same rates as 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 original equipment manufacturers, making more of our existing products available for offering on an OEM basis. Our Systems and Services divisions (Security Systems, Fire Safety, Building Automation and Facility Management Services) are using their current large installed base of building technology products and systems as a means of generating service and maintenance contracts.

While we plan to sustain growth at market rates for profitable segments, we have shifted our emphasis from sales growth to increasing profitability, especially at our Security Systems, Fire Safety and Building Automation divisions. To boost profitability, we have strengthened our productivity improvement initiatives which include process improvements, enhanced purchasing coordination, reduction of our product portfolio, reducing volumes of low-margin segments and some headcount reductions.

In the markets for Fire Safety and Building Automation, SBT has a leading position with approximately 20% of the worldwide market. Three of our divisions, Fire Safety, Building Automation and HVAC Products, which account for nearly 75% 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 Building Automation they are Johnson Controls and Honeywell, while for HVAC Products Honeywell, Invensys and Danfoss are the largest competitors.

The Security and Facility Management markets are both highly 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 market, Tyco is a market leader. General Electric has recently entered the fire and security products market through its acquisition of Interlogix. The market is still very fragmented, however, with the top five companies comprising only about 15% of the market. Most of our competitors focus on a particular product, system or service, or have a regional orientation. Despite the traditional fragmentation, consolidation is beginning to occur in certain of our markets. In addition, the influence of e-commerce and the introduction of the euro are resulting in a harmonization of market prices for products and systems across regions. In response to these trends, 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.

Ensuring that our products and systems operate reliably is important to our business since the failure of building maintenance, safety and security systems can have serious consequences. We have not experienced significant liabilities in the past as a result of product or design defects.

Power Generation (PG)

	Year ended September 30, 2002
Total sales	9.446 billion
External sales as percentage of Siemens net sales	11.19%
EBIT	1.582 billion
Net capital employed	(144) million
Employees	26 thousand

Siemens Power Generation group provides customers worldwide with a full range of equipment necessary for the efficient conversion of energy into electricity and heat. 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.

Power Generation 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 83% of total sales in fiscal 2002.

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 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 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. Our installed base of thermal power plant capacity of approximately 500 gigawatts provides us with a good opportunity to grow our service business. Our successful integration of Westinghouse s fossil power generation unit, acquired in 1998, has improved our position in the market for 50 Hertz plants and strengthened our access to the 60 Hertz markets.

Table of Contents

Industrial Applications includes steam and gas turbines in the small and medium power ranges, as well as related turbo generators and power plants. This division now also includes the turbo compressor business of Mannesmann Demag Delaval, which we acquired as part of Siemens acquisition of Mannesmann Atecs AG in fiscal 2001. 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. In addition, we offer our customers combined cycle power plants fitted with gas turbines supplied by third parties. In the renewable energy sector, we also offer biomass power plants.

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 are establishing a stationary fuel cell facility in Pittsburgh (United States).

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 2002, we acquired ICIS Technology Limited, a British provider of IT systems and services for energy trading and power plant management, and in October 2002, we acquired NewEnergy Associates LLC, one of the leading U.S. providers of software solutions for the energy sector. These businesses will be integrated into the Instrumentation and Controls division. The acquisitions are a part of the division s strategy of becoming a leading provider of information technology in the energy sector. We will also continue to optimize our portfolio by dispositions where appropriate. As part of the portfolio optimization program, we included our ceramics business to the portfolio of business activities sold by Siemens to a private equity investor, effective September 24, 2002. See Item 5: Operating Review and Prospects Fiscal 2002 Compared to Fiscal 2001 Segment Information Analysis Operations Power.

Power Generation s principal customers are large power utilities and an increasing number of 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. Calpine Corporation, Dynegy and Tractebel are among our largest customers in the United States. We also generate a portion of sales from industrial customers, who represent an important market for smaller power plants and turbines.

Our business activities vary widely in size from comparatively small projects to turnkey contracts for new power plant construction with contract values of over 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. In the past, we have experienced significant losses in connection with such risks. See Long-Term Contracts and Contract Losses.

We work with Siemens Financial Services group (SFS) to assist our customers with financing. 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.

The following chart shows the geographic distribution of PG s total sales in fiscal 2002:

PG 2002 Total Sales by Region

We have approximately 13 significant manufacturing and assembly facilities worldwide, including four in the Americas and nine 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) and 50/60 Hertz gas turbines in Berlin (Germany). Following the acquisition of the turbo compressor business of Mannesmann Demag Delaval, we have decided to consolidate our turbo compressor production primarily in Duisburg (Germany).

PG s research and development efforts are currently focused on advancing products and concepts that combine gas and steam technologies, particularly for use in new power plant designs combining high efficiency and lower emissions. We are also studying ways to reduce life-cycle costs for new power plants, particularly by enhancing the durability of parts and components, and further boost operating efficiency and performance while reducing emissions. We have recently developed standardized and modularized coal-fired power plants especially for the Asian markets. In fiscal 2002, PG spent 309 million, or 3.3% of its total sales, on research and development, compared to 262 million, or 3.1% of total sales, in fiscal 2001.

Following a period of high growth fuelled by strong investment in gas turbines in the United States, we expect the worldwide aggregate sales in the power plant markets to return to levels that prevailed before this period of high growth. 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, such as fluctuations in fuel prices, that can have implications for demand for certain product types. 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 market will give our customers an incentive to replace existing units which had ceased to be competitive.

The recent decline in the power generation industry has been most pronounced in the United States. This decline has been caused primarily by the slowdown in the U.S. economy, excess capacity built up in recent years and our customers difficulties in securing financing for power plant projects. We will continue to reorganize our worldwide manufacturing, engineering, project execution and sales and marketing locations in line with lower market volume. For example, we plan to further concentrate our turbo generators manufacturing in Charlotte (United States) and to relocate component manufacturing from Newcastle (United Kingdom) to our other existing European and U.S. operations. We have implemented additional cost containment measures, including headcount reductions, and process improvement efforts to position ourselves for the contracting power environment. See Item 5: Operating and Financial Review and Prospects Fiscal 2002 Compared to Fiscal 2001 Segment Information Analysis Operations Power.

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 Electric, Alstom Power, and Mitsubishi Heavy Industries in fossil power generation. In instrumentation and

Table of Contents

controls, where the market is more fragmented, ABB is our main competitor. In the recently acquired compressor business, additional competitors are MAN Turbo, GE Nuovo Pignone and Dresser Rand. 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, 2002
Total sales	4.199 billion
External sales as percentage of Siemens net sales	4.68%
EBIT	109 million
Net capital employed	928 million
Employees	17 thousand

Our Power Transmission and Distribution group 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; and information technology systems and consulting services relating to the design and construction of power transmission and distribution networks. We offer the following products and services, presented roughly in the order in which they are used in a power transmission and distribution network. Each group of products and services described corresponds to an internal division of the same name unless otherwise indicated:

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);

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 our Power Automation division); 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 design of power transmission and distribution networks; information technology services and solutions to support customer management and energy trading; 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 expanded PTD Services division aims specifically at responding to our customers increasing demands for these services. During fiscal 2002, we launched a joint venture with the German municipal utility Stadtwerke Leipzig to offer a complete range of services and systems to German and other European multiple utility providers.

For our large-scale projects we work together with Siemens Industrial Solutions and Services group, which assists with facility construction, and with Siemens Financial Services, which provides financing for our customers.

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 own sales force in Germany and through dedicated personnel in the regional Siemens sales units worldwide.

We generate approximately one-third of our sales from projects and the remainder from sales of systems and components. A relatively small portion of our project business involves construction of large power networks and other projects with values of more than 10 million. Most of our business is generated from smaller projects and sales of systems and components to a variety of smaller customers, and we do not currently have any customers that account for more than five percent of our total sales.

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 China, India, Taiwan, Malaysia and Korea and South America.

Although the power transmission industry in industrial countries is a mature business, new demand for our products, systems and services has recently arisen in the industrial world as utilities and private power companies respond to deregulation by finding 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. In addition to responding to these new sources of demand, we continue to seek new markets for expansion and to develop innovative new products and systems to respond to ongoing pricing pressures in our markets.

Table of Contents

The following chart shows the geographic distribution of PTD s total sales in fiscal 2002:

PTD 2002 Total Sales by Region

We generate a significant portion of our total sales in developing countries in South America and the Asia-Pacific region. While we believe these regions 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. For example, the political and economic crisis in Argentina had an adverse impact on orders and sales in that country during fiscal 2002. We began the construction and equipping of converter stations for a new high-voltage direct-current transmission line in the People s Republic of China in fiscal 2002, for the transportation of 3000 megawatts of electricity across 940 kilometers under a 354 million contract, the largest single contract PTD has secured to date. Among our other large projects in the developing world are the Three Gorges Dam project in China and the construction of converter stations for a high-voltage direct-current power line in India.

The large size of some of our projects occasionally exposes us to risks associate with technical performance, a customer or a country. See Long-Term Contracts and Contract Losses. In the recent past, we have not experienced material losses in connection with such risks.

We have approximately 32 significant manufacturing and assembly facilities worldwide, including 6 in the Americas, 9 in Asia, and 16 in Europe, of which seven are located in Germany.

We included our metering products and systems division to the portfolio of business activities which Siemens sold to a private equity investor, effective September 24, 2002. See Item 5: Operating and Financial Review and Prospects Fiscal 2002 Compared to Fiscal 2001 Segment Information Analysis Operations Power. We will continue to provide metering services, mainly to customers in the United Kingdom, through our Services division.

In fiscal 2002, we spent 102 million, or 2.43% of PTD s total sales, on research and development, compared to 111 million, or 2.7% of total sales, in fiscal 2001. Our research efforts currently include information and communications applications to facilitate energy trading among companies in deregulated energy markets.

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, Alstom and Schneider, as well as General Electric, which recently announced its intention to target the European power market, Toshiba and VA Tech. There is also a trend toward increased cooperation among competitors through formation of joint ventures to focus on specific projects or market opportunities. To improve our competitive position, in recent years we have located new production facilities in the Asia-Pacific region and upgraded our production facilities in South America, 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 2002, we initiated productivity improvement and cost-cutting measures. We have also conducted a program to review and improve the overall quality and efficiency of our project management, including the management of potential contract claims. We have responded to the recent decline in sales occasioned by the market downturn in the U.S. and the economic crisis in Argentina through headcount reduction in those locations.

Transportation Systems (TS)

	Year ended September 30, 2002
Total sales	4.367 billion
External sales as percentage of Siemens net sales	5.18%
EBIT	247 million
Net Capital Employed	(741) million
Employees	17 thousand

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 light rail and mainline systems; technology for driverless metros and computer-controlled electronic switches; optical sensor systems; and 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.

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

Heavy rail products include subway and suburban rapid transit trains, subway cars and running gear, as well as their subsystems and components.

Locomotive 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.

Light rail products include streetcars, light rail vehicles and their components.

Trains 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 2002.

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 (including heavy and light rail), 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 2002.

In our *turnkey systems* business, we cooperate closely with the other TS businesses, integrating their products and services to offer turnkey projects from a single source. We aim to optimize the design and construction of entire railway systems, ensuring high quality and reducing life-cycle costs. Current projects include the transrapid project in China, an electromagnetically elevated and propelled high-speed train; the construction of the new Bangkok subway system; a new light rail transit system south of Lisbon and two new street car lines in Verona. We also assist our customers with arranging financing in cooperation with Siemens Financial Services. Our *turnkey systems* business was our smallest in terms of sales in fiscal 2002.

With our *integrated services* unit 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 AG 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. The following chart shows the geographic distribution of TS s total sales in fiscal 2002:

TS 2002 Total Sales by Region

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 declined modestly in recent years and we expect that trend to continue for the foreseeable future.

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

In fiscal 2002, TS spent 139 million, or 3.2% of our total sales, on research and development, compared to 138 million, or 3.4% of total sales, in fiscal 2001.

The world markets for products and services in the railway transportation industry continue to be in flux. Despite the continuing 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. Budget pressures faced by many state operators further increase price pressure and require increasingly innovative financing solutions. 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:

- for *rolling stock*, to 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;

- for *automation and power*, to 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;

for *integrated services,* to expand through strategic alliances in service enterprises; to emphasize our System plus Service segment, which offers a complete package of new products plus service and maintenance; and to improve our market penetration through e-business.

We also continue to participate in industry consolidation through acquisitions and joint ventures. In fiscal 2002, we significantly strengthened our market position for mass transit vehicles in Eastern Europe by acquiring certain assets of the Czech rolling stock manufacturer CKD DS. We have also enhanced our integrated services capabilities by investing in two 50% stake joint ventures in Leipzig in order to expand and reinforce Leipzig as a center for rail transportation infrastructure in Southern and Eastern Germany.

Our priority remains improving our profitability. After experiencing losses in fiscal 1998, we brought in a new management team and launched a program called the TS Initiative to cut our costs and improve our performance. As a result, we managed to improve our cost position and returned to modest profitability in fiscal 2000. In fiscal 2001 we broadened the TS Initiative to include improving sales, promoting innovation and e-business and optimizing our product portfolio. We are currently continuing the TS Initiative, which resulted in a significant increase in profitability for fiscal 2002. See also Item 5: Operating and Financial Review and Prospects Fiscal 2002 Compared to Fiscal 2001 Segment Information Analysis Operations Transportation.

The large size of the projects performed by our TS businesses 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. See Long-Term Contracts and Contract Losses. In this context, we have continued to improve our project controlling, risk management and claims management systems. 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, reduction of risks and meeting customer requests.

On a global scale, we compete in our industry segment 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 in a narrow product spectrum. Our principal competitors are Alstom and Bombardier.

Siemens VDO Automotive (SV)

	Year ended September 30, 2002
Total sales	8.515 billion
External sales as percentage of Siemens net sales	10.11%
EBIT	65 million
Net capital employed	3.746 billion
Employees	43 thousand

Siemens VDO Automotive (SV) is the result of the merger in April 2001 of the former Siemens Automotive with Mannesmann VDO AG. The integration of Mannesmann VDO into our group is now substantially complete.

We design, manufacture and sell 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.

In fiscal 2002, we established a new divisional structure for SV so that we now 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, 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; chassis electronics used in steering and braking; tank systems for fuel handling including fuel pumps, supply units and level sensors; 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; 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

Trading & Aftermarket, 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;

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

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

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

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 than selling individual components.

Most of our customers are large 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 2002, four of the world s five largest automobile manufacturers 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, Motorola STM and Philips for semiconductors, Tyco for wire housings and connectors, and APM for drives.

We have our own independent sales force, which is active worldwide. We generate most of our sales in Europe and the United States, with an increasing share in Asia-Pacific. The Japanese market is still served mostly by local and in-house suppliers.

Table of Contents

The following chart shows the geographic distribution of SV s total sales in fiscal 2002:

SV 2002 Total Sales by Region

We have approximately 50 manufacturing and assembly facilities, including 14 in the Americas and 28 in Europe. Of these, 11 are located in Germany.

In fiscal 2002, we spent 778 million, or 9.14% of SV s total sales, on research and development, compared to 533 million, or 9.3% of total sales, in fiscal 2001. Excluding amounts attributable to the former business of Mannesmann VDO, in fiscal 2001, we spent 398 million, or 10% of SV s total sales, on research and development. 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 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.

We disposed of several non-core businesses in fiscal 2002. These included our hydraulic components business, which we sold to Hilite Industries, and our air outlet plant, which we sold to Reum Beteiligungs GmbH.

Automobile manufacturers and their suppliers have been going through a period of significant change and consolidation, and we expect this trend to continue. In fiscal 2002, Johnson Controls acquired Sagem; Continental Teves acquired Temic; Autoliv acquired the Restraint Electronics Business of Visteon; and Magneti Marelli has agreed to sell its European carburators activities to Finmek. Opportunities and competition for independent suppliers have increased as car manufacturers have spun off or exposed their former in-house suppliers to increased competition. Two recent examples are General Motors spinning off its former in-house supplier, Delphi, and Ford doing the same with Visteon. On the other hand, manufacturers, in an effort to achieve cost efficiencies and ease of production, are 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, occasionally 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 2002, demand in the automotive industry continued to weaken, particularly for mass market cars and for trucks. Automobile production levels declined in the Americas and Western Europe, especially Germany, though this was partially offset by an increase in overall automotive industry production in the Asia-Pacific region. Globalization and 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, in fiscal 2001 we began implementing a program to cut costs, increase productivity, optimize our product and project portfolio, and reduce inventory, personnel and the number of production and assembly facilities. In fiscal 2001, we eliminated approximately 1,000 positions. In fiscal 2002, we shifted more than 1,800 positions from higher labor-cost regions to regions with lower labor costs, and we plan to shift approximately 1,200 more positions to lower-cost regions in fiscal 2003. Where technologically and economically feasible, we intend to do the same with production facilities, shifting to countries in Southeast Asia, South America and Eastern Europe where we can reduce our manufacturing costs and be closer to our customers.

The VDO merger has already strengthened our market position as a first-tier supplier to automobile manufacturers in North America, South America, Southeast Asia, China and Japan. Our most significant competitors are generalists with a broad product range, systems integration capabilities and global presence. These include Toyota s Denso and the independent and former in-house suppliers Bosch, Visteon and Delphi, all of which are significantly larger than we are.

Medical Solutions (Med)

	Year ended September 30, 2002
Total sales	7.623 billion
External sales as percentage of Siemens net sales	9.05%
EBIT	1.018 billion
Net capital employed	3.414 billion
Employees	31 thousand

Our Medical Solutions group 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 where the health care professional can 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 on the human body, such as internal organs. This information is used both for diagnostic purposes and in preparation for potential treatment, including interventional and minimal-invasive procedures. We focus on technically innovative products, an example of which are our recently introduced computed tomography scanner Somatom Sensation 16 or our angiography system Axiom Artis.

Information technology systems, including picture archiving and communications systems (PACS) and systems for clinical and administrative purposes. Our information technology systems are used to facilitate digital storage, retrieval and transmission of medical images and other clinical and administrative information, enabling an efficient workflow in healthcare environments. Our offerings include web-based products using the Internet as the communication medium.

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 monitoring vital functions via body sensors, supporting breathing and administering anesthetic agents. As discussed below, we have entered into agreements to combine our electromedical systems business with the activities of Dräger Medical in a new joint venture.

Table of Contents

Oncology care systems, including linear accelerators, which are used for cancer treatment.

Hearing aids and related products and supplies.

Our medical imaging operations are the largest part of our business, representing about 63.2% of total sales in fiscal 2002. These businesses are organized into divisions according to the type of medical imaging product offered, including Magnetic Resonance, Computed Tomography, Ultrasound, Angiography, Fluoroscopic and Radiographic Systems, Nuclear Medicine and Special Systems. Our Health Services division represents the second largest part of our business. This business consists primarily of Shared Medical Systems, a company headquartered in the United States which we acquired in fiscal 2000.

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 healthcare delivery in developing countries.

In addition, efforts in many industrialized countries to contain healthcare costs are driving a need for improved efficiency in diagnostic and therapeutic processes. For example, healthcare 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 healthcare 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 48% of our total sales in fiscal 2002. The following chart shows the geographic distribution of Med s total sales in fiscal 2002:

Med 2002 Total Sales by 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. Our electromedical systems business is based in Sweden. The other divisions are headquartered in Germany. We have approximately 19 significant manufacturing and assembly facilities worldwide, including seven in North America and eight in Europe. Of these, five are located in Germany.

We have research and development and OEM cooperation agreements with various companies, including with Bruker and Toshiba in the field of magnetic resonance imaging products, Philips in computed tomography systems and Matsushita for low- and mid-range ultrasound systems. We also have joint ventures with Oxford Instruments to develop and manufacture magnets for magnetic resonance imaging, and with Philips and Thomson to manufacture flat panel detectors for medical imaging.

Research and development plays an important role in our business. We maintain research and development centers at production sites in Germany, the United States and Sweden. In fiscal 2002, we spent 615 million, or 8.1% of Med s total sales on research and development, compared to 603 million, or 8.4% of total sales, in fiscal 2001. Approximately one-third of our research and development expenditure is typically spent on x-ray,

Table of Contents

computed tomography and magnetic resonance imaging technologies. Over the last five years, we have consistently spent at least 8% of total sales on the development of new products and services and the improvement of our existing offerings. An important project within our information technology systems business is the development of a new workflow management system, Soarian, designed to optimize information-based processes throughout the entire cycle of a patient s hospitalization, including administration, diagnosis, clinic, care, therapy and dismissal. The introduction of this new workflow management system will be an important milestone for our activities in this area.

Our goal is to become the preferred partner for healthcare providers around the world by supporting their efforts in optimizing 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 November 2002, we entered into an agreement to form a joint venture with Dräger Medical, of Lübeck, Germany, one of the world s leading manufacturers of medical equipment for critical care. Subject to regulatory approval, we will contribute our Electromedical Systems division in return for a 35% stake in Dräger Medical AG & Co. KGaA. The combined business is expected to have total sales volume of approximately 1.2 billion and 6,400 employees. Upon completion, we expect to account for this joint venture under the equity method.

In recent years, the medical equipment industry has experienced an increase in consolidation following a number of significant business combinations as well as acquisitions of smaller companies by larger competitors. Our principal competitors in medical imaging are General Electric, Hitachi, Philips, which acquired Marconi, and Toshiba. Other competitors include Dräger, Instrumentarium, which recently acquired Spacelabs, a leader in patient monitoring, McKesson HBOC, Resound, Starkey, Tyco, Hologic, Elekta, Cerner, IDX, Widex, William Demant/Oticon and Varian Medical Systems.

Lighting (Osram)

	Year ended September 30, 2002
Total sales	4.363 billion
External sales as percentage of Siemens net sales	5.13%
EBIT	365 million
Net capital employed	2.436 billion
Employees	35 thousand

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

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;

Opto-semiconductors: light emitting diodes, or LEDs, 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 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 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 approximately 54 significant manufacturing and assembly facilities worldwide, including 26 in the Americas and 20 in Europe. Of these, 13 are located in Germany.

We focus on innovative products, especially in our automotive and photo-optic divisions, 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. Opto-semiconductors is introducing new applications for LED products as it becomes possible to achieve greater brightness and more colors. Recently, we made a significant breakthrough in the brightness of light emitting diodes by using an advanced thin-film technology, thus opening up a wide variety of new applications, for example in automotive exterior lighting. 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.

In fiscal 2002, we spent 224 million, or 5.13% of Osram s total sales, on research and development, compared to 217 million, or 4.8% of total sales, in fiscal 2001. 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 developing organic light emitting diodes for which we have established a production facility in Malaysia. Organic light emitting diodes are considered a key innovation in the production of clearly legible small displays with low power consumption and minimum weight. 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 the United States and myOSRAM.com, a web-based sales and information portal for registered business customers in Germany, Austria and Poland.

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 2002, Osram generated approximately 85% of its total sales outside of Germany, with most of its sales in Europe, North America and Asia-Pacific. In North America we market most of our lighting products under the brand name Sylvania. We currently intend to expand our sales in

Eastern Europe and Asia. The following chart shows the geographic distribution of Osram s total sales in fiscal 2002:

Osram 2002 Total Sales by Region

As a result of acquisitions and consolidations over the last decade, General Electric, Philips and Osram together hold almost two-thirds of the world market. Osram is the second largest lighting manufacturer worldwide behind Philips, and the largest in Germany. Osram also has the second largest market share in North America, where General Electric is the leading manufacturer. General Electric is also the leading incandescent lighting manufacturer worldwide. 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 in these areas. To counteract price pressure and to improve our competitiveness for mass market lighting products, we manufacture some of our lower-priced product lines in countries low 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 manufacturing operations in China, India, Indonesia, Mexico and Eastern Europe and continue to shift production to these markets. Our recently announced measures to increase profitability include the consolidation of our U.S. glass manufacturing operations and the transfer of part of our coil production from the United States and Germany to the Czech Republic, both of which we plan to finalize during fiscal year 2004. To optimize our portfolio, in September 2002, we closed our German subsidiary Elektro Röhren Gesellschaft whose core business consisted of a niche production of glow and cold-cathode lamps which had ceased to be cost-efficient. 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. We have not experienced any significant liability in the past as a result of our use of these materials and we are continuing to work to reduce their use in our products.

Siemens Financial Services (SFS)

	Year ended September 30, 2002
Total sales	582 million
External sales as percentage of Siemens net sales	0.52%
Income before income taxes	216 million
Total assets	8.681 billion
Employees	1 thousand

Siemens Financial Services 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 Structured Finance, Treasury and Financing Services, Investment Management and Insurance currently support and advise Siemens and our other business groups and have little external business. SFS makes an important contribution to Siemens other businesses through the financing of goods and services sold by Siemens. 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 2002, our total assets declined, from 9.363 billion at September 30, 2001 to 8.681 billion at September 30, 2002. Our principal assets are lease receivables and equipment leased under operating leases (together accounting for 62.4% of our assets) and purchased trade receivables (accounting for 31.1% of our assets) 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 deals according to banking industry standards in the international financial markets with Siemens as well as with third parties.

Our largest division is *Equipment and Sales Financing*, which combines our mid-market finance and credit portfolio management business activities. Our principal mid-market finance product is equipment lease financing, where typically we purchase equipment supplied by various Siemens groups or a third-party manufacturer 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. In fiscal 2002, we further developed our vendor financing program, in which third-party manufacturers offer us the opportunity to provide financing to their customers.

The Equipment and Sales Financing division finances both Siemens and third-party equipment. Siemens products come primarily from Information and Communication Networks (ICN), Medical Solutions (Med) and Siemens VDO Automotive (SV). Customers that are familiar with our services from past dealings are increasingly seeking financing for transactions with unrelated manufacturers. Third-party products are primarily computers and other IT equipment.

In our *credit portfolio management* business, 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 group s receivables risk allows Siemens to manage its overall receivables exposure more effectively. In fiscal 2002, in coordination with Siemens overall financing strategy, we continued packaging portions of our portfolio and placing them on the market, to third-party banks, as well as to our SieFunds program (which is described below), improving the management of Siemens balance sheet.

The *Equity* division participates in infrastructure projects as a project developer and equity investor, predominantly in projects for which Siemens provides equipment. At September 30, 2002, the equity investment in these projects amounted to approximately 3% of the total assets of SFS and 0.3% 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.

The *Structured Finance* division comprises two separate activities: project/export finance and asset securitization and placement.

Our *project/export finance* business advises other Siemens groups on sales financing transactions. We have a global network of established contacts with international project and export finance lenders, like the World Bank or the Asian Development Bank, as well as with national development and export banks and export credit insurance agencies, such as Kreditanstalt für Wiederaufbau and Hermes in Germany. 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.

Our *asset securitization and placement* business advises other Siemens groups with respect to identifying eligible assets for securitization or placement transactions, such as receivables. Additionally, we offer our services to third parties for the purpose of analyzing future receivables, future cash flows or inventory. We identify the future cash flows of these assets and assist in structuring capital-efficient financing solutions for selling or repackaging them. In fiscal 2001, SFS launched SieFunds, a non-consolidated asset-backed commercial paper program. The program acquires assets and other receivables from Siemens groups and third parties worldwide. It finances the purchase price with the proceeds from commercial paper issuance. Changes to U.S. GAAP will require us to consolidate SieFunds as it is currently structured. These changes could lead us to modify or discontinue our activities in this area.

Our *Treasury and Financing Services* division provides the following services to Siemens Corporate Treasury: 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 using a value-at-risk model. Siemens believes that from a practical standpoint it is not cost efficient to avoid having some open positions due to timing differences, and 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 financing activities to third-party customers.

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

The *Insurance* division acts as an agent and provides other Siemens groups with liability, property, marine and project insurance brokerage services. We plan to provide these services not only to Siemens business groups but also to external customers. We also act as an insurance agent in offering private insurance policies for Siemens employees.

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

Our competition includes captive leasing and finance companies from both inside and outside the electronics industry, including those of General Electric, Hewlett Packard, IBM, Philips and ATT, 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, 2002
Total sales	1.612 billion
Income before income taxes	229 million
Total assets	4.090 billion
Employees	2 thousand

SRE offers its customers and partners a service portfolio specializing in real estate development projects, real estate disposal, asset management, and lease and services management. In fiscal 2001, SRE reorganized its operations in order to reinforce its focus on the non-Siemens real estate market and to ensure strong and sustainable profitability. Our divisions are Portfolio Management, Development & Sales, and Property Management & Services (Germany/International). SRE also offers building development and building management through Siemens Industrial Building Consultants GmbH (SIBC), for which SRE has the technical operational responsibility.

Portfolio Management is our strategic and advisory unit, providing the basis for and stimulating the active management of Siemens real estate portfolio. It focuses the general strategy for our real estate business and gives informational support for decision making by providing portfolio analysis, calculations of profitability, development of financing alternatives, market research, risk analysis and valuation and similar services, including suggestions for divestiture and rental rates.

Development & Sales was established to sharpen our focus on real estate development. This division is responsible for the sale of land, office and commercial real estate that is surplus to the operational needs of the Siemens group. It also acts as a developer for projects we determine are more appropriately retained (at least until developed) rather than sold. In this regard, for example, it is currently planning the refurbishment of several former Siemens sites in city center locations in those markets where there is a high demand for office and commercial space.

Property Management & Services has two principal activities. First, it provides pure property management and leasing services to Siemens operating groups and to third-party lessees of our owned properties, billing and collecting lease payments and related charges such as utilities and providing other general services of a landlord. Second, it provides facilities services to our business groups and external tenants on an arm s length contract basis. Our tenants, including Siemens group companies, may outsource these services to us, provide them internally or acquire them from third parties, depending on the location. The services we provide include cleaning, maintenance, security, catering and a variety of other services. We in turn generally subcontract with third-party suppliers for these services, thereby leveraging the purchasing power of the entire Siemens group. This division manages the real estate of Siemens in Germany as well as internationally.

The book value of Siemens worldwide real estate assets at September 30, 2002 amounted to approximately 4.954 billion, of which approximately 3.419 billion in book value was managed by SRE. The overall goal of our real estate activity is the optimization of Siemens real estate needs, assuring that:

- attractive and use-appropriate real estate is provided at market rates to the entire group for all of our activities from manufacturing to sales administration, ensuring efficient use of space group-wide at optimal rental rates;
- Siemens real estate capital is limited to the group s actual needs, and excess real estate is disposed of;
- the value of Siemens real estate capital is maintained and enhanced by active management investment; and
- favorable financing alternatives are developed and implemented.

The following table sets forth the key balance sheet and statistical data for SRE:

SRE Balance Sheet and Statistical Data

	At September 30,	
	2002	2001
	(and square meters in millions)	
Total Assets (in euros)	4,090	3,791
Real Estate Assets Under Management (in euros)	3,419	3,187
Total Site Area (in square meters)	23.5	24.3
Total Building Area (in square meters)	11.7	11.6

Total sales of our International division were up in fiscal 2002. SRE s international operations now encompass more than twenty companies and management units in leading real estate markets around the world. In fiscal 2002, we established a new management unit in Poland and reorganized our management unit in Switzerland.

Our revenues are derived primarily from our lease administration and services operations, since gains on dispositions are not recorded as sales but as other income. A major portion of our overall earnings reflects capital gains on sales of real estate assets. We believe that Siemens currently owns more real estate than it needs for its operations, and that for the next several years we will continue an active disposal program. Income from

disposals, especially in Germany, should continue to be a strong contributor to our earnings for the foreseeable future. Our objective is to increase the profitability of our operational units steadily as we continue to adjust our rental conditions to market rates. We also aim to increase our profitability through the effective reinvestment of proceeds in new projects. In addition, we contribute to the profitability of Siemens as a whole by facilitating reductions and efficiency in the use of space.

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,		
	2002	**2001**	**2000**
	(in thousands)		
Information and Communication Networks	39	51	53
Information and Communication Mobile	29	30	27
Siemens Business Services	34	36	33
Automation and Drives	51	54	54
Industrial Solutions and Services	29	30	30
Siemens Dematic[(1)]	12	12	6
Siemens Building Technologies	36	37	34
Power Generation	26	26	27
Power Transmission and Distribution	17	21	20
Transportation Systems	17	14	14
Siemens VDO Automotive[(2)]	43	44	30
Medical Solutions	31	30	28
Lighting/Osram	35	35	32
Siemens Financial Services	1	1	1
Siemens Real Estate	2	2	2
Other[(3)]	24	27	28
Total	426	450	419
Infineon Technologies[(4)]		34	29

(1) Siemens Dematic was formed in fiscal 2001 through a merger of the existing businesses of Siemens Production and Logistics Systems and the Dematic AG operations of Mannesmann.
(2) Siemens VDO automotive was formed in fiscal 2001 through a merger of the existing businesses of Siemens Automotive and the Mannesmann VDO automotive operations of Atecs Mannesmann.
(3) Includes employees in corporate functions and services and business units not allocated to any business group.
(4) As of December 5, 2001, Siemens deconsolidated Infineon.

Employees by geographic region

	At September 30,		
	2002	**2001**	**2000**
	(in thousands)		
Germany	175	199	181
Europe (other than Germany)	106	118	111

The Americas	93	107	105
Asia-Pacific	45	53	45
Africa, Middle East, CIS	7	7	6
Total	426	484	448

Table of Contents

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

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, in each of the jurisdictions in which it operates. These laws and regulations impose limitations on the discharge of pollutants into the air and water, establish standards for the treatment, storage and disposal of solid and hazardous waste and might sometime require us to clean up a site at significant cost. 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 continuing 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 2007, 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 on where the government-developed storage facility is located and when it becomes available. We have an accrual of 641 million at September 30, 2002 in our financial statements in respect of 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.

In December 2002, we expect the completion of the legislative process for two new EC-directives, the Waste of Electro- and Electronics Equipment directive regulating the collection and recycling of waste products and the Restrictions of Hazardous Substances directive banning the use of some hazardous materials, such as lead, cadmium, mercury, chromium, brominated biphenyls and diphenylethers. The directives will be effective after publication which is planned in March 2003. These directives will then have to be implemented into national law within 18 months. It is anticipated that the collection of electronic waste under the directive will begin in 2006. Siemens is already working together with national trade and environmental associations to establish collection systems for electronic scrap in time. At present, we are unable to determine the amount of any accruals which may be necessary in order to comply with the directive, as the precise legal requirements have not yet been set forth. The directive banning hazardous materials will be in effect beginning July 2006. Siemens is currently working on the transition from lead to lead-free soldering technology. Projects with regard to this transition have begun for those products covered by the legislation which will allow us to meet the requirements in time. The first lead-free products under this initiative have already been developed.

It is our policy to comply with environmental requirements and to provide workplaces for employees that are safe, environmentally sound, and that will not adversely affect the health or environment of communities in which Siemens operates. 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 have to 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 or to undertake any necessary remediation.

Long-Term Contracts and Contract Losses

A significant portion of the business of certain of our operations groups, including the Information & Communications groups, Industrial Solutions & Services (I&S), the Power groups and Transportation Systems (TS), is performed pursuant to long-term, fixed-price contracts, often for large projects, in Germany and abroad, awarded on a competitive bidding basis.

These projects subject us to a variety of risks. The profit margins realized on such fixed-price contracts may vary from original estimates as a result of changes in costs and productivity over their term. Cost overruns may also result from unexpected quality issues, technological problems, unforeseen developments at the project sites, problems with our subcontractors or other logistical 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, may subject us to substantial contractual penalties, damages or non-payment, or could result in contract termination.

Siemens records an accrual for contract losses when the current estimate of total contract costs exceeds contract revenue. Such estimates are subject to change based on new information as projects progress toward completion. Loss contracts are identified by monitoring the progress of a project and updating the estimates of total contract costs. As a matter of policy, all significant contracts are monitored and reviewed at least monthly.

As of September 30, 2002, provisions for contract losses totaled approximately 1.0 billion. Accrued contract losses relate primarily to the groups PG (290 million), TS (130 million), ICN (116 million), SBS (80 million), SD (71 million) and ICM (73 million). For all accrued contract losses, we anticipate that the cash outflows for labor, materials, contract penalties and related costs on such contract losses will occur predominately over the next two fiscal years.

Losses on contracts are recorded at the segment to which the contract relates except in case of those contracts the Managing Board decides to manage centrally. This occurs in the rare situations where the Managing Board as chief operating decision maker for the Company directly oversees and makes key strategic operational decisions regarding significant contracts independent of segment management.

The ICN and ICM losses related to numerous contracts, none of which was individually significant. Examples of significant contracts that have given rise to losses include:

In fiscal 2000, losses were suffered on two related long-term construction contracts, originally entered into by PG, for the reconfiguration, expansion, modernization and refurbishment of two oil refineries and the construction of a pipeline in Mexico. These projects were the first of this specific type, complexity and magnitude entered into by our PG group for the oil, gas and petrochemicals industry. Both of these fixed-price projects are extremely large and involve a high degree of technical complexity, including vast worksites, large volumes of technically sophisticated hardware, and involved an on-site work force of several thousand, all in an environment of a running refinery. In these projects, PG was responsible for the process control and electrification elements. As the projects progressed, it became apparent that the cost of certain significant project elements were not adequately anticipated at the time of entering into the contracts. For example, certain technical and logistical issues could only be fully assessed after equipment had been taken off line and disassembled and accordingly the full cost of facility refurbishment required became clear only as work progressed. In addition, various technical design and specification issues arose, and the solutions were often more costly to us than originally expected. Finally, as on-site activities progressed, the project suffered considerable delays due to on-site difficulties encountered, such as environmental and property rights issues and archaeological findings. As a result of all of all the above, both the quantity of materials and labor hours required to ultimately complete the projects will significantly exceed our original expectations. We recognized losses of 450 million in fiscal 2000 to take account of the resulting estimated losses on these contracts. The Managing Board has taken the necessary steps to ensure that both projects are operated under the very close oversight of senior management through completion. The Managing Board also decided to require the PG group to cease offering such process control and electrification projects to the oil, gas and petrochemicals industry. Due to the fact that the Managing Board assumed direct oversight of these projects and required PG to no longer accept such projects, these losses were not included in the results of PG, but were recorded centrally within Reconciliation to Financial Statements. See Item 5: Operating and Financial Review and Prospects Fiscal 2001 Compared to Fiscal 2000 Segment Information Analysis Corporate, Eliminations (Operations) and Reconciliation to Financial Statements. See also discussion of centrally managed contracts above.

In our PG business, it is common in the industry to guarantee customers certain delivery dates and that a turbine will achieve certain performance standards. If such delivery dates or performance standards are not met, the supplier is subject to substantial contractual penalties or must take measures to ensure that those standards are achieved. Accordingly, PG has contract losses relating to performance, warranty and other issues in the ordinary course of its business, for which accruals are made as appropriate. In particular, PG has experienced significant contract losses as a result of performance issues affecting a new generation of gas turbine introduced in the late 1990s. Numerous contracts were affected by these performance problems, notably in the following areas: delivery dates could not be met due to frequent repairs of the turbines during the construction period; committed performance levels were not achieved; and emissions levels were higher than contractually warranted. These performance issues have been resolved. The largest remaining loss contract at PG had an accrual of approximately 54 million at September 30, 2002.

We have experienced significant losses on a fixed-price long-term production and outsourcing contract originally entered into by our SBS group that involves the processing of identity documents and the implementation of a border control system for the government of Argentina. In fiscal 2000, a loss of 68 million was recorded. This loss was the result of unfavorable contract pricing terms agreed to after it became necessary to renegotiate the original contract with the new government of Argentina that came into office in December 1999. Our Managing Board made the strategic decision to accept the new pricing terms in order to gain market entry into this important region. In fiscal 2001, this contract was canceled by government decree and a loss of 258 million was recorded for the write-down of inventories and other assets associated with this project. Due to the fact that the Managing Board assumed the direct oversight of this project, the losses noted above were not included in the results of SBS, but were recorded centrally. See Item 5: Operating and Financial Review and Prospects Fiscal 2001 Compared to Fiscal 2000 Segment Information Analysis Corporate, Eliminations (Operations) and Reconciliation to Financial Statements. See also discussion of centrally managed contracts above.

In fiscal 2001, SBS established contract loss provisions of 192 million related to two long-term outsourcing contracts in the U.K. In January 1999, SBS entered into a ten-year agreement to insource the back-office functions of National Savings & Investments (NS&I), a government agency in the U.K. The contract comprised the design and implementation of a significant new IT system, the re-engineering of business processes for increased efficiency and a reduction in the number of staff employed. As the project progressed in fiscal 2001, it became apparent that, due to the complexity of the IT system, additional investment will be required before completion. In parallel, the intended re-engineering and reduction in staff numbers has not been achieved due to delays in the system rollout as well as greater difficulties than had originally been anticipated in effecting process improvements. As a result, both systems and staff costs on the project will significantly exceed original estimates.

In the spring of 1996, SBS entered into an agreement with the Immigration and Nationality Directorate (IND) of the U.K. government to redesign the processing of asylum and immigration applications. The seven-year contract focused on a complex document management and archiving system with the goal of increasing the efficiency of the system s processing functions as well as business process re-engineering and change management. As the project progressed, an unexpected increase in immigration cases led to a change in customer focus from cost reduction to the ability of the system to manage higher volumes of asylum and immigration applications. Due to this change in customer focus, additional costs have been incurred, payment for which the customer disputes. SBS has since redefined new processes and is working closely with the customer to reduce project risk exposure and accordingly related costs, thus to ensure the successful completion of the project.

SBS management continues to focus on risks associated with long-term business process outsourcing contracts, particularly NS&I and IND; however, there can be no assurance that additional losses will not be incurred in connection with these contracts.

Property

Siemens and its consolidated subsidiaries have as of September 30, 2002 approximately 210 production and manufacturing facilities of over 15,000 square meters floor space each throughout the world. Approximately 130 of these are located in Europe, with approximately 75 in Germany, and approximately 65 are located in the Americas, with approximately 50 in the United States. We also have 15 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 and those of our consolidated subsidiaries 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 research and development is a priority on a Siemens-wide and business group basis. For a discussion of the main focus of our current research and development efforts of each business group see the individual group discussions in Item 4: Information on the Company. Siemens also has many thousand trademark registrations worldwide. However, none of our business groups is dependent on a single patent, license or trademark or a group of related patents, licenses or trademarks.

Legal Proceedings

Our former indirect subsidiary Siemens Business Communication Systems, Inc. (now Siemens Enterprise Networks LLC, a subsidiary of Siemens Information and Communications Networks, Inc.) was sued in the United States District Court for the Northern District of Georgia in 1994 by five independent service organizations and two customer end-users seeking treble damages of approximately $162 million for alleged monopoly pricing for maintenance services and an injunction against practices they allege to be anticompetitive, involving the sale and service of Siemens-Rolm branded PBX equipment. Siemens filed a countersuit against the five independent service organization plaintiffs, alleging that they misappropriated Siemens trade secrets, interfered with Siemens contractual and prospective business relationships and infringed on Siemens patents and copyrights. The court ordered that these intellectual property and related claims be tried first and separately. On September 2, 1999, the jury rendered a verdict in favor of Siemens on all claims and awarded Siemens damages of $7 million. On July 14, 2000, the court upheld the jury s finding that Siemens copyrights and patents were valid and that plaintiffs infringed Siemens intellectual property rights but eliminated duplicative damages awarded by the jury, reducing the $7 million award to just under $2 million. On August 10, 2000, the court granted Siemens renewed motion for summary judgment and dismissed plaintiffs case with prejudice in its entirety, holding that the lawful exercise of Siemens intellectual property rights insulated Siemens from antitrust liability. On September 8, 2000, plaintiffs filed a notice of appeal with the United States Court of Appeals for the 11th Circuit appealing the order dismissing their case, and Siemens subsequently filed a cross-appeal on certain limited issues. On procedural grounds, the clerk for the 11th Circuit forwarded the notices of appeal to the Court of Appeals for the Federal Circuit, the appropriate court to hear the issues presented on appeal. The parties have filed briefs with the Court of Appeals for the Federal Circuit and oral argument was heard on February 4, 2002. Based on a procedural decision by the U.S. Supreme Court in an unrelated case, the plaintiffs/appellants have moved to transfer the appeal to the 11th Circuit, the appellate court for non-patent cases in the U.S. District Court for the Northern District of Georgia where the case was tried. That motion was granted on July 2, 2002, and the matter is now being rebriefed for the 11th Circuit.

We are defending a claim in the courts of Pakistan for approximately $1 billion (based on current exchange rates for Pakistan Rupees) in damages relating to alleged breaches of claimed financing obligations. The claim arises out of a transaction involving the Westinghouse business unit that is the predecessor to Siemens Westinghouse Power Corporation, an indirect subsidiary that is a part of our Power Generation group. The claim was filed in the Civil Court in Lahore, Pakistan in September 1998 by WAK Orient Power and Light against Westinghouse Electric Corporation, Raytheon Ebasco Overseas Ltd. and others. The claim was also subject to an arbitration proceeding in London, decided on December 18, 2000, in which the arbitrators found in favor of Siemens Westinghouse on all grounds and awarded Siemens Westinghouse $2 million in damages and $762,000 in costs. The panel found no breach of any obligation by Westinghouse, Raytheon or any of the other defendants. On May 7, 1999, while the claim was being arbitrated in London, WAK nonetheless obtained a default judgment of approximately $1 billion from the trial court in Pakistan. In October 2000, this judgment was vacated on procedural grounds by the Lahore High Court. The High Court declined to address Siemens application for a stay pending conclusion of the London arbitration, however, and remanded the case back to the trial court for further proceedings. Both parties subsequently appealed this decision to the Supreme Court of Pakistan. In a ruling announced July 12, 2002, the Supreme Court rejected WAK s appeal, upheld the Lahore High Court s vacating of the initial default judgment and remanded the case to the Lahore District Court instructing it to proceed, but to consider first whether it has jurisdiction in view of the arbitration proceedings. It also ruled that defendants shall furnish equivalent Bank Guarantee to the satisfaction of the learned trial Judge for satisfaction of the decree, if ultimately passed against them. WAK has argued to the trial court that this language requires defendants to put up a bond immediately. The defendants have filed a petition in the Supreme Court to review this point. By an order dated November 18, 2002, the trial court ordered the defendants to file an answer in the case and to post a $1 billion bank guarantee. The defendants have appealed this order. On November 28, 2002, the Lahore High Court ordered that the appeal be heard on January 22, 2003 and directed that no order adverse to the defendants be entered by the trial court in the interim. In addition to the proceedings in Pakistan, in June 1999, WAK also attempted to enforce the Pakistani trial court s default judgment in the United States. The United States District Court for the Eastern District of Pennsylvania enjoined enforcement of the Pakistani default judgment and confirmed the London arbitration award, entering judgment in favor of Westinghouse Electric Corporation, Raytheon Ebasco Overseas Ltd. and the other defendants. WAK appealed that decision to the United States Court of Appeals for the Third Circuit. On May 9, 2002, that appeal was dismissed by the Third Circuit, and final judgment in favor of the defendants was entered.

We are party to an action in the administrative court in Antioquia, Colombia filed by a consortium of contractors for the Aburra Valley mass transit system against the Aburra Valley mass transit authority. The original action seeks a judgment annulling a resolution by the authority that declared a breach of contract by the consortium and triggered the authority s rights to certain legal remedies such as liquidated damages for delay and contractual claims for damages. In a counterclaim to this action, the authority has claimed damages of $427 million for breach of contract without specifying the details of the alleged breach. As part of a consortium of six companies, Siemens would only be responsible for its own share of any damages. The consortium has unsuccessfully contested the jurisdiction of the administrative court on the basis of the contractual provisions governing jurisdiction and providing for arbitration. In April 2001, the consortium successfully challenged a court order to take evidence. A new order has not yet been issued. The court is currently considering the case. A final decision is not expected within the next five years.

We were subject to a valuation proceeding (*Spruchstellenverfahren*) in connection with a resolution passed at the 1999 annual shareholders meeting to abolish multiple voting rights that were attached to an outstanding class of preferred shares without providing compensation to the holder. The holder of these shares, von Siemens-Vermögensverwaltung GmbH (vSV), brought the valuation proceeding seeking reasonable compensation for the elimination of these multiple voting rights, based on an expert s opinion that assumed a value of 7.59 for each voting right. The court of second instance, the Bayerische Oberste Landesgericht, decided on July 31, 2002 that a value attributable to the multiple voting rights could not be ascertained. Therefore, it ruled that abolishing these rights without providing compensation was reasonable. This decision is final.

We are subject to a valuation proceeding (*Spruchstellenverfahren*) brought against us in 1992 in connection with the integration of Siemens Nixdorf Industries AG, Paderborn, into Siemens AG. According to German Stock Corporation Law, in order to complete the integration of Siemens Nixdorf as a wholly-owned subsidiary, we had to make a mandatory offer to exchange the remaining outstanding shares of Siemens Nixdorf for our shares. Based on an expert s opinion, we made an offer to all outstanding Siemens Nixdorf shareholders at a share exchange rate of six Siemens Nixdorf shares for one Siemens share, or fifteen Siemens shares when adjusted for share splits that have occurred since 1992, and to buy any number of Siemens Nixdorf shares that cannot be divided by six for DM 156.50 (80.02) per share. 68 holders of Siemens Nixdorf shares alleged that the value of our exchange offer was insufficient and brought a proceeding before the Landgericht Dortmund, the regional court in Dortmund. The proceeding relates to all 1,780,462 Siemens Nixdorf shares that were subject to our exchange offer. The Landgericht Dortmund asked an independent expert to give an opinion as to the values of Siemens Nixdorf and Siemens shares. This opinion concluded that the exchange ratio was sufficient but suggested that the cash settlement amount be raised to DM 177.80 (91.93) per Siemens Nixdorf share. In spite of this opinion, on November 18, 2000, the Landgericht Dortmund rendered a decision setting the exchange ratio at three Siemens Nixdorf shares for fifteen Siemens shares, after adjustment for share splits that have occurred since 1992, and the cash settlement at DM 209.38 (107.05) per Siemens Nixdorf share. Siemens believes this decision is wrong and has filed an appeal at the Oberlandesgericht Düsseldorf, the court of the second instance, where certain of the plaintiffs have also filed their own appeal.

On November 29, 2000, Siemens received a written demand from the Atomic Energy Organization of Iran claiming unspecified damages plus interest for the breach of a 1976 contract between Siemens and the Atomic Energy Organization of Iran involving the construction of two nuclear power plants in Bushehr. The Atomic Energy Organization of Iran requested a sixty-day period from receipt of the demand to discuss the claims with Siemens, after which the Atomic Energy Organization of Iran threatened to take actions before arbitral tribunals and/or competent national courts. The sixty-day period elapsed in February 2001 without any resolution of the issue by the parties. No actions have been initiated by the Atomic Energy Organization of Iran before an arbitral tribunal or competent national court. Siemens intends to defend vigorously against any claim that arises from this situation.

Siemens AG and its subsidiaries are party to a variety of other legal proceedings arising in the ordinary course of business. These involve allegations of breach of contract, improper delivery of goods or services, product liability and patent and other intellectual property infringement and other matters. We have accrued provisions for litigation risks including the costs of legal representation and the expected costs of resolving these matters. Although the final resolution of such matters could have a material effect on Siemens consolidated operating results for any reporting period in which an adjustment of the estimated reserve is recorded, Siemens believes that any resulting adjustments should not materially affect its consolidated financial position.

Table of Contents

Item 5: Operating and Financial Review and Prospects

This Annual Report contains forward-looking statements based on beliefs of Siemens management. We use the words anticipate, believe, estimate, expect, intend, should, plan and project to identify forward-looking statements. Such statements reflect our current views with r to future events and are subject to risks and uncertainties. Many factors could cause the actual results to be materially different, including, among others, changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products, lack of acceptance of new products or services and changes in business strategy.

Table of Contents:

Table of Contents

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. GAAP as of and for the years ended September 30, 2002, 2001 and 2000.

Beginning October 1, 2001, Siemens adopted the provisions of Statement of Financial Accounting Standards (SFAS) 142, *Goodwill and Other Intangible Assets*, and no longer amortizes goodwill but instead tests it for impairment. Consistent with this change, EBITA is now referred to as EBIT. EBIT is measured as earnings before financing interest, income taxes and certain one-time items. In a concurrent change, EBITA assets are now reported as Net capital employed. Net capital employed equals EBITA assets less accumulated amortization of goodwill and purchased in-process R&D expenses. Fiscal 2001 has been presented on a comparable basis. In fiscal 2001, we also changed the measure of profitability of our operations from EBIT to EBITA. Fiscal 2000 has been presented on a comparable basis. Our EBIT measures are more fully described below.

In fiscal 2002 and 2001, foreign currency translation effects had significant effects on our results in which our consolidated financial statements are denominated, compared to other currencies, most notably the U.S. dollar and to a lesser extent the Swiss francs, the British pound and the Japanese yen. All of our business groups are subject to foreign currency translation effects; however, the business groups PG, Med and Osram are particularly affected 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, as applicable. For additional information on foreign currency translation see Item 11: Quantitative and Qualitative Disclosure About Market Risk Foreign Currency Exposure and Note 2 to the consolidated financial statements.

In addition, the effect of divestments and acquisitions on our consolidated revenues and expenses also affects the comparability of our consolidated financial statements for different periods. The divestments and acquisitions that were most significant to us are described under Joint Ventures and Acquisitions. See also Note 3 to the consolidated financial statements.

Our results of operations have been affected by losses that result from cost overruns on significant multi-year fixed-price contracts. For a discussion of the losses from such contracts that were significant to us in fiscal 2002 and 2001, see Item 4: Information on the Company Long-Term Contracts and Contract Losses. A discussion of this and other risk factors that could adversely affect our financial condition and results of operations is contained in Item 3: Key Information Risk Factors.

BASIS OF PRESENTATION

Siemens financial results are reported in accordance with U.S. GAAP. To help shareholders follow our growth and progress, the presentation of our worldwide financial results is enhanced by a component model presentation that presents the worldwide results for our operating business separately from the results for our financing and real estate activities and the effects of eliminations, reclassifications and Corporate Treasury. The three components of Siemens worldwide are as follows:

Operations This component is defined as Siemens 13 operating groups including corporate headquarters and excluding the activities of the Financing and Real Estate segments and Corporate Treasury.

Financing and Real Estate This component includes the Siemens Financial Services group, and the business of Siemens Real Estate. These businesses are responsible for our leasing, finance and real estate management activities.

Eliminations, reclassifications and Corporate Treasury The third component included in our consolidated financial statements enhances the transparency of the other components by separately capturing the elimination of transactions among Operations and Financing and Real Estate, as well as certain reclassifications. This component also includes our Corporate Treasury activities.

Effective December 2001, we no longer consolidate Infineon in our financial results. Instead we account for Infineon as an investment using the equity method. Accordingly, our net investment in Infineon is included in our

Table of Contents

consolidated balance sheet under long-term investments, and we report our share of Infineon s net income or loss in our consolidated income statement as part of investment income (see Notes to the consolidated financial statements). The consolidated results of operations and cash flows of Infineon for the first two months of fiscal 2002 (before the accounting change occurred) are in Eliminations, reclassifications and Corporate Treasury. In the prior fiscal year, Infineon was fully consolidated. Accordingly, we continue to show Infineon as a separate component in the results for fiscal 2001.

Our thirteen Operations business groups involve manufacturing, industrial and commercial solutions and services related more or less to our origins in the electrical business. We refer to these groups as our Operations to distinguish them from our financial services activities. We measure the profitability of our Operations component and of our segments by EBIT. EBIT is the measure used by our Managing Board as the chief operating decision maker for the Company in assessing performance. EBIT is also the basis for calculating Economic Value Added (EVA) for Operations, which in turn is part of the determination of the amount of executive incentive compensation in accordance with our company-wide bonus program. Therefore, we believe that EBIT enhances investor s understanding of our Operations because we consider it the best measure of our groups operational performance. Other companies that use EBIT may calculate it differently, and their figures may not be comparable to ours.

EBIT for our Operations component is defined as earnings before financing interest and income taxes, and excludes certain one-time items (see Corporate, Eliminations (Operations) and Reconciliation to Financial Statements Reconciliation to Financial Statements), which are deemed by the chief operating decision maker, the Managing Board, to not relate to the business performance of the Operations component. EBIT for segments is defined as earnings before financing interest, certain pension costs and income taxes and excludes certain one time items, which do not relate to the business performance of the groups. Financing interest is any interest income other than interest income related to receivables from customers, from cash allocated to the segments and interest expense on payables. We believe that it is appropriate to exclude financing interest from EBIT because decision-making regarding financing is typically made centrally in Corporate Treasury. Similarly, income taxes are excluded from EBIT since tax expense is subject to legal structures which typically do not correspond to the structure of our Operating segments. As a result, increases or decreases in EBIT reflect only the operational performance of the operations, as defined by the Managing Board, without regard to these effects. For further information on segment EBIT, see also Notes to the consolidated financial statements.

In contrast, we assess the profitability of our Financing and Real Estate component by income before income taxes since interest expense and income is an important source of expense and revenue for this component. The profitability of our Infineon component, however, is measured by EBIT as Infineon has determined that EBIT, defined as earnings before interest, taxes and minority interest, is the relevant measure for its chief operating decision maker in assessing performance. Since Infineon is a separately listed company, we integrate its relevant measures into our financial reporting. Net capital employed is the asset measure used to assess the capital intensity of our Operations component and our segments. It represents total assets less tax related assets, less accruals and less non-interest bearing liabilities other than tax related liabilities. For further information regarding Net capital employed, see Notes to the consolidated financial statements.

FISCAL 2002 COMPARED TO FISCAL 2001

CONSOLIDATED OPERATIONS OF SIEMENS WORLDWIDE

Economic Environment and Market Trends

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

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

Despite these adverse trends, our net income for fiscal 2002 rose 24% to 2.597 billion. Earnings from Operations and net cash from operating and investing activities both increased strongly compared to the prior year. A number of businesses which initiated cost cutting measures in fiscal 2001 returned to profitability in fiscal 2002, most notably the ICM wireless communications group. And at a time when many of our competitors were reporting sharply lower revenues, our sales for fiscal 2002 were nearly unchanged from the prior year on a comparable basis (excluding the effects of currency exchange, acquisitions and dispositions, which are discussed in detail below).

Operation 2003

Our successes in fiscal 2002 are linked to the ongoing implementation of Operation 2003, a set of strategic programs and initiatives aimed at achieving specific earnings margin targets for the groups and generating cash during a period of slow macroeconomic growth. The five major action areas of Operation 2003 include:

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

Execution of these strategic aims is an important part of our discussion and analysis below, particularly for the individual operating groups.

As a company domiciled in the European Union, Siemens uses the euro as its official currency. Because we conduct much of our business outside the EU, however, currency translation effects involving the euro and other currencies can have a noteworthy impact on our reported results. These effects reduced reported sales by 2% for Siemens as a whole in fiscal 2002, and reduced reported new orders also by 2%.

Results of Siemens Worldwide

- Sales for Siemens worldwide decreased 3% to 84.016 billion and orders decreased 7% to 86.214 billion. Excluding currency effects and the net effect of acquisitions and dispositions, sales remained level and orders decreased 5%.
- Gross profit as a percentage of sales increased by one percentage point to 27.6% from 26.6% in the prior year, a period which included full-year consolidation of Infineon s relatively lower gross profit margin. Higher productivity led to significantly higher gross margins at PG and Med. SV s gross margin increased in part due to the full-year consolidation of the acquired Atecs businesses and an improved cost position. SBS increased its gross margin in comparison to fiscal 2001 which included severance charges and higher loss contract accruals. In contrast, A&D s gross profit margin declined in fiscal 2002 due in part to margin erosion and warranty charges. I&S recorded a lower gross margin in fiscal 2002 due primarily to severance charges.

Research and development expense decreased from 6.782 billion to 5.819 billion compared to prior year. R&D spending represented 6.9% of sales, compared to 7.8% last year. Included in R&D expenses for the prior year are IPR&D charges of 126 million related to Operations, as well as R&D expenses of 1.189 billion relating to Infineon. In the Operating groups, R&D spending increased at SV and Med, and remained stable relative to declining sales at ICN and ICM.

Marketing, selling and general administrative expenses were 15.455 billion in fiscal 2002 compared to 16.640 billion in fiscal 2001. This figure represents 18.4% of sales, compared to 19.1% last year. The majority of the decrease is attributable to the deconsolidation of Infineon, effective December 2001. In the prior year Infineon contributed 786 million to the total. Operations also contributed to the decrease of marketing, selling and general administrative expenses, due to reduced outlays for marketing at ICN, ICM and A&D and lower provisions for accounts and loans receivable.

Other operating income, net was 1.321 billion compared to 2.762 billion last year. Fiscal 2002 includes gains of 936 million resulting from Infineon share sales, a 421 million gain on the sale of Unisphere Networks by ICN, a 60 million non-recurring gain at ICN, a 56 million gain on the sale of Hydraulik-Ring by SV, a gain from the sale of a portfolio of assets to Kohlberg Kravis Roberts & Co. L.P. (KKR), and contract cancellation penalties received by PG. Offsetting these gains was a 378 million goodwill impairment at ICN s Access Solutions division related to Efficient Networks. The prior year included a 3.459 billion pre-tax gain from the transfer of Infineon shares to pension trusts, a 606 million gain related to capital increases at Infineon, and 927 million in goodwill impairments related to the acquisitions of Efficient and Milltronics. Also included in other operating expense for fiscal 2001 is 562 million of goodwill amortization. Beginning October 1, 2001, Siemens adopted the provisions of SFAS 142, *Goodwill and Other Intangible Assets*, and no longer amortizes goodwill.

Siemens earned net income for the fiscal year of 2.597 billion, up 24% from 2.088 billion in fiscal 2001. Net income in fiscal 2002 included our 453 share of Infineon s net loss in fiscal 2002. Earnings per share for the fiscal year were 2.92, also up 24% compared to 2.36 a year earlier.

Net cash from operating and investing activities reached 4.754 billion, up sharply from 1.130 billion in the prior year. Net cash from operating activities totaled 5.564 billion, after a 1.782 billion cash contribution to Siemens pension trusts in Germany, the U.S. and the U.K. Investing activities, including approximately 2.8 billion of net proceeds from portfolio activities, used 810 million in fiscal 2002.

EBIT from Operations rose to 2.474 billion from 1.329 billion a year ago. Both periods include charges against earnings, primarily for severance and asset write-downs, totaling 1.482 billion in fiscal 2002 and 1.863 billion in fiscal 2001. Fiscal 2002 also includes gains of 631 million on sales of businesses.

Siemens management proposed a dividend of 1.00 per share. The prior year dividend per share was 1.00.

Beginning October 1, 2001, Siemens adopted the provisions of SFAS 142, Goodwill and Other Intangible Assets. Accordingly, Siemens no longer amortizes goodwill. Net income in fiscal 2001 included goodwill amortization of 562 million, which reduced reported earnings per share by 0.63. For all periods presented, earnings per share reflect a stock split, at a ratio of one additional share for every two shares owned, which took effect on April 30, 2001.

ACQUISITIONS AND DISPOSITIONS

Atecs Mannesmann

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

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

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

In the second quarter of fiscal 2002, Vodafone AG exercised its option to sell to Siemens its 50% minus two shares stake in Atecs. In connection with this exercise, Siemens made a cash payment of 3.7 billion to Vodafone AG.

Infineon Technologies AG

On December 5, 2001, we transferred 200 million Infineon shares or approximately 28.9% of Infineon s outstanding share capital to an irrevocable, non-voting trust under a trust agreement. Under the terms of the trust agreement, the shares transferred to the trust may not be voted, as we have irrevocably relinquished our voting rights in those shares and the trustee is not permitted to vote the shares it holds in trust. We continue to be entitled to all the benefits of economic ownership of the shares held by the trustee. The transfer on December 5, 2001 reduced our voting interest in Infineon by an amount corresponding to the number of shares transferred. For more information on the Infineon non-voting trust, see Item 10: Additional Information Material Contracts.

During the first quarter of fiscal 2002, the Company sold 23.1 million shares of Infineon for net proceeds of 556 million and a tax-free gain of 332 million. In January 2002, the Company sold 40 million shares of Infineon resulting in net proceeds of 966 million with a resulting tax-free gain of 604 million. At September 30, 2002 our ownership interest was 39.7% and our voting interest was 33.3%, which includes the voting interest of Infineon shares in the Siemens German Pension Trust (Siemens Pension Trust e.V.).

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

Other Dispositions

On July 1, 2002, Siemens completed the sale of Unisphere Networks, Inc. to Juniper Networks, Inc. for a combined sales price of 376 million cash and 208 million in Juniper stock. The sale transaction resulted in a pre-tax gain of 421 million. As a result of the transaction, Siemens acquired 9.73% of Juniper Networks common shares. The Juniper shares held by Siemens are subject to certain disposal restrictions which limit the amount of shares which Siemens may sell.

In September 2002, Siemens completed the sale of several business activities to Kohlberg Kravis Roberts & Co. L.P. (KKR). KKR took over units that had belonged to the former Atecs Mannesmann Group: Mannesmann Plastics Machinery, the gas spring producer Stabilus, Demag Cranes & Components and the harbor crane unit Gottwald. As part of the transaction, Siemens also sold the Metering division of its Power Transmission and Distribution group, the Ceramics division of its Power Generation group, and Network Systems, a regional service business belonging to its Information and Communication Networks group. The business activities were sold to a holding company, called Demag Holding s.a.r.l (Luxembourg). KKR holds an 81% and Siemens a 19% stake in the holding company. The gross sales price was 1.69 billion. Taking into account Siemens stake in the holding company as well as a shareholder note of 38 million, a vendor note of 215 million and the net debt of 372 million assumed by KKR, Siemens received net cash proceeds of about 1.0 billion. The transaction resulted in a pre-tax gain of 21 million and was treated as a sale of a portfolio of businesses. However, separate results were allocated to the operating segments where the sold businesses had previously resided. As a result, Information and Communication Networks (ICN), and Power Generation (PG) were allocated gains of 153 million and 68 million respectively, while Power Transmission and Distribution (PTD) was allocated a loss of 54 million.

Table of Contents

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

SEGMENT INFORMATION ANALYSIS

Key Performance Data by Business Group

	New orders[(1)] (Unaudited)		Total sales[(2)]		EBIT[(3)]		Net capital employed	
	2002	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
				(in millions)				
Operations								
Information and Communication Networks (ICN)	8,697	12,639	9,647	12,882	(691)	(861)	1,100	3,039
Information and Communication Mobile (ICM)	11,538	11,866	11,045	11,299	96	(307)	1,973	2,607
Siemens Business Services (SBS)	6,256	6,303	5,773	6,034	101	(259)	264	492
Automation and Drives (A&D)	8,728	9,065	8,635	8,947	723	981	2,197	2,619
Industrial Solutions and Services (I&S)	4,120	4,881	4,480	4,563	(198)	97	315	487
Siemens Dematic (SD)	2,810	2,281	2,995	2,520	45	(59)	975	957
Siemens Building Technologies (SBT)	5,601	5,549	5,619	5,518	195	132	1,778	2,241
Power Generation (PG)	10,586	12,219	9,446	8,563	1,582	634	(144)	(1,020)
Power Transmission and Distribution (PTD)	4,429	3,887	4,199	4,053	109	96	928	994
Transportation Systems (TS)	5,247	5,647	4,367	4,021	247	186	(741)	(932)
Siemens VDO Automotive (SV)	8,515	5,702	8,515	5,702	65	(261)	3,746	3,605
Medical Solutions (Med)	8,425	8,444	7,623	7,219	1,018	808	3,414	3,844
Osram	4,363	4,522	4,363	4,522	365	462	2,436	2,485
Corporate, eliminations	(5,793)	(6,890)	(3,580)	(3,416)	(1,183)	(320)	(2,486)	(2,805)
Total Operations	83,522	86,115	83,127	82,427	2,474	1,329	15,755	18,613
Reconciliation to financial statements							51,944	50,587
Other interest expense					(96)	(304)		
Goodwill amortization and purchased in-process R&D expenses						(665)		
Gains on sales and dispositions of significant business interests					936	4,065		
Other special items						(1,185)		
Operations income before income taxes/total assets/total amortization, depreciation and write-downs					3,314	3,240	67,699	69,200
Infineon Technologies (Infineon)		4,390		5,671		(1,024)		6,471
Reconciliation to financial statements						(1)		3,272
Infineon income (loss) before income taxes/total assets						(1,025)		9,743

					Income before Income taxes		Total assets	
					2002	**2001**	**2002**	**2001**
						(**in millions)**		
Financing and Real Estate								
Siemens Financial Services (SFS)	582	481	582	481	216	158	8,681	9,501
Siemens Real Estate Management (SRE)	1,612	1,542	1,612	1,542	229	213	4,090	3,791
Eliminations			(8)	(7)			(561)	(525)
Total Financing and Real Estate	2,194	2,023	2,186	2,016	445	371	12,210	12,767

(1) New orders are determined principally as the estimated sales value of accepted purchase orders and order value changes and adjustments, excluding letters of intent.

(2) Includes intersegment sales.

Table of Contents

(3) EBIT is measured as earnings before financing interest, income taxes and certain one-time items included in Corporate, eliminations and Reconciliation to financial statements. EBIT differs from our Income before income taxes and you should not consider it to be the same. Other companies that use EBIT may calculate it differently, and their figures may not be comparable to ours.

Operations

Information and Communications

Information and Communication Networks (ICN)

ICN Performance Data	Change	Year ended September 30, 2002	2001
		(in millions)	
EBIT	20%	(691)	(861)
EBIT margin		(7.2)%	(6.7)%
Total sales	(25)%	9,647	12,882
New orders	(31)%	8,697	12,639
Net cash from operating and investing activities		711	(2,350)

	September 30, 2002	2001
Net capital employed	1,100	3,039
Employees (in thousands)	39	51

Continuing difficult conditions in the telecommunications equipment market had the harshest effect on ICN, which had EBIT of negative 691 million, compared to a negative 861 million in the prior year. The current year included 577 million in severance charges and asset write-downs. Asset write-downs included write-offs of inventory, receivables and venture capital investments. In addition, the group recorded a goodwill impairment of 378 million at the Access Solutions division related to Efficient Networks, as the market for Efficient s DSL equipment significantly weakened compared to expectations at the time ICN acquired the business in fiscal 2001. Partially offsetting these charges were 634 million in gains primarily related to the sale of businesses, including Unisphere Networks. This figure includes a gain of 153 million for the sale of ICN s network systems businesses in the United Kingdom, France and Italy, which were part of the portfolio of business activities sold to KKR. The prior year included severance charges of 387 million and write-downs of assets totaling 672 million, partially offset by 120 million in gains on the sale of investments in start-up companies. ICN s EBIT in fiscal 2001 does not include the impairment of goodwill associated with the Efficient acquisition, as described below in Corporate, Eliminations (Operations) and Reconciliation to Financial Statements Reconciliation to Financial Statements.

The steep plunge in capital expenditures by telecommunication network operators, particularly in the U.S. and Germany, had a direct effect on the Carrier Switching Business (consisting of the Wireline Networks, Optical Networks and Access Solutions divisions), which suffered a sharp decline in sales and orders and a corresponding impact on its profitability. The Enterprise Networks division reversed its loss in the prior year to stabilize its business and post a solid profit in fiscal 2002. For ICN as a whole, sales in fiscal 2002 fell 25% compared to the prior year, to 9.647 billion, while orders dropped 31%, to 8.697 billion.

Net capital employed decreased from 3.039 billion to 1.100 billion as a result of ICN s aggressive working capital management initiatives, divestments, asset write-downs and the goodwill impairment at the Access Solutions division related to Efficient. Net cash from operating activities and investing activities increased significantly from negative 2.350 billion in fiscal 2001, which included the acquisition of Efficient Networks, to a positive 711 million, as the efforts just noted more than offset ICN s negative EBIT for the year. Cash flow will be negatively affected in future periods due to payments related to the planned headcount reduction activities described below. EVA in fiscal 2002 was negative, but improved compared to the prior year due to ICN s reduction in Net capital employed.

Table of Contents

In fiscal 2001, ICN implemented its Profitability and Cash Turnaround (PACT) program, which is aimed at cutting costs, consolidating the group s worldwide manufacturing infrastructure and optimizing its business portfolio. In fiscal 2002, the PACT program was expanded to include a total headcount reduction of approximately 20,500 positions, up from a planned 10,000 positions announced in fiscal 2001. The reduction in personnel is expected to be achieved through attrition, early retirement, and voluntary and involuntary terminations. Fiscal 2001 severance charges totaling 387 million were incurred related to the termination of employees in locations worldwide, employed in various functions including manufacturing and administration. The payout on this plan was substantially completed in fiscal 2002. In fiscal 2002, additional severance charges of 352 million were incurred worldwide in connection with the PACT program for employees in various functions. The majority of this is expected to be paid out in fiscal 2003. ICN expects additional expenses in fiscal 2003 to complete the headcount reduction program.

Information and Communication Mobile (ICM)

ICM Performance Data	Change	Year ended September 30, 2002	2001
		(in millions)	
EBIT		96	(307)
EBIT margin		0.9%	(2.7)%
Total sales	(2)%	11,045	11,299
New orders	(3)%	11,538	11,866
Net cash from operating and investing activities		594	14

	September 30, 2002	2001
Net capital employed	1,973	2,607
Employees (in thousands)	29	30

ICM was back in the black in fiscal 2002, posting EBIT of 96 million compared to a 307 million loss in the prior year, which included asset write-downs of 441 million. The Mobile Phones division was primarily responsible for this turnaround, posting EBIT of 82 million compared to a negative 540 million a year earlier, a period which included significant charges for asset write-downs, particularly for excess handset inventories. In fiscal 2002, the division was especially successful in the mid- and low-end segment where it introduced a number of new products. This resulted in an increase in unit sales to 33.3 million compared to 28.7 million handsets a year earlier. The division leveraged this increase in unit volume by significantly improving its cost structure within a cost-cutting program initiated in fiscal 2001. In addition to streamlining marketing and selling activities and improving its purchasing, the division successfully implemented design-to-cost strategies, including increased sharing of a common technology platform across multiple product lines.

The Networks division recorded an EBIT of 5.0 million compared to 435 million in fiscal 2001. During fiscal 2002 the division faced ongoing price erosion and declining demand for wireless infrastructure products and services. In response to these prevailing market conditions, the division is expanding its Top on Air productivity program into fiscal 2003, in order to further reduce its costs. A headcount reduction plan initiated in fiscal 2001 was expanded during the year to a total targeted reduction of approximately 4,000 positions worldwide. The reduction in personnel is expected to be achieved through attrition, early retirement, and voluntary and involuntary terminations across various functions. EBIT in fiscal 2002 included 105 million for severance charges of which nearly half was paid to employees during the year. The remainder is expected to be paid out in fiscal 2003. In fiscal 2002, the division recorded higher provisions on customer financing receivables, including a 51 million write-off in the second half of the year associated with a customer serving Africa and the Middle East. The Cordless Products division made a significant contribution to ICM s earnings for the year. The group s results for the year also include ICM s share, amounting to 17 million, of the loss at the Fujitsu Siemens Computers joint venture.

Table of Contents

For ICM as a whole, sales edged down 2%, to 11.045 billion, and orders declined 3%, to 11.538 billion compared to fiscal 2001. The decline in volume was evident at the Networks division, as a drop in sales of GSM infrastructure equipment was not compensated by an increase in sales of next-generation UMTS equipment.

Net capital employed decreased from 2.607 billion in fiscal 2001 to 1.973 billion mainly due to aggressive working capital management, primarily accounts receivable and inventories. Net cash from operating and investing activities increased significantly to 594 million in fiscal 2002 compared to 14 million last year, due to increased profitability and improved asset management. Cash flow will be negatively affected in future periods due to payments related to the planned headcount reduction activities noted above and due to commitments to extend customer financing in the Networks division. For additional information see Customer Financing. EVA remained negative, but improved in fiscal 2002 due to positive earnings and lower Net capital employed.

Siemens Business Services (SBS)

		Year ended September 30,	
SBS Performance Data	**Change**	**2002**	**2001**
		(in millions)	
EBIT		101	(259)
EBIT margin		1.7%	(4.3)%
Total sales	(4)%	5,773	6,034
New orders	(1)%	6,256	6,303
Net cash from operating and investing activities		173	339

	September 30,	
	2002	**2001**
Net capital employed	264	492
Employees (in thousands)	34	36

EBIT at SBS was 101 million in fiscal 2002 compared to a negative 259 million a year ago. The prior year included 242 million charges for severance and asset write-downs and a 44 million gain on a sale of an investment. The severance charges in fiscal 2001 totaled 196 million as part of a plan to eliminate 2,200 positions. During fiscal 2002, 140 million of this amount was paid to employees and the remainder is expected to be paid out in fiscal 2003. The prior year was also affected by loss provisions relating to two significant business process outsourcing contracts totaling 192 million. Management at SBS continues to focus on risks associated with long-term business process outsourcing contracts, particularly regarding our long-term contract with National Savings & Investments in the U.K. EBIT margin at SBS increased to 1.7% in fiscal 2002 compared to negative 4.3% a year ago. Sales slid 4% below the prior-year level, to 5.773 billion, and orders held steady at 6.256 billion, despite a difficult market for IT services. Net capital employed decreased from 492 million a year ago to 264 million in fiscal 2002 due to working capital management and lower capital expenditures. Net cash from operating and investing activities was 173 million in fiscal 2002, a period which included the severance payments noted above. Net cash from operating and investing activities of 339 million in fiscal 2001 benefited from higher sales of receivables to Siemens Financial Services (SFS). EVA turned positive in fiscal 2002 due to higher earnings and lower Net capital employed.

Table of Contents

Automation and Control

Automation and Drives (A&D)

A&D Performance Data	Change	Year ended September 30, 2002	2001
		(in millions)	
EBIT	(26)%	723	981
EBIT margin		8.4%	11.0%
Total sales	(3)%	8,635	8,947
New orders	(4)%	8,728	9,065
Net cash from operating and investing activities		1,019	533

	September 30, 2002	2001
Net capital employed	2,197	2,619
Employees (in thousands)	51	54

A&D was one of Siemens top earnings performers for the year, delivering 723 million in EBIT and an 8.4% EBIT margin. Despite declining sales, A&D s largest division, Industrial Automation Systems, was able to maintain a strong EBIT margin. The Large Drives division achieved higher volume and EBIT as it translated large orders into sales and benefited from productivity measures initiated in fiscal 2001. EBIT also included charges of 26 million, including headcount reduction in the U.S. and a 10 million loss on the sale of an investment. In comparison, EBIT a year earlier was 981 million. EBIT in the prior year did not include an impairment of goodwill associated with the acquisition of Milltronics, which is discussed in Corporate, Eliminations (Operations) and Reconciliation to Financial Statements Reconciliation to Financial Statements. Sales for A&D overall slid 3% to 8.635 billion and orders declined 4% to 8.728 billion, due in part to negative currency effects and weak demand in the Americas, particularly in the U.S. Net capital employed decreased from 2.619 billion to 2.197 billion due to improvements in working capital management, particularly regarding inventories and accounts receivable. This development also drove the improvement in net cash from operating and investing activities, which almost doubled from 533 million to 1.019 billion. EVA was positive, but lower than in the prior year.

Industrial Solutions & Services (I&S)

I&S Performance Data	Change	Year ended September 30, 2002	2001
		(in millions)	
EBIT		(198)	97
EBIT margin		(4.4)%	2.1%
Total sales	(2)%	4,480	4,563
New orders	(16)%	4,120	4,881
Net cash from operating and investing activities		(107)	(39)

	September 30, 2002	2001

Net capital employed	315	487
Employees (in thousands)	29	30

I&S battled weakness in the market for industrial solutions, posting EBIT of negative 198 million for the year compared to a positive 97 million in fiscal 2001. I&S took 152 million in charges for severance programs and capacity adjustments in fiscal 2002 primarily at the Industrial Services division, which turned negative after solid earnings in fiscal 2001. Reduced investments by major customers in the industrial sector resulted in a sharp decline in volume at the Metals, Mining and Paper Technologies division as well as at the Infrastructure and

Table of Contents

Marine Solutions division. These declines resulted in negative EBIT, including severance charges for both businesses after positive earnings a year ago. The severance charges in fiscal 2002 totaled 118 million for a plan to eliminate approximately 1,600 positions. During fiscal 2002, 35 million of this amount was paid to employees, with the remainder scheduled for payment in fiscal 2003.

Sales fell 2%, to 4.480 billion, while orders declined 16%, to 4.120 billion in part due to greater selectivity regarding new business. Net capital employed decreased to 315 million due in part to higher liabilities and lower inventories, compared to 487 million in the prior year. Net cash from operating and investing activities decreased from a negative 39 million to a negative 107 million, due to decreased profitability and lower sales of receivables to SFS. I&S cash flow will be negatively affected in future periods due to payments related to the planned headcount reduction activities noted above. EVA turned negative primarily due to lower profitability.

Siemens Dematic (SD)

		Year ended September 30,	
SD Performance Data	**Change**	**2002**	**2001**
		(in millions)	
EBIT		45	(59)
EBIT margin		1.5%	(2.3)%
Total sales	19%	2,995	2,520
New orders	23%	2,810	2,281
Net cash from operating and investing activities		(70)	261

	September 30,	
	2002	**2001**
Net capital employed	975	957
Employees (in thousands)	12	12

SD posted EBIT of 45 million compared to a negative 59 million a year earlier, when the group recorded significantly higher contract loss provisions and other charges totaling 95 million. In contrast, SD was profitable in all four quarters of fiscal 2002, as the group successfully integrated the Dematics businesses acquired from Atecs. The Material Handling division increased profitability at its U.S. operations through improved project management. The division also lowered contract loss provisions particularly in Europe as it increased overall productivity. The Postal Automation division returned to profitability. In contrast, EBIT of the Electronics Assembly Systems division turned negative compared to positive earnings a year ago, primarily due to a prolonged and deepening slump in the market for telecommunications equipment, affecting demand for its pick and place equipment. EBIT margin for the group improved to a positive 1.5%, compared to the negative level in the prior year.

Sales of 2.995 billion and orders of 2.810 billion were 19% and 23% higher than in fiscal 2001, respectively, primarily because the prior period included only five months consolidation of the Dematic businesses. On a comparable basis, sales and orders declined year-over-year, reflecting the slowdown at the Electronics Assembly Systems division. Net capital employed was nearly unchanged at 975 million. Cash from operating and investing activities was a negative 70 million compared to a positive 261 million in the prior year, as customer prepayments decreased significantly and the group made payments for previously accrued contract loss provisions. Higher earnings helped improve SD s EVA, which is still negative.

Table of Contents

Siemens Building Technologies (SBT)

SBT Performance Data	Change	Year ended September 30, 2002	2001
		(in millions)	
EBIT	48%	195	132
EBIT margin		3.5%	2.4%
Total sales	2%	5,619	5,518
New orders	1%	5,601	5,549
Net cash from operating and investing activities		295	49

	September 30, 2002	2001
Net capital employed	1,778	2,241
Employees (in thousands)	36	37

SBT increased its EBIT in fiscal 2002 to 195 million from 132 million a year earlier. Prior-year results included charges primarily at the Fire and Safety division in the U.S., together with costs associated with the closure of certain facilities and related headcount reduction at the Building Automation and Fire and Safety divisions. EBIT margins improved as the group focused on higher-margin projects and reorganized the Fire & Security Products division.

Orders and sales for SBT overall were up 1% and 2%, respectively, to 5.601 billion and 5.619 billion, as increases at Building Automation and acquisition-related increases at Security Systems were offset by decreases at Facility Management. The decrease in Net capital employed from 2.241 billion to 1.778 billion was due to improvements in working capital and reductions in property, plant and equipment. The improvement in net cash from operating and investing activities, from 49 million to 295 million, was a result of lower capital expenditures as well as decreases in inventories, increases in accounts payable and improvements in accounts receivable management. EVA increased but remains negative.

Power

Power Generation (PG)

PG Performance Data	Change	Year ended September 30, 2002	2001
		(in millions)	
EBIT	150%	1,582	634
EBIT margin		16.7%	7.4%
Total sales	10%	9,446	8,563
New orders	(13)%	10,586	12,219
Net cash from operating and investing activities		662	2,045

	September 30, 2002	2001

Net capital employed	(144)	(1,020)
Employees (in thousands)	26	26

PG led all Siemens groups with 1.582 billion in EBIT and an EBIT margin of 16.7%, compared to 634 million in EBIT and a 7.4% margin a year earlier. EBIT for fiscal 2002 included income of approximately 100 million from the net effect of updated estimates of project completion performance, a gain from the sale of a business included in the portfolio of business activities which Siemens sold to KKR, fees derived from customer cancellation of orders, which were partially offset by charges related to planned consolidation of manufacturing capacity. Further consolidation-related charges may be incurred in fiscal 2003 depending on market developments.

Table of Contents

Sales increased 10% year-over-year, to 9.446 billion. Much of the increase reflected the conversion of past orders to current revenues. The sales trend slowed significantly over the course of the year, especially in the fourth quarter. Orders decreased 13% to 10.586 billion, as U.S. demand for gas turbines, which began slowing in the second quarter, came to a virtual halt by the fiscal year s end. PG s backlog dropped from 26 billion, including approximately 11 billion of reservations, at the end of the prior year to 20 billion at September 30, 2002, including approximately 5 billion in reservations. During the year, PG converted 4.1 billion of reservations to confirmed orders.

Net capital employed rose from negative 1.020 billion to negative 144 million, as prior customer prepayments were translated into project inventories and not replaced with new prepayments. This same trend also affected net cash from operating and investing activities, which decreased from 2.045 billion a year ago to 662 million in fiscal 2002. Cash flow will be impacted in future periods due to expected lower customer prepayments. Excellent profitability more than offset negative trends in lower customer prepayments and contributed to PG s improved EVA.

Power Transmission and Distribution (PTD)

PTD Performance Data	Change	Year ended September 30, 2002	Year ended September 30, 2001
		(in millions)	
EBIT	14%	109	96
EBIT margin		2.6%	2.4%
Total sales	4%	4,199	4,053
New orders	14%	4,429	3,887
Net cash from operating and investing activities		149	(331)

	September 30, 2002	September 30, 2001
Net capital employed	928	994
Employees (in thousands)	17	21

PTD reported 109 million in EBIT despite a loss of 54 million on the sale of its Metering division, which was included in the portfolio of business activities sold by Siemens to KKR. EBIT in the prior year was 96 million. Fiscal 2002 earnings were driven primarily by strong performance at the High Voltage, Medium Voltage and Power Automation divisions. EBIT for the current fiscal year included charges of 34 million primarily for a severance program. Sales rose 4%, to 4.199 billion, and orders climbed 14%, to 4.429 billion, benefiting from a large order booked early in the year. Sales growth slowed at the end of the year due to slowing activity in the U.S. power market. Net capital employed decreased slightly to 928 million due to improvements in working capital and the sale of the Metering division. Working capital improvements also had a positive effect on net cash from operating and investing activities, which increased by 480 million to 149 million. The prior year s cash flow was impacted by acquisitions. EVA was negative, due primarily to the loss on the sale of the Metering division.

Transportation

Transportation Systems (TS)

TS Performance Data	Change	Year ended September 30, 2002	2001
		(in millions)	
EBIT	33%	247	186
EBIT margin		5.7%	4.6%
Total sales	9%	4,367	4,021
New orders	(7)%	5,247	5,647
Net cash from operating and investing activities		95	752

	September 30, 2002	2001
Net capital employed	(741)	(932)
Employees (in thousands)	17	14

TS increased its EBIT 33% to 247 million compared to 186 million a year earlier. EBIT margin rose to 5.7% for the year compared to 4.6% last year. Sales climbed 9%, to 4.367 billion, as TS converted large prior year orders into current year sales. Orders of 5.247 billion were 7% lower than in fiscal year 2001, when TS booked a large railcar order valued at approximately 1.6 billion. This year s new orders included a high-speed rail link in the Netherlands for 404 million, a turnkey subway system in Bangkok for 356 million and a 14-year, full-service contract for maintenance of high-speed trains in Spain for 305 million. The group s backlog stood at 11.2 billion at year-end, level with the end of the prior year. Net capital employed increased from a negative 932 million to a negative 741 million as TS used advance payments for project inventories. Net cash from operating and investing activities decreased from 752 million to 95 million, due to lower advance payments. The rate at which TS receives advance payments for customer projects will have an impact on its cash flow in future periods. EVA increased on higher profitability due to improved productivity and an increased focus on higher-margin projects.

Siemens VDO Automotive (SV)

SV Performance Data	Change	Year ended September 30, 2002	2001
		(in millions)	
EBIT		65	(261)
EBIT margin		0.8%	(4.6)%
Total sales	49%	8,515	5,702
New orders	49%	8,515	5,702
Net cash from operating and investing activities		224	(89)

	September 30, 2002	2001
Net capital employed	3,746	3,605
Employees (in thousands)	43	44

SV turned in a profitable year, with EBIT of 65 million compared to a negative 261 million in fiscal 2001 as its integration and consolidation programs, initiated last year showed results. SV benefited from a 56 million gain on the sale of its Hydraulik-Ring business in fiscal 2002 and from the effects of its cost-reduction program initiated in fiscal 2001. The relative improvement in EBIT also benefited from the fact that fiscal 2002 included 12 months of results from the automotive operations acquired from Atecs, while fiscal 2001 included only five months. The prior year included 90 million in asset write-downs split between losses on the divestment of the group s wiring harness business and write-downs of investments. The current year included charges for write-downs of certain intangible assets. Sales and orders of 8.515 billion were 49% higher than in fiscal 2001, largely reflecting full-year inclusion of the Atecs businesses compared to five months in the prior year.

Net capital employed increased from 3.605 billion to 3.746 billion due to increased capital spending, especially for manufacturing equipment for Diesel technology. Net cash from operating and investing activities improved from negative 89 million to positive 224 million, due mainly to 107 million in proceeds from the sale of Hydraulik-Ring and to the improvement in earnings. Higher earnings also improved EVA, which remained negative.

Medical

Medical Solutions (Med)

Med Performance Data	Change	Year ended September 30, 2002	Year ended September 30, 2001
		(in millions)	
EBIT	26%	1,018	808
EBIT margin		13.4%	11.2%
Total sales	6%	7,623	7,219
New orders	0%	8,425	8,444
Net cash from operating and investing activities		1,124	86

	September 30, 2002	September 30, 2001
Net capital employed	3,414	3,844
Employees (in thousands)	31	30

Med achieved a new high in earnings with EBIT of 1.018 billion, 26% higher than the 808 million earned in fiscal 2001. Gross profit increased, particularly in the group s imaging systems divisions, driven by productivity improvements in connection with new products. EBIT margin rose more than two percentage points, to 13.4%. Med s imaging systems businesses also drove sales growth of 6% to 7.623 billion compared with the prior year. Delayed investment decisions in new technologies by customers of the Health Services division combined with order increases at the imaging systems divisions to result in stable order development for the year at 8.425 billion.

Net capital employed decreased from 3.844 billion to 3.414 billion due to improvements in accounts receivable management. Cash from operating and investing activities was 1.124 billion, up from 86 million in the prior year which included the acquisition of Acuson. Cash from operating and investing activities improved on increased profitability and asset management. Higher earnings on decreased assets increased EVA.

Lighting

Osram

Osram Performance Data	Change	Year ended September 30, 2002	Year ended September 30, 2001
		(in millions)	

EBIT	(21)%	365	462
EBIT margin		8.4%	10.2%
Total sales	(4)%	4,363	4,522
New orders	(4)%	4,363	4,522
Net cash from operating and investing activities		284	349

	September 30,	
	2002	2001
Net capital employed	2,436	2,485
Employees (in thousands)	35	35

Osram generated 365 million in EBIT compared to 462 million a year earlier, a period that included 54 million in non-operating gains. EBIT margin was also lower, at 8.4%, but that level still ranked among the highest of the groups. Sales of higher-margin products at the Automotive Lighting division resulted in a solid improvement in EBIT margin which were more than offset by margin erosion, in particular in the Opto-semiconductors division. Sales and orders slid 4%, to 4.363 billion, reflecting economic weakness particularly in Osram s large U.S. market.

Net capital employed decreased slightly to 2.436 billion, compared to 2.485 billion in the prior year. Net cash from operating and investing activities decreased from 349 million to 284 million. EVA decreased on lower earnings, but was still strongly positive.

Corporate, Eliminations (Operations) and Reconciliation to Financial Statements

Corporate, eliminations (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 certain non-recurring, one-time charges or gains and results from centrally managed projects. In addition, Corporate, eliminations (Operations) includes corporate costs such as domestic pension-related income or expense, certain corporate-related derivative activities, and centrally held equity investments, business units and corporate projects. Reconciliation to financial statements includes various items excluded by definition from EBIT.

We believe that this presentation provides a more meaningful comparison between the periods under review because it eliminates one-time or non-recurring gains or losses that management does not believe are indicative of the underlying performance of our business. This presentation reflects the assessment of our chief operating decision maker with respect to the performance of our components. However, you should be aware that different one-time or non-recurring items may occur in every period. While management believes that excluding special items in this way assists in understanding the underlying performance of our business in the periods under review, you should assess our performance on the basis of all the information presented in this Item 5: Operating and Financial Review and Prospects.

Corporate, Eliminations

Corporate, eliminations consists of four main components: corporate items, consisting primarily of corporate expenses; investment earnings (losses), which include our share of earnings (losses) from equity investments held centrally; non-allocated pension-related income (expense); and eliminations, other. EBIT for Corporate, eliminations as a whole was a negative 1.183 billion compared to a negative 320 million a year ago.

Corporate items decreased to 671 million in fiscal 2002 from 838 million in 2001, driven primarily by reduction in corporate expenses.

Investment earnings were a negative 16 million compared to a positive 253 million a year earlier. The current period includes gains on the sale of two centrally held investments totaling 133 million, which were more than offset by Siemens equity share of Infineon s net loss in fiscal 2002. Fiscal 2001 includes a loss on the sale of a domestic equity and debt security fund of 209 million, which was more than offset by gains of 227 million on the sale of available-for-sale-securities.

Non-allocated pension-related income (expense) was a negative 250 million compared to a positive 279 million in the prior year. This line item was negatively affected by changes in pension trust net asset values, lower return assumptions and increased amortization expense related to the underfunding of our pension trusts.

Eliminations, other was negative 246 million in fiscal 2002 compared to negative 14 million in the prior year. Fiscal 2002 primarily includes charges of 146 million related to the sale of a portfolio of businesses to

KKR and charges of 70 million relating to the write-off of centrally held investments. Fiscal 2001 included 78 million in expenses on centrally managed litigation, 74 million in corporate interest expense in part related to the Atecs acquisitions and 63 million in severance charges. Offsetting these items in fiscal 2001 were a gain of 114 million related to currency effects and the treatment of derivative contracts not qualifying for hedge accounting, and a gain of 162 million resulting from the positive resolution of certain asset-disposal contingencies.

Reconciliation to Financial Statements

Other interest expense: Other interest expense for fiscal 2002 was 96 million, compared to 304 million in fiscal 2001, a period which included interest expense on a temporary 3.6 billion liability related to the acquisition of Atecs. Lower interest expense in the current period reflects lower interest rates and lower payments on intracompany financing. See Liquidity and Capital Resources below.

Goodwill amortization and purchased in-process R&D expense: In fiscal 2001, Siemens recorded 665 million in goodwill amortization and purchased IPR&D expenses of Operations. IPR&D of 126 million derived from the acquisitions of Acuson, Efficient and Atecs.

Gains on sales and dispositions of significant business interests: Gains on sales and dispositions of significant business interests in fiscal 2002 include 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.

Included in gains on sales and dispositions of significant business interests in fiscal 2001 was a 3.459 billion pre-tax gain as a result of the irrevocable transfer of 93,825,225 shares of Infineon to the Siemens German Pension Trust. We also recorded a 484 million gain resulting from an additional capital offering by Infineon, achieved through the sale of 60 million of its shares in the fourth quarter of fiscal 2001. Following an earlier capital increase at Infineon, achieved through acquisitions, we recorded an aggregate gain of 122 million. Siemens did not participate in these capital increases or receive any proceeds from them.

The 3.459 billion pre-tax gain on the contribution of the Infineon shares in April 2001 to the Siemens German Pension Trust was a non-cash item; the total amount recorded was based upon the market price of Infineon shares at the date of the transfer. The business purpose of the contribution of the Infineon shares to this pension trust was to shore up an already existing under-funded position in the pension trust, ahead of substantial new pension obligations arising from our acquisition of Atecs in the third quarter of fiscal 2001. As part of the purchase price, Siemens assumed Atecs unfunded pension obligations. In addition, the transfer of Infineon shares represented a further step towards meeting our long-stated goal of disposing of our interest in Infineon over time. While U.S. pension plans subject to the U.S. Employment Retirement Income Security Act of 1974 (ERISA) are restricted in the amount of securities they are permitted to own in the employer or its affiliates to 10% of plan assets, the Siemens German Pension Trust is not subject to such ERISA provisions.

Other special items: Other special items in fiscal 2001 included charges totaling 927 million taken for impairment of goodwill relating to acquisitions made by ICN and A&D. These charges are not included in EBIT from Operations. They include a charge of 746 million resulting from the impairment of goodwill associated with the acquisition by ICN of Efficient Networks, Inc., a provider of DSL equipment in the United States. Shortly after the acquisition of Efficient, worldwide demand for DSL products contracted sharply. Additionally, the total charges include 181 million for impairment of goodwill primarily associated with the acquisition by A&D of Milltronics, Ltd. For more information see Notes to the consolidated financial statements.

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

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

Table of Contents

Financing and Real Estate

Siemens Financial Services (SFS)

SFS Performance Data	Change	Year ended September 30, 2002	2001
		(in millions)	
Income before income taxes	37%	216	158
Total sales	21%	582	481
Net cash from operating and investing activities		282	(496)

	September 30, 2002	2001
Total assets	8,681	9,501
Employees (in thousands)	1	1

Earnings before income taxes rose 37% at SFS, to 216 million, positively influenced by strong investment income in the Equity division, especially equity earnings from an investment in a power station in Indonesia and the sale of an investment in Portugal. Higher net interest income and lower provisions in the Equipment & Sales Financing division contributed significantly to the group s earnings improvement. Earnings before income taxes for SFS in fiscal 2001 were 158 million. Sales increased 21%, to 582 million from 481 million in fiscal 2001. Sales primarily represent lease revenues from operating leases and do not reflect the bulk of the group s business in capital leases and other financing activities. Total assets decreased from 9.501 billion to 8.681 billion in fiscal 2002, primarily at the Equipment and Sales Financing division, especially due to the division s factoring business and significant foreign exchange effects.

Net cash from operating activities and investing activities increased significantly, from negative 496 million in fiscal 2001 to a positive 282 million primarily due to the above-mentioned asset reductions at the Equipment and Sales Financing division. EVA improved due to the increase in earnings.

Siemens Real Estate (SRE)

SRE Performance Data	Change	Year ended September 30, 2002	2001
		(in millions)	
Income before income taxes	8%	229	213
Total sales	5%	1,612	1,542
Net cash from operating and investing activities		309	393

	September 30, 2002	2001
Total assets	4,090	3,791
Employees (in thousands)	2	2

SRE earned 229 million before income taxes on sales of 1.612 billion, up from 213 million and 1.542 billion, respectively, a year earlier. The group s improved earnings were primarily due to increased profitability on higher sales related to real estate management and lease administration activities, which more than offset a reduction in gains from the disposal of real estate compared to the prior year. Total assets increased from 3.791 billion to 4.090 billion in fiscal 2002, due to the assumption of control of most of SBT s real estate properties in fiscal 2002. Net cash from operating and investing activities decreased from 393 million in fiscal 2001 to 309 million. EVA improved due to the increase in earnings.

Table of Contents

COMPONENT INFORMATION STATEMENTS OF INCOME

The following discussion adheres to our component model of reporting and includes an analysis of the income statement organized by component: Operations, Financing and Real Estate, and Eliminations, reclassifications and Corporate Treasury, followed by a summary of Siemens worldwide.

Operations

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

Operations

	Year ended September 30,	
	2002	**2001**
	(in millions)	
Net sales from operations	83,127	82,427
Gross profit on sales	22,805	22,235
as percentage of sales	*27.4%*	*27.0%*
Research and development expenses	(5,650)	(5,427)
as percentage of sales	*(6.8)%*	*(6.6)%*
Marketing, selling and general administrative expenses	(15,083)	(15,559)
as percentage of sales	*(18.1)%*	*(18.9)%*
Other operating income (expense), net	326	(118)
Income (loss) from investments in other companies, net	(142)	(24)
Income from financial assets and marketable securities, net	124	263
Interest income (expense) of Operations, net	94	(41)
EBIT	2,474	1,329
as percentage of sales	*3.0%*	*1.6%*

Net sales from Operations increased 1% to 83.127 billion compared to 82.427 billion a year earlier. The net effect of acquisitions and dispositions contributed 4% to this development, reflecting primarily the inclusion of the VDO and Dematic businesses beginning in May 2001. Revenues were negatively affected by foreign currency effects of 2%, primarily involving exchange rates between the U.S. dollar and the euro. Positive contributions primarily from PG, TS and Med, as well as additions from the integration of the VDO and Dematic businesses were offset by declining sales at ICN, ICM, SBS as well as A&D.

Gross profit as a percentage of sales was 27.4% compared to 27.0% in the prior year. Higher productivity led to significantly higher gross margins at PG and Med. SV s gross margin increased in part due to the full year consolidation of the acquired Atecs businesses and an improved cost position. SBS increased its gross margin in comparison to fiscal 2001, a year which included severance charges and higher loss contract accruals. In contrast, A&D s gross profit margin declined in fiscal 2002 due in part to margin erosion and warranty charges. I&S recorded a lower gross margin in fiscal 2002 due primarily to severance charges. See the analysis above for further comments on the individual groups.

Research and development expenses (R&D) increased 4% to 5.650 billion in fiscal 2002, reflecting our ongoing commitment to R&D in a wide variety of areas. R&D spending as a percentage of sales was 6.8% compared to 6.6% a year earlier, driven by increased R&D spending at SV and Med, and by stable R&D investments at ICN and ICM relative to declining sales.

Marketing, selling and general administrative expenses decreased 3% to 15.083 billion compared to last year, and declined as a percentage of sales from 18.9% to 18.1%. Reduced outlays for marketing lowered expenses at ICN, ICM and A&D, while higher sales drove higher expenses at PG and Med. The current year included lower provisions for accounts and loans receivable, while the prior year included higher loans receivable provisions including a write-down of a loan related to Winstar Communications, Inc.

Table of Contents

Other operating income (expense), net was a positive 326 million compared to a negative 118 million last year. The current period includes a 421 million gain on the sale of Unisphere Networks by ICN, a 60 million nonrecurring gain at ICN, a 56 million gain on the sale of Hydraulik-Ring by SV, a 21 million gain from the sale of a portfolio of business activities to KKR, and contract cancellation penalties received by PG. Offsetting these gains was a 378 million impairment related to Efficient Networks at ICN s Access Solutions division. The prior period included a loss on the divestment of a business at SV.

Income (loss) from investments in other companies, net was a negative 142 million compared to a negative 24 million in the prior year. The current year includes Siemens equity loss relating to Infineon, offset by a 133 million gain on the sale of two investments. The prior year included a loss of 209 million on the sale of a centrally managed investment and higher charges and expenses resulting from write-downs of venture capital and equity investments at ICN and SV.

Income from financial assets and marketable securities, net was a positive 124 million compared to a positive 263 million in the last year. The current year was positively affected by higher gains related to the treatment of derivative contracts not qualifying for hedge accounting. Last year included a gain of 227 million on the sale of marketable securities from Siemens centrally managed equities portfolio, a gain of 44 million from the sale of an investment at SBS, as well as gains of 120 million from the sale of venture capital investments at ICN, offset by 184 million in charges from write-downs of marketable securities, that suffered a material decline in value which we have determined to be other than temporary.

Interest income (expense) of Operations, net was 94 million compared to net interest expense of 41 million a year earlier, primarily due to declining interest rates and lower average interest-bearing liabilities.

EBIT from Operations for fiscal 2002 was 2.474 billion, compared with 1.329 billion for fiscal 2001 reflecting the factors noted above. Both periods included charges of 1.482 billion and 1.863 billion, respectively, primarily for severance programs and asset write-downs. EBIT margin increased to 3.0% compared to 1.6% in fiscal 2001.

Other interest expense for fiscal 2002 was 96 million, compared to 304 million in fiscal 2001, a period which included interest expense on a temporary 3.6 billion liability related to the acquisition of Atecs. Lower interest expense in the current period reflects lower interest rates and lower payments on intracompany financing. See Liquidity and Capital Resources below.

In fiscal 2001, Siemens recorded 665 million in goodwill amortization and purchased IPR&D expenses of Operations. IPR&D of 126 million derived from the acquisitions of Acuson, Efficient and Atecs.

Gains on sales and dispositions of significant business interests in fiscal 2002 include 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. Gains on sales and disposition of significant business interests in the prior year included a gain of 3.459 billion resulting from the irrevocable transfer of 93.8 million Infineon shares into the Siemens German Pension Trust, and a gain of 606 million resulting from capital increases at Infineon.

Other special items in fiscal 2001 included goodwill impairments of 927 million related to Efficient and Miltronics, and a 258 million write-down of inventories and assets associated with the cancellation of a centrally managed outsourcing contract in Argentina.

Table of Contents

Financing and Real Estate

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

Financing and Real Estate

	Year ended September 30, 2002	Year ended September 30, 2001
	(in millions)	
Sales	2,186	2,016
Gross profit on sales	476	435
Marketing, selling and general administrative expenses	(282)	(297)
Other operating income, net	151	143
Income from investments in other companies, net	44	37
Income (expense) from financial assets and marketable securities, net	(25)	(15)
Other interest income, net	81	68
Income before income taxes	445	371

Sales from Financing and Real Estate for the fiscal year 2002 increased 8% to 2.186 billion compared to fiscal 2001. The increase is attributable predominantly to the Equipment and Sales Financing division at SFS and the assumption of SBT s real estate property at SRE. Marketing, selling and general administrative expenses decreased 15 million to 282 million. Other operating income, net was 151 million compared to 143 million last year. Income from investments in other companies, net increased from 37 million to 44 million in fiscal 2002, reflecting in part strong investment earnings at SFS Equity division. Income (expense) from financial assets and marketable securities, net was a negative 25 million compared to a negative 15 million in the prior year. For fiscal 2002, other interest income, net was 81 million compared to 68 million in fiscal 2001. As a result, income before income taxes for the fiscal year 2002 increased to 445 million compared to 371 million for fiscal 2001.

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 (excluding Infineon Technologies AG) and to our Financing and Real Estate component. It also includes eliminations of activity conducted between those two components, and reclassification of financial items which are associated with Operations but not included in EBIT from Operations. Since December 2001, Infineon has been accounted for under the equity method. The results of Infineon for the first two months of fiscal 2002, a loss of 115 million, are included in Eliminations, reclassifications and Corporate Treasury. To the extent that Infineon provided products and services to the Operations groups in the prior year, when Infineon was still consolidated in Siemens results, those effects are eliminated here as well.

Reclassifications in fiscal 2002 include gains of 936 million resulting from the Infineon share sales mentioned above, reclassified from gains on sales and disposition of significant business interests to other operating income for Siemens worldwide. Fiscal 2001 includes reclassification of 665 million in goodwill amortization and purchased IPR&D, with 126 million in IPR&D related to the acquisitions of Acuson, Atecs and Efficient reclassified as research and development expense for Siemens worldwide and the remainder consisting of goodwill amortization reclassified into other operating expense. Reclassifications from gains on sales and disposition of significant business interests in fiscal 2001 include the 3.459 billion gain from transferring shares of Infineon to the Siemens German Pension Trust and the 606 million gain from capital increases at Infineon, both reclassified to other operating income. Reclassification of other special items includes the 927 million in Efficient and Milltronics impairments, reclassified as other operating expense for Siemens worldwide, and the 258 million write-down related to the contract in Argentina, reclassified into cost of goods sold.

Siemens Worldwide

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

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

Siemens Worldwide

	Year ended September 30,	
	2002	**2001**
	(in millions)	
New orders	86,214	92,528
New orders in Germany	17,812	18,921
International orders	68,402	73,607
Sales	84,016	87,000
Sales in Germany	18,102	19,144
International sales	65,914	67,856
Gross profit on sales	23,206	23,105
as percentage of sales	*27.6%*	*26.6%*
Research and development expenses	(5,819)	(6,782)
as percentage of sales	*(6.9)%*	*(7.8)%*
Marketing, selling and general administrative expenses	(15,455)	(16,640)
as percentage of sales	*(18.4)%*	*(19.1)%*
Other operating income, net	1,321	2,762
Income (loss) from investments in other companies, net	(114)	49
Income from financial assets and marketable securities, net	18	173
Interest income (expense) of Operations, net	94	(32)
Other interest income, net	224	43
Income before income taxes	3,475	2,678
Income taxes	(849)	(781)
as percentage of income before income taxes	*24%*	*29%*
Minority interest	(29)	191
Net income	2,597	2,088

New orders in fiscal 2002 decreased from 92.528 billion to 86.214 billion. Orders in Germany decreased 6% to 17.812 billion, while international orders decreased 7% to 68.402 billion in this year. Sales for the fiscal year 2002 decreased 3% to 84.016 billion. Sales in Germany decreased 5% to 18.102 billion, while international sales decreased 3% to 65.914 billion. International business accounts for approximately 80% of Siemens total volume. Orders in the U.S. for the fiscal year decreased 14% to 21.205 billion and sales decreased 4% to 20.288 billion. The difference between sales and order trends in the U.S. was driven primarily by the end of the gas turbine boom. In Asia-Pacific, orders decreased 8% to 10.092 billion and sales decreased 13% to 9.668 billion. China continued to account for the largest share of sales in the region, contributing 3.223 billion. In Europe outside Germany, orders decreased 5% and sales increased 2%. For more detailed information on geographic sales for our business groups see Item 4: Information on the Company.

Gross profit margin in fiscal 2002 increased by one percentage point to 27.6% from 26.6% in the prior year, a period which included full-year consolidation of Infineon s low gross profit margin. Higher gross profit margins

Table of Contents

at PG, Med, SV and SBS in the current year were offset by lower margins primarily at A&D and I&S. Gross profit in fiscal 2001 also included the effect of the 258 million write-down related to Argentina.

Research and development (R&D) expenses decreased from 6.782 billion to 5.819 billion compared to prior year. R&D spending represented 6.9% of sales, compared to 7.8% last year. Included in R&D expenses for the prior year are IPR&D charges of 126 million related to Operations, as well as R&D expenses of 1.189 billion relating to Infineon.

Marketing, selling and general administrative expenses were 15.455 billion in fiscal 2002 compared to 16.640 billion in fiscal 2001. This figure represents 18.4% of sales, compared to 19.1% last year. The majority of the decrease is attributable to the deconsolidation of Infineon, effective December 2001. In the prior year Infineon contributed 786 million to the total. Operations also contributed to the decrease of marketing, selling and general administrative expenses, due to reduced outlays for marketing and lower provisions for accounts and loans receivable.

Other operating income (expense), net was 1.321 billion compared to 2.762 billion in fiscal 2001. The current period includes gains of 936 million resulting from Infineon share sales, the 421 million gain on the sale of Unisphere Networks by ICN, the 60 million non-recurring gain at ICN, the 56 million gain on the sale of Hydraulik-Ring by SV, the gain from the KKR transaction, and contract cancellation penalties received by PG. Offsetting these gains was the 378 million impairment at ICN s Access Solutions division related to Efficient Networks. The prior year included the 3.459 billion pre-tax gain from the transfer of Infineon shares to the Siemens German Pension Trust, the 606 million gain related to capital increases at Infineon, and the 927 million in goodwill impairments related to the acquisitions of Efficient and Milltronics. Also included in other operating expense in fiscal 2001 is 562 million of goodwill amortization. Beginning October 1, 2001, Siemens adopted the provisions of SFAS 142, *Goodwill and Other Intangible Assets*, and no longer amortizes goodwill.

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. The effective tax rate on income for fiscal 2001 was approximately 29%, which was also positively impacted by the tax-free sale of a part of our interest in Infineon as well as lower income tax rates mandated in fiscal 2001 by the tax reform passed in Germany in October 2000. This resulted in a one-time reduction of 222 million in income tax expense resulting from the adjustment of Siemens deferred tax balances at October 1, 2000. Both periods included negative tax impacts from non-deductible goodwill impairments.

EVA PERFORMANCE

During fiscal 2002, Siemens continued its enterprise-wide focus on economic value added (EVA). We tie a significant portion of our executive incentive compensation to achieving EVA targets.

EVA is a financial performance measurement of the value created or destroyed by a business. In simple terms, it compares the profitability of a business against the cost of capital used to run that business. We use this measure of performance in addition to income before income taxes and EBIT because those measures focus on results without taking into consideration the cost of capital employed in the business. In this manner, EVA complements EBIT. For each group in Operations, the EVA calculation begins with Siemens central management assessment of the risk-adjusted cost of capital for the group. This amount is then multiplied by the Net capital employed for the group, and the result is subtracted from net operating profit after taxes to arrive at EVA. A positive EVA means that a business has earned more than its cost of capital, and is therefore defined as value-creating. A negative EVA means that a business is earning less than its cost of capital and is therefore defined as value-destroying.

Because the two major components of Siemens Operations and Financing and Real Estate are fundamentally different from each other, we adjust our calculations of EVA accordingly. In the case of Operations, we use EBIT as the base measure and apply a flat tax charge of 35% for calculating net operating profit. We calculate the percentage cost of capital for each group by taking the weighted average of the after-tax cost of debt and equity of Siemens and apply an adjustment factor, which takes into account the specific risks associated with the particular business. In fiscal 2002, management s determination of the cost of capital for the groups within Operations ranged from 8% to 10%. This percentage is applied against average net operating assets in order to determine capital cost. In the case of Financing and Real Estate, we take income before taxes as the base measure and again apply a flat tax rate of 35% to arrive at income after taxes. From this result we deduct the cost of capital, which is calculated by multiplying the percentage cost of capital (as determined by Siemens management) by the risk-adjusted equity allocated to the Financing and Real Estate component. Other organizations that use EVA as a measure of financial performance may define and calculate EVA differently.

Siemens worldwide realized a positive EVA of 617 million in fiscal 2002, compared to a negative 743 million in fiscal 2001.

EVA calculation

	2002	2001
	(in millions of)	
Operations		
EBIT from Operations	2,474	1,329
Taxes and other	(933)	(332)
Net operating profit after taxes	1,541	997
Net capital employed (at September 30)	15,755	18,613
Financial adjustments/average calculation(1)	6,960	8,801
Average net operating assets	22,715	27,414
Capital cost	(2,061)	(2,524)
Operations	**(520)**	**(1,527)**
Financing and Real Estate		
Income before income taxes	445	371
Taxes and other	(133)	(110)
Net operating profit after taxes	312	261
Equity	1,850	1,790
Capital cost	(165)	(158)
Financing and Real Estate	**147**	**103**
Eliminations, reclassifications and Corporate Treasury	**54**	**45**
Siemens excluding Infineon	(319)	(1,379)
EVA for Infineon(2)		(1,368)
Siemens worldwide before adjustment	**(319)**	**(2,746)**
Adjustment for certain centrally recorded gains/charges (3)	936	2,003
Siemens worldwide	**617**	**(743)**

(1) The term net operating assets is the same as Net capital employed except for the effects of financial adjustments and the fact that average net operating assets are calculated as the average total of four fiscal quarters with a time lag of one quarter.

(2) In fiscal 2002 EVA for Infineon is included in EVA for Operations.

(3) Centrally recorded gains in fiscal 2002 represent gains on the sale of shares in Infineon. Prior year items included a gain of 3.459 billion resulting from the transfer of the Infineon shares into the Siemens German Pension Trust and a gain resulting from capital increases at

Infineon, partially offset by goodwill impairments and charges related to a centrally managed outsourcing contract.

FISCAL 2001 COMPARED TO FISCAL 2000

CONSOLIDATED OPERATIONS OF SIEMENS WORLDWIDE

Economic Environment and Market Trends

Despite a weakening economic environment throughout fiscal 2001, many of our operating groups delivered strong earnings, others were adversely affected by rapidly deteriorating business conditions. These developments are best understood in terms of the different market cycles in which our groups operate.

Table of Contents

A number of groups operate in fields whose markets are stable over extended periods and are currently benefiting from favorable conditions. This applies particularly to Power Generation (PG), Transportation Systems (TS) and Medical Solutions (Med) which comprise roughly 30 percent of our business. Our market positions and profitability in these fields are continuing to improve. Power Transmission and Distribution (PTD) also belongs in this market cycle.

A second set of groups which also contribute about 30 percent of our sales are subject to shorter, general business cycles. Two good examples here are Automation and Drives (A&D) and Osram. Both units have sustained high levels of earnings, effectively demonstrating how a leading business can cope with economic cycles without significant declines in income. Industrial Solutions and Services (I&S), Siemens Building Technologies (SBT) and portions of Siemens Dematic (SD) also belong to this market cycle.

Around 40 percent of our sales are generated by groups dependent on industry-specific cycles currently experiencing deteriorating business conditions. These include primarily Information and Communication Networks (ICN), Information and Communication Mobile (ICM), Siemens Business Services (SBS), Siemens Dematic (SD), Siemens VDO Automotive (SV) and Infineon. Accordingly, these groups must make appropriate adjustments in light of these conditions.

Results of Siemens Worldwide

We took aggressive action to address the more difficult market environment by restructuring the capacities of ICN, ICM, SBS and SV, which resulted in total charges with respect to restructuring and asset write-downs of 1.863 billion. These effects contributed to a negative earnings development for Siemens worldwide as a whole compared to the previous fiscal year. In this difficult environment, we initiated successful asset management measures and significantly improved our cash flow.

Sales for Siemens worldwide increased 12% compared to fiscal 2000, to 87.000 billion. Excluding Infineon, sales increased 15% to 82.256 billion. Positive currency translation effects contributed one percentage point to this increase.

Gross profit decreased by 1.2 percentage points to 26.6% in fiscal 2001. Higher gross margins at PG, TS and Med in fiscal 2001 were offset by charges taken due to deteriorating market conditions at ICN, ICM, SBS and SD, and margin erosion at ICN and ICM. Gross profit in fiscal 2001 also includes unusual charges from asset write-downs related to a large outsourcing contract and was negatively affected by the significant decrease in gross profit at Infineon.

R&D spending represented 7.8% of sales, compared to 7.5% last year. Marketing, selling and general administrative expenses were 19.1% of sales, compared to 18.3% of sales last year, reflecting in part higher provisions on trade and financing receivables at ICN and ICM a well as increased advertising costs at ICM. Other expenses in fiscal 2001 includes 927 million impairment charges related to ICN and A&D.

Siemens worldwide net income of 2.088 billion in fiscal 2001 included gains on sales and dispositions of significant business interests including 4.065 billion, primarily related to the transfer of part of our share in Infineon to the Siemens German Pension Trust. Prior-year earnings of 8.860 billion included 7.826 billion in gains from divestments implemented as part of a portfolio optimization program. Infineon, in which we held a 50.4% economic interest at the end of fiscal 2001, recorded a net loss for the fiscal year of 591 million compared to net income of 1.126 billion in fiscal 2000.

Earnings per share were 2.36 in fiscal 2001, compared to 9.97 in the previous year. For all periods presented, earnings per share reflect a stock split, at a ratio of one additional share for every two shares owned, which took effect for trading purposes on April 30, 2001.

Net cash from operating activities of Siemens worldwide was 7.016 billion for the year, sharply up from the previous year s level of 6.154 billion despite increasingly difficult market conditions.

Table of Contents

EBITA from Operations was 1.329 billion including restructuring charges and asset write-downs of 1.863 billion. Excluding these charges and write-downs, EBITA from Operations was 3.192 billion. Prior year EBITA was 2.799 billion.

The proposed dividend of 1 per share is comparable on a post-split basis to the prior-year dividend of 0.93 excluding the prior-year bonus dividend.

JOINT VENTURES AND ACQUISITIONS

We completed the following transactions in fiscal 2001:

In November 2000, Med acquired Acuson Corporation of the United States for a purchase price of approximately U.S.$700 million;

In January 2001, PG transferred its nuclear power operations into a joint venture with Framatome in exchange for a 34% interest in the joint venture. This investment is accounted for under the equity method;

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

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

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

SEGMENT INFORMATION ANALYSIS

Key Performance Data by Business Group

	New Orders(1) (Unaudited)		Total Sales(2)		EBITA(3)		EBITA Assets(4)	
	2001	**2000**	**2001**	**2000**	**2001**	**2000**	**2001**	**2000**
				(in millions)				
Operations								
Information and Communication Networks (ICN)	12,639	11,648	12,882	11,323	(861)	686	3,298	4,454
Information and Communication Mobile (ICM)	11,866	10,420	11,299	8,910	(307)	718	2,623	2,876
Siemens Business Services (SBS)	6,303	5,857	6,034	5,882	(259)	70	518	1,396
Automation and Drives (A&D)	9,065	8,163	8,947	7,943	981	865	2,653	2,632
Industrial Solutions and Services (I&S)	4,881	4,401	4,563	4,226	97	111	493	375
Siemens Dematic (SD)	2,281	1,913	2,520	1,786	(59)	196	984	560
Siemens Building Technologies (SBT)	5,549	5,066	5,518	4,932	132	297	2,276	2,226
Power Generation (PG)	12,219	9,409	8,563	7,757	634	66	(1,003)	178
Power Transmission and Distribution (PTD)	3,887	3,566	4,053	3,151	96	45	1,004	784
Transportation Systems (TS)	5,647	3,722	4,021	3,710	186	75	(916)	(337)
Siemens VDO Automotive (SV)	5,702	3,839	5,702	3,833	(261)	89	3,691	937
Medical Solutions (Med)	8,444	5,253	7,219	4,924	808	463	4,099	3,308
Osram	4,522	4,327	4,522	4,326	462	388	2,505	2,533
Corporate, eliminations	(6,890)	(4,759)	(3,416)	(1,100)	(320)	(1,270)	(2,555)	2,143
Total Operations	86,115	72,825	82,427	71,603	1,329	2,799	19,670	24,065
Reconciliation to financial statements							51,247	45,044
Other interest expense					(304)	(220)		
Goodwill amortization and purchased in-process R&D expenses					(665)	(253)		
Gains on sales and dispositions of significant business interests					4,065	7,826		
Other special items					(1,185)	(280)		
Operations income before income taxes/ total assets/total amortization, depreciation and write-downs					3,240	9,872	70,917	69,109

					EBIT(5)		Net Capital(6) Employed	
					2001	**2000**	**2001**	**2000**
						(in millions)		
Infineon Technologies (Infineon)	4,390	8,837	5,671	7,283	(1,024)	1,670	6,471	5,709
Reconciliation to financial statements					(1)	74	3,272	3,144

$ 187

Derivative financial instruments are included in Other Assets in the face of the balance sheet. The cost to acquire these derivative financial instruments was approximately $1.4 million. The difference between the purchase

29

CENTRO NP LLC AND SUBSIDIARIES

(AS SUCCESSOR TO NEW PLAN EXCEL REALTY TRUST, INC. (THE PREDECESSOR))

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

price of these derivative financial instruments and fair value at March 31, 2009 is included in the income statement.

Concentration of Credit Risk

A concentration of credit risk arises in the Company s business when a national or regionally-based tenant occupies a substantial amount of space in multiple properties owned by the Company. In that event, if the tenant suffers a significant downturn in its business, it may become unable to make its contractual rent payments to the Company, exposing the Company to a potential loss in rental revenue that is magnified as a result of the tenant renting space in multiple locations. The Company regularly monitors its tenant base to assess potential concentrations of credit risk. Management believes the current credit risk portfolio is reasonably well diversified and does not contain any unusual concentration of credit risk.

Risks Associated with Liquidity Position

The Company presently has $306.5 million of debt under its Amended July 2007 Facility which is scheduled to mature on December 31, 2010. During the remaining nine months of 2009, the Company has an aggregate of $180.0 million of mortgage debt, notes payable and credit facilities scheduled to mature plus $25.3 million of scheduled mortgage amortization payments. The $180 million of debt maturities includes $150 million in unsecured notes payable that were subject to a tender offer. Refer to discussion above under *Tender Offer.* An event of default caused by the non-payment of this debt upon maturity may result in a default under our public indentures. Such event of default will result in a default of the Super Bridge Loan and the Residual Credit Facility. Refer to the discussion above about the cross-defaulting of debt arrangements.

In addition, covenants contained in certain of the Company s indebtedness significantly constrain the Company s ability to incur additional debt in the short-term. In connection with the Supplement to the Amended July 2007 Facility, the Company is no longer permitted to make draws under the Amended July 2007 Facility, and is limited to financing any development costs from distributions received from the Residual Joint Venture, and equity contributions from Super LLC, that are funded with borrowings from the Residual Credit Facility and certain asset sale proceeds. However, given that the Company does not control the Residual Joint Venture, such funding to fulfill liquidity needs cannot be guaranteed.

The Company s ultimate parent investors (CPT and CPL) are also dealing with significant liquidity/refinancing issues. Due to the financial constraints of the Company s ultimate parent investors, it is unlikely that they will be able to make additional equity contributions to alleviate the Company s short-term liquidity issues.

Note 12: Non-Controlling Interests in Consolidated Partnerships

The main component of non-controlling interests in consolidated partnerships and joint ventures pertain to the preferred unitholders in the DownREIT partnership. In accordance with the guidance provided in EITF D-98, this component of non-controlling interests in consolidated partnerships is required to be classified as mezzanine equity. Such classification is required given the preferred unitholders to redeem their units at anytime for cash. Refer to discussion further below. In 1995, the DownREIT Partnership, a consolidated entity, was formed to own certain real estate properties. A wholly owned subsidiary of the Company is the sole general partner of the DownREIT Partnership and is entitled to receive 99% of all net income and gains before depreciation, if any, after the limited partners receive their preferred cash and gain allocations. Properties have been contributed to the DownREIT Partnership in exchange for cash, the assumption of mortgage indebtedness and limited partnership units (which may be redeemed at stipulated prices for cash).

In connection with the DownREIT Merger, each unit of limited partnership interest in the DownREIT Partnership (a DownREIT Unit) who elected to do so was converted, without any action on the part of the holder, into the right to receive one fully-paid Class A Preferred Unit, without interest, of the surviving partnership (the Preferred Unit Consideration). In lieu of the Preferred Unit Consideration, holders of DownREIT Units were offered the opportunity to elect to receive cash in an amount equal to the Offer Price per DownREIT Unit, as adjusted (the Cash Consideration). The holders of DownREIT Units that elected to receive the Cash

30

CENTRO NP LLC AND SUBSIDIARIES

(AS SUCCESSOR TO NEW PLAN EXCEL REALTY TRUST, INC. (THE PREDECESSOR))

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consideration ceased to be limited partners of the DownREIT Partnership. In connection with the DownREIT Merger, holders of 752,187 DownREIT Units, as adjusted, elected to receive the Cash Consideration, and holders of 2,643,870 DownREIT Units, as adjusted, elected, or were deemed to have elected, to receive the Preferred Unit Consideration. As a result, following the consummation of the DownREIT Merger, there were 2,643,870 Class A Preferred Units outstanding and not owned by Centro NP or its affiliates. Holders of these Class A Preferred Units have a redemption right for their Class A Preferred Units which became exercisable starting April 20, 2008. Each Class A Preferred Unit is redeemable for $33.15 plus all accrued and unpaid distributions.

The DownREIT Partnership entered into agreements (the ERP Redemption Agreements) in June 2008 with twelve limited partners with respect to the redemption of each limited partner s outstanding Class A Preferred Units for an aggregate amount of $44.9 million of which $9.4 million remained outstanding as of December 31, 2008 (the DownREIT Partnership Redemption Obligation). On August 29, 2008, one of the limited partners party to an ERP Redemption Agreement entered into an agreement with the DownREIT Partnership revoking the redemption of its then outstanding remaining Class A Preferred Units and electing to retain such units. On September 12, 2008, November 25, 2008 and December 12, 2008, the DownREIT Partnership entered into amendments to the ERP Redemption Agreements with the remaining eleven limited partners who had elected to redeem their Class A Preferred Units which provided for, among other things, an extension of the redemption date of the DownREIT Partnership Redemption Obligation ultimately to January 15, 2009. Additionally, on November 11, 2008, another Class A Preferred Unit Holder (separate to the previously discussed twelve limited partners that had made a redemption election) elected to redeem substantially all of its Class A Preferred Units. Such units were redeemed in exchange for the fee interest in a property. As of March 31, 2009, no other limited partners with Class A Preferred Units have made a redemption election. Such redemption election may be made at any time and the Company is required to make such redemption on the second to last business day of the quarter in which such election is made, provided that the Company receives the redemption election at least ten business days prior to such date.

On January 15, 2009, the Company paid in full the DownREIT Partnership Redemption Obligation using proceeds from distributions from the Residual Joint Venture that were funded with borrowings from the Residual Credit Facility. As of December 31, 2008, the DownREIT Partnership Redemption Obligation is shown as a liability of Redemption Rights in the Consolidated Balance Sheet.

SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, requires that DownREIT Partnership Class A Preferred Units that became mandatorily redeemable by the Company pursuant to the terms of the DownREIT Partnership Agreement, should be classified as a liability in the consolidated financial statements. DownREIT Partnership Class A Preferred Units become mandatorily redeemable when the holder elects to redeem the units. As of December 31, 2008, 283,127 units had been redeemed by holders which were yet to be paid. Accordingly, $9.4 million of the total redemption amount payable relating to the DownREIT Partnership Class A Preferred Units were classified as a liability as of December 31, 2008 and are referred to above as the DownREIT Partnership Redemption Obligation.

DownREIT Partnership unit information is summarized as follows:

	Limited Partner Units
Outstanding at December 31, 2008	1,023,486
Issued	
Redeemed	(283,127)
Outstanding at March 31, 2009	740,359

The changes in redeemable non-controlling interests for the year ended December 31, 2008 and the three months ended March 31, 2009 and March 31, 2008 are shown below (in thousands):

31

CENTRO NP LLC AND SUBSIDIARIES

(AS SUCCESSOR TO NEW PLAN EXCEL REALTY TRUST, INC. (THE PREDECESSOR))

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Three Months Ended March 31, 2009	Year Ended December 31, 2008	Three Months Ended March 31, 2008
Balance at beginning of period:	$ 25,051	$ 83,214	$ 83,214
Distributions to non-controlling interests	(877)	(3,288)	(1,292)
Redemptions of non-controlling interests		(59,329)(1)	
Net loss	368	4,454	1,586
Ending Balance	$ 24,542	$ 25,051	$ 83,508

(1) As of December 31, 2008, $9.4 million of DownREIT Partnership Redemption Obligation remained unpaid and were accounted for as liabilities in accordance with SFAS No. 150.

Note 13: Commitments and Contingencies

General

The Company is not presently involved in any material litigation arising outside the ordinary course of its business. However, the Company is involved in routine litigation arising in the ordinary course of business, none of which is believed to be material in light of reserves taken by the Company. In connection with a specific tenant litigation, and based upon certain rulings occurring during the third quarter of 2005, the Company maintains an aggregate reserve of approximately $4.3 million as of March 31, 2009. Given the current status of the tenant litigation, the Company believes that any loss in excess of the established reserve would be immaterial.

Funding Commitments

In addition to the joint venture funding commitments described in Note 8 above, the Company also had the following contractual obligations as of March 31, 2009, none of which the Company believes will have a material adverse affect on the Company s operations:

- *Letters of Credit*. The Company has arranged for the provision of seven separate letters of credit in connection with certain property or insurance related matters. If these letters of credit are drawn, the Company will be obligated to reimburse the providing bank for the amount of the draw. As of March 31, 2009, there was no balance outstanding under any of the letters of credit. If the letters of credit were fully drawn, the combined maximum amount of exposure would be approximately $12.5 million. The expiration of these letters of credit may be automatically extended pursuant to the terms of the amended July 2007 facility and Bank of America, as the issuing bank under these letters of credit, has agreed not to prevent the automatic extension of such letters of credit.

- *Non-Recourse Debt Guarantees*. Under certain Company and joint venture non-recourse mortgage loans, the Company could, under certain circumstances, be responsible for portions of the mortgage indebtedness in connection with certain customary non-recourse carve-out provisions such as environmental conditions, misuse of funds and material misrepresentations. As of March 31, 2009, the Company had mortgage loans and secured term loans outstanding of approximately $557.9 million, excluding the impact of unamortized premiums, and unconsolidated joint ventures in which the Company has a direct or indirect interest had mortgage loans outstanding of approximately $3.0 billion. In addition, the Company has guaranteed certain construction and other obligations relative to certain joint venture development projects; however, the Company does not expect that its obligations under such guarantees will be material if called upon.

- *Leasing Commitments.* The Company has entered into leases, as lessee, in connection with ground leases for shopping centers which it operates and administrative space for the Company. These leases

CENTRO NP LLC AND SUBSIDIARIES

(AS SUCCESSOR TO NEW PLAN EXCEL REALTY TRUST, INC. (THE PREDECESSOR))

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

are accounted for as operating leases. The minimum annual rental commitments for these leases during the next five fiscal years and thereafter are approximately as follows (dollars in thousands)**:**

Year		
2009 (remaining nine months)	$	638
2010		852
2011		857
2012		890
2013		894
Thereafter		14,364

- *Redemption Rights.* The DownREIT Partnership entered into the ERP Redemption Agreements in June 2008 with twelve limited partners with respect to the redemption of each limited partner s outstanding Class A Preferred Units for an aggregate amount of $44.9 million, of which $9.4 million remained outstanding as of December 31, 2008 (the DownREIT Partnership Redemption Obligation). On August 29, 2008, one of the limited partners party to an ERP Redemption Agreement entered into an agreement with the DownREIT Partnership revoking the redemption of its remaining Class A Preferred Units and electing to retain such units. On September 12, 2008, November 25, 2008 and December 12, 2008, the DownREIT Partnership entered into amendments to the ERP Redemption Agreements with the remaining eleven limited partners who had elected to redeem their Class A Preferred Units which provided for, among other things, an extension of the redemption date of the DownREIT Partnership Redemption Obligation ultimately to January 15, 2009. Additionally, on November 11, 2008, another Class A Preferred Unit Holder (separate to the previously discussed twelve limited partners that had made a redemption election) elected to redeem substantially all of its Class A Preferred Units. Such units were redeemed in exchange for the fee interest in a property. As of March 31, 2009, no other limited partners with Class A Preferred Units have made a redemption election. Such redemption election may be made at any time and the Company is required to make such redemption on the second to last business day of the quarter in which such election is made, provided that the Company receives the redemption election at least ten business days prior to such date.

On January 15, 2009, the Company paid in full the DownREIT Partnership Redemption Obligation using proceeds from distributions from the Residual Joint Venture that were funded with borrowings from the Residual Credit Facility. As of December 31, 2008, the DownREIT Partnership Redemption Obligation is shown as a liability of Redemption Rights in the balance sheet.

SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, requires that DownREIT Partnership Class A Preferred Units that became mandatorily redeemable by the Company pursuant to the terms of the DownREIT Partnership Agreement, should be classified as a liability in the consolidated financial statements. DownREIT Partnership Class A Preferred Units become mandatorily redeemable when the holder elects to redeem the units. As of December 31, 2008, 283,127 units had been redeemed by holders which were yet to be paid. Accordingly, $9.4 million of the total redemption amount payable relating to the DownREIT Partnership Class A Preferred Units were classified as a liability as of December 31, 2008 and are referred to above as the DownREIT Partnership Obligation.

Environmental Matters

Under various federal, state and local laws, ordinances and regulations, the Company may be considered an owner or operator of real property or may have arranged for the disposal or treatment of hazardous or toxic substances and, therefore, may become liable for the costs of removal or remediation of certain hazardous substances released on or in their property or disposed of by them, as well as certain other potential costs which could relate to hazardous or toxic substances (including governmental fines and injuries to persons and property). Such liability may be imposed whether or not the Company knew of, or was responsible for, the presence of these hazardous or

CENTRO NP LLC AND SUBSIDIARIES

(AS SUCCESSOR TO NEW PLAN EXCEL REALTY TRUST, INC. (THE PREDECESSOR))

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

toxic substances. As is common with community and neighborhood shopping centers, many of the Company s properties had or have on-site dry cleaners and/or on-site gasoline facilities. These operations could potentially result in environmental contamination at the properties.

The Company is aware that soil and groundwater contamination exists at some of its properties. The primary contaminants of concern at these properties include perchloroethylene and trichloroethylene (associated with the operations of on-site dry cleaners) and petroleum hydrocarbons (associated with the operations of on-site gasoline facilities). The Company is also aware that asbestos-containing materials exist at some of its properties. While the Company does not expect the environmental conditions at its properties, considered as a whole, to have a material adverse effect on the Company, there can be no assurance that this will be the case. Further, no assurance can be given that any environmental studies performed have identified or will identify all material environmental conditions, that any prior owner of the properties did not create a material environmental condition not known to the Company or that a material environmental condition does not otherwise exist with respect to any of the Company s properties.

Note 14: Comprehensive Income (Loss)

Total comprehensive income (loss) was as follows for the periods indicated below (dollars in thousands):

	Three Months Ended March 31, 2009	2008
Comprehensive loss	$ (16,240)	$ (6,812)

As of March 31, 2009, the primary component of comprehensive loss was net loss. As of December 31, 2008, accumulated other comprehensive loss reflected in the Company s member s capital on the Consolidated Balance Sheets was comprised of realized/unrealized gain (loss) on available-for-sale securities of $0.1 million.

Note 15: Related Parties

The Company received a REIT Management fee from affiliates of its parent company, Super LLC, which was calculated on assets managed by the Company. With the distribution discussed at Note 1, the Company ceased charging these fees on May 1, 2008. The Company generated REIT Management fees of approximately $2.5 million for the three months ended March 31, 2008.

After May 1, 2008, the Company pays subcontract fees for management services provided by the Company Management Joint Venture, which is calculated on costs incurred to manage properties by the Company Management Joint Venture plus 50 basis points. For the three months ended March 31, 2009, the Company incurred approximately $1.7 million in subcontract fees, which remained unpaid as of such date. During the three months ended March 31, 2009, the Company also incurred leasing fees and property management fees of $0.8 million and $3.0 million, respectively, for services provided by the Company Management Joint Venture in accordance with the Distribution Agreement as discussed in Note 1. These fees were paid in full by the Company as of March 31, 2009.

The Company also derives fee income from services provided to certain of its joint ventures and other managed properties. For the three months ended March 31, 2009, the Company generated approximately $4.3 million in fee income. As of March 31, 2009 and December 31, 2008, the Company had approximately $8.9 million of fee income receivable.

As of March 31, 2009, amounts due to affiliates of the Company were $11.8 million, and were included in Other Liabilities. There were no interest expenses on the amounts due. As of December 31, 2008, amounts due from affiliates of the Company were $5.2 million and were included in Other Assets. There was no interest income on the amounts due.

CENTRO NP LLC AND SUBSIDIARIES

(AS SUCCESSOR TO NEW PLAN EXCEL REALTY TRUST, INC. (THE PREDECESSOR))

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16: Fair Value

Effective January 1, 2008, the Company partially adopted SFAS No. 157, which provides a framework for measuring fair value under GAAP. The Company has not elected to apply SFAS No. 159 and fair value any of the eligible financial assets and liabilities permitted under SFAS No. 159. The only financial assets recorded at fair value as of March 31, 2009 are those required to be fair valued under other accounting standards.

Fair Value Measurement

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Level 1 assets and liabilities include entity securities that are traded in an active exchange market, as well as certain U.S. Treasury and other U.S. government agency securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities. Level 2 assets are derivative instruments for which the fair value is estimated based on valuations obtained from third party pricing services for identical or comparable assets.

Level 3 Unobservable inputs that are supported by little or no market activity. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, for which the determination of fair value requires significant management judgment or estimation.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis:

Marketable Securities

The fair value of marketable securities is the market value based on both quoted market prices and other valuations.

Derivative Financial Instruments

The fair value of the derivative instruments, which are classified as Other Assets on the Consolidated Balance Sheet, are derived using mid-market discount curves obtained from independent sources within the industry.

Assets measured at fair value on a recurring basis, as required by accounting standards other than SFAS No. 159, are summarized below (dollars in thousands):

CENTRO NP LLC AND SUBSIDIARIES

(AS SUCCESSOR TO NEW PLAN EXCEL REALTY TRUST, INC. (THE PREDECESSOR))

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Recurring Fair Value Measurements Using Level 1	Level 2	Level 3	Assets/(Liabilities) at Fair Value
Marketable securities	$ 221	$ 9,612	$	$ 9,833
Derivative Financial Instruments		187		187

The following table shows those financial assets measured at fair value on a non-recurring basis as of March 31, 2009:

	Non-recurring Fair Value Measurements Using Level 1	Level 2	Level 3	Assets/(Liabilities) at Adjusted Carrying Amount (Based on Fair Value
Impaired investments accounted for under the equity method	$	$	$ 27,403	$ 27,403
Impaired real estate			39,630	39,630

The investment accounted for under the equity method that has been impaired at March 31, 2009 is NP/ I&G Institutional Retail Company, LLC. The fair value was estimated based upon management s valuation of the underlying real estate assets and debt of the investment. These real estate assets were valued based upon a combination of internally developed valuation models and pricing outcomes from recent disposal discussions with potential buyers.

The fair value of fixed rate debt held by the investments accounted for under the equity method was completed using an estimated market interest rate spread above the risk-free rate of 4.00%. Management believes this market interest rate spread is representative of debt that would currently be available to the entities.

The real estate that has been impaired pertains to five properties. The Company identified that these assets have been impaired under SFAS No. 144 due to deterioration in forecast cash flows as a result of weakening performance during the three months ending March 31, 2009, therefore recorded at fair value as of March 31, 2009. These real estate assets were valued based upon a combination of internally developed valuation models and pricing outcomes from recent disposal discussions with potential buyers. This approach requires the Company to make significant judgments in respect to market capitalization rates and amounts of estimated future cash flows.

The inputs into this valuation are considered level 3 inputs in accordance with SFAS No. 157.

Note 17: Subsequent Events

New Chief Financial Officer

On April 30, 2009, John Braddon resigned from his positions as Chief Financial Officer and Executive Vice President of the Company. We have appointed Tiffanie Fisher, age 41, to fill Mr. Braddon s previous positions as the Company s Chief Financial Officer and Executive Vice President, effective April 30, 2009. From December 2004 to March 2009, Ms. Fisher worked for Morgan Stanley Real Estate in its London office, most recently as Executive Director having held multiple roles. During that time, Ms. Fisher was specifically the Chief Financial Officer of the UK Investing business from December 2004 to August 2006, was the Chief Operating Officer of the Europe, Middle East and Africa region from February 2006 to August 2007 and was Senior Banker for Emerging European Markets from April 2007 through March 2009. Prior thereto, Ms Fisher served as Director and Credit Officer for UBS Investment Bank in Real Estate and Leverage Finance from August 2002 to November 2004.

CENTRO NP LLC AND SUBSIDIARIES

(AS SUCCESSOR TO NEW PLAN EXCEL REALTY TRUST, INC. (THE PREDECESSOR))

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

37

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Consolidated Financial Statements and the accompanying notes thereto. Historical results and percentage relationships set forth in the Consolidated Statements of Operations and Comprehensive Income/(Loss) contained in the Consolidated Financial Statements and accompanying notes, including trends which might appear, should not be taken as indicative of future operations.

As more fully described in Note 1 to our Consolidated Financial Statements, on February 27, 2007, New Plan, together with the DownREIT Partnership, entered into the Merger Agreement with the Buyer Parties. Pursuant to the Merger Agreement, MergerSub commenced and completed the Offer to purchase all outstanding shares of Common Stock of New Plan Excel Realty Trust, Inc. at the Offer Price. The Offer, as supplemented by a subsequent offering period, expired at 12:00 midnight, New York City time, on Wednesday, April 18, 2007. On April 19, 2007, MergerSub exercised its top-up option under the Merger Agreement and purchased from New Plan, at a purchase price equal to the Offer Price, a number of additional shares of common stock sufficient to permit MergerSub to effect a short-form merger of MergerSub into New Plan under Maryland law without the vote of or any other action by the remaining New Plan stockholders.

On April 20, 2007, New Plan, together with Centro NP, MergerSub, and DownREIT Acquisition completed the Mergers. Immediately following the Merger, on April 20, 2007, and in connection with the Liquidation, (a) all of New Plan s assets were transferred to, and all of its liabilities were assumed by, Centro NP, (b) all outstanding shares of preferred stock of New Plan were automatically converted into, and cancelled in exchange for the right to receive, cash liquidating distributions in accordance with their terms, and (c) all shares of common stock of New Plan were cancelled. As a result of the Merger and Liquidation, New Plan filed a Certification and Notice of Termination of Registration on Form 15 pursuant to which it terminated its reporting obligations under the Exchange Act, with respect to its Common Stock and 7.625% Series E Cumulative Redeemable Preferred Stock.

In connection with the Mergers, we entered into the Supplemental Indentures, each dated as of April 20, 2007 with New Plan Realty Trust, LLC (as successor to New Plan Realty Trust, but only with respect to the 1999 Indenture) and the Trustee. The Supplemental Indentures each provide for us to assume of all of the obligations of New Plan under each of the Indentures, effective upon consummation of the Merger with respect to the Notes.

Immediately following the Merger and the Liquidation, our employees became employees of Centro US Management Joint Venture 2, LP (formerly known as Centro Watt Management Joint Venture 2, L.P. and referred to as the Management Joint Venture). The distribution occurred in order to comply with certain tax restrictions applicable to our ultimate equity owners and to permit such employees to serve management functions at other properties controlled by our affiliates. Following this distribution, the Management Joint Venture managed our properties, although during a transition period, certain of our subsidiaries continued to provide payroll, benefit and other transition services with respect to our former employees. Such transition services continued through April 30, 2008. Contracts memorializing the management services arrangements under which we have been operating were entered into on March 28, 2008 in connection with an amendment to our revolving credit facility.

Although our employees were employed by the Management Joint Venture shortly following the Merger and Liquidation, for the period January 1, 2008 to April 30, 2008, we continued to incur all costs relating to the payroll and benefits of our employees employed by the Management Joint Venture as well as incurring other transition services while the Management Joint Venture finalized arrangements to replicate such functions.

On the basis that we continued to provide services on a transitionary basis through April 30, 2008, for accounting purposes, the Distribution, Contribution and Assignment Agreement between the company, Super LLC, Management Joint Venture, Centro US Employment Company, LLC and Centro New Plan Inc. (a member of Super LLC) dated March 28, 2008, has not been reflected during the period to April 30, 2008. The distribution has been reflected in the consolidated financial statements covered in this report as of May 1, 2008. As a result, certain assets and liabilities have been distributed out as of May 1, 2008.

As the successor obligor on the Notes, we intend to continue to file with the SEC any annual reports, quarterly reports and other documents that it is required to file with the SEC to the extent required under the Indentures governing the Notes.

All references to we, us, our, ours, or the Company in this report refer to Centro NP LLC and its wholly-owned and majority owned subsidi and consolidated entities as of, or subsequent to, April 5, 2007, unless the context indicates otherwise. All references to our predecessor, the Predecessor or New Plan in this report refer to New Plan Excel Realty Trust, Inc. and its wholly-owned and majority owned subsidiaries and consolidated entities as it existed prior to April 5, 2007, unless the context indicates otherwise.

There is substantial doubt about our ability to continue as a going concern given that our liquidity is subject to, among other things, our ability to negotiate extensions of credit facilities; our reliance upon funding provided by an entity that we do not control; current prohibition upon our ability to incur further indebtedness and the existence of restrictions upon operations which increase the risk of default and cross-default of existing debt. In addition, uncertainty also exists due to the liquidity issues currently experienced by our parent and the ultimate parent investors, Centro Properties Limited and Centro Properties Trust.

The half yearly financial statements of our ultimate parents, Centro Properties Limited (CPL) and Centro Property Trust (CPT), which were filed with Australian regulatory bodies on February 26, 2009, identified material uncertainty (equivalent to substantial doubt) about those entities ability to continue as a going concern..

In August 2007, we formed Centro NP Residual Holdings LLC (the Residual Joint Venture), which is a joint venture between us and Super LLC whereby we own 49% of the non-managing member interest in the Residual Joint Venture and Super LLC owns 51% of the managing member interest in the Residual Joint Venture. In connection with the formation of the joint venture and with subsequent contributions including contributions made during the three months ending March 31, 2009, we have contributed 49% of our interest in certain subsidiaries, owning 122 real properties with an approximate fair market value of $2.4 billion, to this joint venture. We distributed the remaining 51% of our interest in the transferred entities to our parent, Super LLC, and Super LLC contributed such interest in the transferred entities to this joint venture. Following these transactions, we owned 49% of the non-managing interest in the Residual Joint Venture, and Super LLC owned 51% of the managing member interest in The Residual Joint Venture.

In accordance with the provisions of SFAS No. 144, the results of operations of properties that have been disposed of (by sale, by abandonment, or in a distribution to owners) or classified as held for sale must be classified as discontinued operations and segregated in our Consolidated Statements of Operations and Comprehensive Income (Loss). Therefore, results of operations from prior periods have been retrospectively adjusted to reflect the current pool of disposed of or held for sale assets.

Results of operations for the three months ended March 31, 2009 and 2008

Rental Revenues

Rental income was $62.5 million for the three months ended March 31, 2009 and $92.6 million for the three months ended March 31, 2008.

The following significant factors caused material changes in rental income:

- The Residual Joint Venture Transactions, which decreased rental income by approximately $27.4 million

- Net decreases in rental rates and straight-line rent adjustments, which decreased rental income by approximately $1.5 million

- Decreased amortization of below market leases, which decreased rental income by approximately $1.0 million

Expense reimbursements were $16.1 million for the three months ended March 31, 2009 and $22.9 million for the three months ended March 31, 2008. The following significant factors caused material changes in expense reimbursements:

- The Residual Joint Venture Transactions, which decreased expense reimbursements by approximately $6.0 million

Operating Expenses

Operating costs were $16.6 million for the three months ended March 31, 2009 and $22.7 million for the three months ended March 31, 2008. The following significant factors caused material changes in operating costs:

- The Residual Joint Venture Transactions, which decreased operating costs by approximately $6.0 million

Real estate taxes were $10.4 million for the three months ended March 31, 2009 and $14.3 million for the three months ended March 31, 2008. The following significant factors caused material changes in real estate taxes

- The Residual Joint Venture Transactions, which decreased real estate taxes by approximately $4.1 million

Depreciation and amortization was $33.6 million for the three months ended March 31, 2009, $55.2 million for the three months ended March 31, 2008. The following significant factors caused material changes in depreciation and amortization:

- The Residual Joint Venture Transactions, which decreased depreciation and amortization by approximately $15.1 million

- Fewer tenants move-outs during the three months ended March 31, 2009 as compared to the three months ended March 31, 2008, which decreased depreciation and amortization by approximately $6.4 million

General and administrative expenses were $3.8 million for the three months ended March 31, 2009 and $8.3 million for the three months ended March 31, 2008. The following significant factors caused material changes in general and administrative expenses:

- The Management Joint Venture, which decreased general and administrative expenses by approximately $4.9 million

Other Income and Expenses

Interest expense was $22.2 million for the three months ended March 31, 2009 and $25.4 million for the three months ended March 31, 2008. The following significant factors caused material changes in interest expense:

- Interest on our interest rate cap agreements, which agreements were entered into during the three months ended March 31, 2009, which increased interest expense by approximately $3.5 million

- A lower LIBOR rate during the three months ended March 31, 2009 as compared to the three months ended March 31, 2008, which decreased interest expense by approximately $2.6 million

- The write-off of financing costs during the three months ended March 31, 2008, which decreased interest expense by approximately $4.7 million

Impairment Charges:

During the three months ended March 31, 2009, we recorded impairment charges of $8.2 million over its real estate assets. These impairment changes arose due to a decrease in forecast cash flows from the properties over the estimated holding period. The changes to the estimated cash flows are attributable to weakening performance of those properties during the three months period ended March 31, 2009.

During the three months ended March 31, 2009, we recorded impairment charges of $2.6 million in relation to our investment in NP/I&G Institutional Retail Company, LLC. This charge is as a result of a decline in the fair value of the underlying the real estate caused by a decrease in forecast cash flows as a result of operational issues (such as vacancies) during the three months ended March 31, 2009.

Liquidity and Capital Resources

As of March 31, 2009, we had approximately $32.3 million in available cash, cash equivalents and marketable securities. In connection with the Supplement to the Amended July 2007 Facility, we are no longer permitted to make draws under our Amended July 2007 Facility. Due to certain covenants and restrictions contained in certain debt agreements, we are currently prohibited from incurring additional indebtedness. Refer to discussions further below.

Short-Term Liquidity Needs

In addition to short-term indebtedness, our short-term liquidity requirements consist primarily of funds necessary to pay for management fees, operating and other expenses directly associated with our portfolio of properties, interest expense and scheduled principal payments on our outstanding debt, capital expenditures incurred to facilitate the leasing of space (*e.g.*, tenant improvements and leasing commissions), and capital expenditures incurred in our development and redevelopment projects. During the remaining nine months of 2009, we have an aggregate of $30 million of mortgage debt maturities, $25.3 million of scheduled mortgage amortization payments, and $150 million of bond maturities. Subsequent to December 31, 2008, we undertook a tender offer to the holders of the 2009 Notes that expire in September 2009. Under the tender offer we purchased the 2009 Notes prior to the expiry date in September 2009 at a value slightly below the principal amount. For those 2009 Note holders that participated in the tender offer, payment was made on April 8, 2009. Please refer to the Recent Developments section above for additional information relating to the Tender Consideration. Although we have historically met our short-term liquidity requirements with cash generated from operations and borrowings under credit facilities, we are presently unable to make draws on our Amended July 2007 Facility. Due to restrictions contained in the Amended July 2007 Facility and our Indentures, we are prohibited from incurring additional indebtedness and are limited to distributions received from the Residual Joint Venture and equity contributions from Super LLC that are funded with borrowings from the Residual Credit Facility and certain asset sale proceeds to meet our short-term liquidity requirements. In addition, there are certain factors that may have a material adverse effect on our cash flow from operations which would further constrain our ability to satisfy our short-term liquidity requirements.

Refer to Note 10 to the Consolidated Financial Statements for details relating to the total short term debt as of March 31, 2009.

We derive substantially all of our revenue from tenants under existing leases at our properties. Therefore, our operating cash flow is dependent on the rents that we are able to charge to our tenants, and the ability of these tenants to make their rental payments. We believe that the nature of the properties in which we typically invest primarily community and neighborhood shopping centers provides a more stable revenue flow in uncertain economic times because, even in difficult economic times, consumers still need to purchase basic living essentials such as food and soft goods. However, there has been a general economic downturn in the market in which we own properties which has adversely impact the ability of our tenants to make rental payments and our ability to re-lease space on favorable terms as leases expire. In both of these instances, our cash flow has been adversely affected.

In some cases, we have invested as a co-venturer or partner in the development or redevelopment of new properties, instead of developing projects directly. We have also agreed to contribute our pro rata share of any additional capital that may be required by our joint ventures, which pro rata share is not expected to be material. In connection with the Supplement to the Amended July 2007 Facility, we are no longer permitted to make draws under our Amended July 2007 Facility, and are limited to financing any capital requirements from distributions received from the Residual Joint Venture and equity contributions from Super LLC that are funded with borrowings from the Residual Credit Facility and certain asset sale proceeds. We also are limited by the terms of the Residual Credit Facility as to how much we are able to borrow in connection with such obligations. If we are unable to negotiate additional capacity under the Residual Credit Facility, negotiate other liquidity facilities or negotiate the ability to incur additional indebtedness, we may be unable to finance these joint venture obligations.

During the three months ended March 31, 2009, we completed two redevelopment projects in our Consolidated Portfolio, the aggregate cost of which, including costs incurred in prior years on these projects, was approximately $18.7 million. Our current redevelopment pipeline in our consolidated portfolio is comprised of seven projects, the aggregate cost of which, including costs incurred in prior years on these projects, is expected to be approximately $113.2 million. In addition, we develop outparcels of properties in Consolidated Portfolio. Currently, there are no outparcel developments in the pipeline in our Consolidated Portfolio. In connection with the Supplement to the Amended July 2007 Facility, we are no longer permitted to make draws under our Amended July 2007 Facility, and are limited to financing any development and redevelopment costs from distributions received from the Residual Joint Venture and equity contributions from Super LLC that are funded with borrowings from the Residual Credit Facility and certain asset sale proceeds. We also are limited by the terms of the Residual Credit Facility as to how much we are able to borrow in connection with such development costs. If we are unable to negotiate additional capacity under the Residual Credit Facility, negotiate other liquidity facilities or negotiate the ability to incur additional indebtedness, we may be unable to finance further development and redevelopment in our Consolidated Portfolio following exhaustion of the Residual Credit Facility.

We also redevelop properties in our joint venture portfolios. During the three months ended March 31, 2009, our joint venture portfolios did not complete any redevelopment projects. Our current joint venture redevelopment pipeline is comprised of eight projects, the aggregate cost of which, including costs incurred in prior years, is expected to be approximately $126.5 million, of which our pro rata share will be approximately $15.4 million. In addition, we also redevelop outparcels at properties in our joint venture portfolios. Our current joint venture outparcel redevelopment pipeline is comprised of one project, the aggregate cost of which, including costs incurred in prior years, is expected to be approximately $1.1 million, of which our pro rata share will be approximately $0.6 million. In connection with the Supplement to the Amended July 2007 Facility, we are no longer permitted to make draws under our Amended July 2007 Facility and are limited to financing any development and redevelopment costs from distributions received from the Residual Joint Venture and equity contributions from Super LLC that are funded with borrowings from the Residual Credit Facility and certain asset sale proceeds. We also are limited by the terms of the Residual Credit Facility as to how much we are able to borrow in connection with such development costs. If we are unable to negotiate additional capacity under the Residual Credit Facility, negotiate other liquidity facilities or negotiate the ability to incur additional indebtedness, we may be unable to finance further development and redevelopment in our joint venture portfolios following exhaustion of the Residual Credit Facility.

We regularly incur significant expenditures in connection with the re-leasing of our retail space, principally in the form of tenant improvements and leasing commissions. The amounts of these expenditures can vary significantly, depending on negotiations with tenants and the willingness of tenants to pay higher base rents over the lives of the leases. In connection with the Supplement to the Amended July 2007 Facility, we are no longer permitted to make draws under our Amended July 2007 Facility, and are limited to financing any capital expenditures from distributions received from the Residual Joint Venture and equity contributions from Super LLC that are funded with borrowings from the Residual Credit Facility and certain asset sale proceeds. We also are limited by the terms of the Residual Credit Facility as to how much we are able to borrow in connection with such obligations. If we are unable to negotiate additional capacity under the Residual Credit Facility, negotiate other liquidity facilities or negotiate the ability to incur additional indebtedness, we may be unable to further finance these tenant improvements and leasing commissions following exhaustion of the Residual Credit Facility.

Due to certain covenants contained in our Amended July 2007 Facility and our Indentures, we are presently unable to incur additional indebtedness, and this restriction will limit our flexibility in restructuring our existing indebtedness (including refinancing indebtedness coming due in 2009). Presently, we are limited to financing any development and redevelopment projects from distributions received from the Residual Joint Venture and equity contributions from Super LLC that are funded with borrowings from the Residual Credit Facility and certain asset sales. We also are limited by the terms of the Residual Credit Facility as to how much we are able to borrow in connection with such development costs. If we are unable to negotiate additional capacity under the Residual Credit Facility, negotiate other liquidity facilities or negotiate the ability to incur additional indebtedness, we may be unable to finance development and redevelopment costs following exhaustion of the Residual Credit Facility. In addition, due to financing constraints of our Australian parents, it is unlikely that they will be able to make additional equity contributions to alleviate any short-term liquidity issues we may encounter.

Long-Term Liquidity Needs

Our long-term liquidity requirements consist primarily of funds necessary to pay for the principal amount of our long-term debt as it matures, significant non-recurring capital expenditures that need to be made periodically at our properties and redevelopment or development projects that we undertake at our properties. Until such time as we are able and permitted to put in place an appropriate liquidity facility, raise additional capital or negotiate the ability to incur additional indebtedness, we do not presently have access to the capital necessary to satisfy these long-term liquidity requirements.

Our ability to incur additional debt is dependent upon a number of factors, including our degree of leverage, the value of our unencumbered assets, our credit rating and borrowing restrictions and covenants imposed by existing lenders. In connection with our refinancing difficulties, our credit ratings are all below investment grade. Standard & Poor s current rating is CCC+; CreditWatch with developing implications. Fitch s current ratings is CCC/RR4; upgraded. Moody s current rating is Caa2; negative outlook. There may be additional reductions in our ratings depending on our operating performance and our ability to refinance the Amended July 2007 Facility. As a result of these downgrades, the terms of any financings we enter into in the future, as well as our ability to secure any such financings, may be adversely affected.

Although we have obtained extensions of short-term debt to December 31, 2010 that was due to expire on January 15, 2009, we are still working to reduce the level of our long-term debt to address our liquidity issues.

We are also working on plans to restructure and/or refinance our long-term debt, including the debt that was extended to December 31, 2010. Our ability to do so is restricted by the factors listed above, as well as also being impacted by the current and future condition of the credit market and also the current and future condition of the US retail real estate market.

We have selectively effected asset sales to generate cash proceeds. During the three months ended March 31, 2009, we generated approximately $6.4 million in gross proceeds through the disposal of non-core and non-strategic properties and approximately $181.5 million from the disposition of certain properties and land parcels held through joint ventures. During 2008, we, and our predecessor, as applicable, generated approximately $106.3 million in gross proceeds through the disposal of non-core and non-strategic properties and approximately $15.0 million from the disposition of certain properties and land parcels held through joint ventures. Our ability to generate cash from asset sales is limited by market conditions. Our ability to sell properties in the future in order to raise cash will necessarily be limited if market conditions make such sales unattractive. Our ability to sell assets will also be restricted by certain covenants included in the Amended July 2007 Facility and Indentures.

The following table summarizes all of our known contractual cash obligations, excluding interest, to pay third parties as of March 31, 2009 (based on a calendar year, dollars in thousands):

Contractual Cash Obligations	**Total**	**Less than 1 year**	**1- 3 years**	**3 - 5 Years**	**More than 5 years**
Debt (1)	$ 1,694,591	$ 205,308(2)	$ 724,107	$ 269,732	$ 495,444
Capital Lease Obligations	30,104	562	1,454	1,639	26,449
Operating Leases (3)	18,495	638	1,709	1,784	14,364
Total	$ 1,743,190	$ 206,508	$ 727,270	$ 273,155	$ 536,257

(1) Debt includes scheduled amortization and scheduled maturities for mortgage loans, notes payable and credit facilities.

(2) Including $150 million in unsecured notes payable that were subject to a tender offer. Refer to Note 10 of the Financial Statements.

(3) Operating leases include ground leases for shopping centers that we operate and our administrative office space.

In connection with the Supplement to the Amended July 2007 Facility, we are no longer permitted to make draws under our Amended July 2007 Facility. We are presently considering what our plans will be with respect to satisfying our contractual cash obligations, the balance of which represents the amount maturing under our Amended July 2007 Facility, as well as maturing mortgages and scheduled amortization.

The following table summarizes certain terms of our existing credit agreements as of March 31, 2009 (dollars in thousands):

Loan	Amount Available to be Drawn	Amount Drawn as of March 31, 2009	Current Interest Rate (1)	Maturity Date
Amended July 2007 Facility (2)	$	$ 306,500	LIBOR plus 175 bp	2010
Secured Term Loans		163,700	Variable (3)	2010
Total Credit Agreements	$	$ 470,200		

(1) We incur interest using a 30-day LIBOR rate, which was 0.50063% at March 31, 2009.

(2) We are presently (and were as of March 31, 2009) unable to make draws on our Amended July 2007 Facility. Under the terms of the Amended July 2007 Facility, we incur an annual facility fee of 22.5 basis points on this facility. The Amended July 2007 Facility is scheduled to mature on December 31, 2010. Total fees incurred in securing this extension in maturity of the facility were approximately $3.3 million.

(3) We incur interest using a 30-day LIBOR rate, which was 0.50063% at March 31, 2009, plus spreads ranging from 135 to 175 basis points.

In connection with the Supplement to the Amended July 2007 Facility, we are no longer permitted to make draws under our Amended July 2007 Facility. In addition, the Amended July 2007 Facility requires that we maintain certain financial coverage ratios and other debt covenants. These coverage ratios and debt covenants include:

- Total debt to total adjusted assets of no more than 65%;
- Total secured debt to total adjusted assets of no more than 40%;
- Unencumbered total asset value not to be less than 100% of the aggregate principal amount of all of our outstanding unsecured debt; and
- Consolidated income available for debt service of at least 1.5 times the maximum annual service charge on total debt.

As of March 31, 2009, we had approximately $830.2 million of indebtedness outstanding, excluding the impact of unamortized premiums, under three unsecured note indentures, having a weighted average interest rate of 5.8%. These indentures also contain covenants that require us to maintain certain financial coverage ratios.

In addition to our Amended July 2007 Facility and indentures, as of March 31, 2009, we had approximately $394.2 million of mortgage debt outstanding, excluding the impact of unamortized premiums, having a weighted average interest rate of 8.8% per annum. It should be noted that as at March 31, 2009, the Super Bridge Loan (totaling $1.8 billion) of our parent is collateralized over its 100% membership interest in us. It is also collateralized by certain assets held by the Residual Joint Venture.

Resolution of our liquidity issues may be, in part, achieved through asset sales. If we are required to dispose of real estate assets quickly and in a manner other than normal fashion to assist with our liquidity position, it is possible that these real estate assets would be sold at an accounting loss. Additionally, our ability to sell real estate assets is restricted by a loan-to-asset covenant ratio as contained in the Indentures.

In terms of potential equity investments, our ultimate parent investors are unlikely to make any equity contributions into us to assist with our liquidity position due to the liquidity issued currently being dealt with by these entities.

Off-Balance Sheet Arrangements

We do not believe that we currently have any off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our financial condition, changes in financial condition, results of operations, liquidity, capital expenditures or capital resources.

However, in a few cases, we have made commitments to provide funds to unconsolidated joint ventures under certain circumstances. The liabilities associated with these joint ventures do not show up as liabilities on our consolidated financial statements.

The following is a brief summary of the unconsolidated joint venture obligations that we have as of March 31, 2009, and to which we expect to make additional capital contributions:

- *Centro GA America LLC.* We have a 5% interest in this joint venture, which interest was acquired on August 10, 2005 in conjunction with the Galileo Transactions. Under the terms of this joint venture, we are not obligated to contribute any additional capital to the venture; however, in the event that additional capital is contributed by our joint venture partner, we have the option to contribute the amount necessary to maintain our 5% ownership interest. We anticipate making additional capital contributions from time to time to maintain our 5% ownership interest. As of March 31, 2009, the joint venture was comprised of 111 stabilized retail assets, three retail properties under redevelopment and one new development property and had loans outstanding of approximately $1.1 billion. As of March 31, 2009, the book value of our investment in Galileo America LLC was approximately $29.1 million.

- *NP / I&G Institutional Retail Company II, LLC.* In February 2006, our predecessor formed a second strategic joint venture with JP Morgan Investment Management Inc. to acquire high-quality institutional grade community and neighborhood shopping centers on a nationwide basis. Under the terms of this joint venture, we have a 20% interest in the venture and have committed to contribute our pro rata share of any capital required by the venture for asset acquisitions. As of March 31, 2009, we had contributed approximately $14.7 million. Additionally, we have agreed to contribute our pro rata share of any additional capital that might be required by the joint venture; however, we do not expect that any significant additional capital contributions will be required. As of March 31, 2009, the joint venture owned three stabilized retail properties. The joint venture had loans outstanding of approximately $46.7 million as of March 31, 2009. As of March 31, 2009, the book value of our investment in NP / I&G Institutional Retail Company II, LLC was approximately $10.9 million.

- *NPK Redevelopment I, LLC.* We have a joint venture with Kmart Corporation (Sears Holding Corp.) pursuant to which the joint venture will redevelop three Kmart Supercenter properties formerly owned by Kmart. Under the terms of this joint venture, we have agreed to contribute $6.0 million which had been fully contributed as of March 31, 2009. We will have a 20% interest in the venture and are responsible for contributing our pro rata share of any additional capital that might be required by the joint venture; during the year ended December 31, 2008, we contributed $1.1 million which entitled 10% per annum preferred return compounded monthly. However, we do not expect that any significant capital contributions will be required. The joint venture had no loans outstanding as of March 31, 2009. As of March 31, 2009, the book value of our investment in NPK Redevelopment I, LLC was approximately $11.5 million.

In addition, the following is a brief summary of the other unconsolidated joint venture obligations that we have as of March 31, 2009. Although we have agreed to contribute certain amounts of capital that may be required by these joint ventures, as more fully described below, we do not expect that any significant capital contributions to the following joint ventures will be required.

- *Arapahoe Crossings, L.P.* We, together with a U.S. partnership comprised substantially of foreign investors, have an interest in a joint venture which owns Arapahoe Crossings, a community shopping center located in Aurora, Colorado. Under the terms of this joint venture, we have a 30% interest and we have agreed to contribute our pro rata share of any capital that might be required by the joint venture. The joint venture had loans outstanding of approximately $46.0 million as of March 31, 2009. As of March 31, 2009, the book value of our investment in Arapahoe Crossings, L.P. was approximately $8.4 million.

- *BPR Land Partnership, L.P.* We have a 50% interest in a joint venture that owns approximately 10.3 acres of undeveloped land in Frisco, Texas. Under the terms of this joint venture, we have agreed to contribute our pro rata share of any capital that might be required by the joint venture. The joint venture had no loans outstanding as of March 31, 2009. As of March 31, 2009, the book value of our investment in BPR Land Partnership, L.P. was approximately $4.0 million.

- *BPR South, L.P.* We have a 50% interest in a joint venture that owns approximately 6.6 acres of undeveloped land in Frisco, Texas. Under the terms of this joint venture, we have agreed to contribute our pro rata share of any capital that might be required by the joint venture. The joint venture had no loans outstanding as of March 31, 2009. As of March 31, 2009, the book value of our investment in BPR South, L.P. was approximately $1.4 million.

- *The Residual Joint Venture.* In August 2007, we formed the Residual Joint Venture with Super LLC, our sole and managing member. In connection with the formation of the Residual Joint Venture and with subsequent contributions, we have contributed 49% of our interest in certain subsidiaries, owning 74 real properties with an approximate value of $1.8 billion, to the Residual Joint Venture. We distributed the remaining 51% of our interest in the transferred entities to Super LLC, and Super LLC contributed such interest in the transferred entities to the Residual Joint Venture. Following these transactions, we owned 49% of the non-managing interest in the Residual Joint Venture, and Super LLC owned 51% of the managing member interest in the Residual Joint Venture. Also in November 2007, Super LLC contributed its interest in certain subsidiaries, owning 39 real properties with an approximate value of $385.0 million, to the Residual Joint Venture. Immediately following such contribution, Super LLC contributed a percentage of membership interests in the Residual Joint Venture such that we continued to own 49% of the non-managing interest in the Residual Joint Venture, and Super LLC continued to own 51% of the managing member interest in the Residual Joint Venture. In January 2009, we contributed 49% of our interest in certain additional subsidiaries, owning 48 real properties with an approximate value of $513.4 million, to the Residual Joint Venture. We distributed the remaining 51% of our interest in the additional transferred entities to Super LLC, and Super LLC contributed such interest in the additional transferred entities to the Residual Joint Venture. The Residual Joint Venture has executed certain guarantees in favors of certain of our indebtedness and of Super LLC. The Residual Joint Venture owned 161 stabilized retail properties as of March 31, 2009. Under the terms of the Residual Joint Venture, we are not obligated to contribute any additional capital to the Residual Joint Venture. The Residual Joint Venture had loans outstanding of approximately $1.5 billion as of March 31, 2009. As of March 31, 2009, the book value of our investment in the Residual Joint Venture was approximately $724.7 million.

- *NP/I&G Institutional Retail Company, LLC.* We have a strategic joint venture with JPMorgan Investment Management Inc. to acquire high-quality institutional grade community and neighborhood shopping centers on a nationwide basis. The joint venture owned eight stabilized retail properties and one retail property under redevelopment as of March 31, 2009. Under the terms of this joint venture, we have a 20% interest in the venture and are responsible for contributing our pro rata share of any capital that might be required by the joint venture. Our predecessor initially committed to contribute up to a maximum amount of $30.0 million to the joint venture, however, in connection with the acquisition of certain assets during 2005, our predecessor, together with the DownREIT Partnership, contributed a disproportionate share of capital to the venture, such that our predecessor s total capital investment as of December 31, 2005 was $41.4 million. The excess contribution was returned to our predecessor in February 2006. During the year ended December 31, 2008, in connection with the acquisition of certain other assets, our predecessor increased our committed capital to the venture to $31.9 million, of which approximately $28.2 million had been contributed as of March 31, 2009. We do not expect that any significant additional capital contributions will be required, nor do we expect that any additional acquisitions of property will be made by the joint venture. The joint venture had loans outstanding of approximately $211.6 million as of March 31, 2009. As of March 31, 2009, the book value of our investment in NP/I&G Institutional Retail Company, LLC was approximately $27.4 million.

- *NP/SSP Baybrook, LLC.* We have a third strategic joint venture with JP Morgan Investment Management Inc., which venture was formed for the specific purpose of acquiring Baybrook Gateway, a shopping center located in Webster, Texas. Under the terms of this joint venture, we have a 20% interest in the venture and are responsible for contributing our pro rata share of any capital that might be required by the joint venture; however, we do not expect that any significant additional capital contributions will be required. The joint venture had loans outstanding of approximately $41 million as of March 31, 2009. As of March 31, 2009, the book value of our investment in NP/SSP Baybrook, LLC was approximately $1.9 million.

- *Westgate Mall, LLC*. We, together with Transwestern Investment Company and The Richard E. Jacobs Group, have an interest in a joint venture that was formed for the specific purpose of acquiring and redeveloping Westgate Mall, an enclosed mall located on 55 acres of land in Fairview Park, Ohio. The joint venture is currently redeveloping the mall into a large community shopping center. Under the terms of this joint venture, we have a 10% interest in the venture and have agreed to contribute our pro rata share of any capital that might be required by the joint venture. The joint venture had loans outstanding of approximately $65.8 million as of March 31, 2009. As of March 31, 2009, the book value of our investment in Westgate Mall, LLC was approximately $1.1 million.

Other Funding Obligations

In addition to the joint venture obligations described above, we also had the following contingent contractual obligations as of March 31, 2009, none of which we believe will materially adversely affect us:

- *Letters of Credit.* We have arranged for the provision of seven separate letters of credit in connection with certain property or insurance related matters. If these letters of credit are drawn, we will be obligated to reimburse the providing bank for the amount of the draw. As of March 31, 2009, there was no balance outstanding under any of the letters of credit. If the letters of credit were fully drawn, the combined maximum amount of exposure would be approximately $12.5 million. The expiration of these letters of credit may be automatically extended pursuant to the terms of the Amended July 2007 Facility and Bank of America, as the issuing bank under these letters of credit, has agreed not to prevent the automatic extension of such letters of credit.

- *Non-Recourse and Other Debt Guarantees*. Under certain of our non-recourse loans and those of our joint ventures, we could, under certain circumstances, be responsible for portions of the mortgage indebtedness in connection with certain customary non-recourse carve out provisions such as environmental conditions, misuse of funds and material misrepresentations. As of March 31, 2009, we had mortgage and term loans outstanding of approximately $557.9 million, excluding the impact of unamortized premiums, and our unconsolidated joint ventures had mortgage loans outstanding of approximately $3.0 billion. In addition, we have guaranteed certain construction and other obligations relative to certain joint venture development projects; however we do not expect that our obligations under such guarantees will be material if called upon.

- *Leasing Commitments.* **We have entered into leases, as lessee, in connection with ground leases for shopping centers which we operate and our administrative office space. These leases are accounted for as operating leases. The minimum annual rental commitments for these leases during the next five fiscal years and thereafter are approximately as follows (dollars in thousands):**

Year		
2009 (remaining nine months)	$	638
2010		852
2011		857
2012		890
2013		894
Thereafter		14,364

- *Redemption Rights.* **The** DownREIT Partnership has entered into the ERP Redemption Agreements in June 2008 with twelve limited partners with respect to the redemption of each limited partner s outstanding Class A Preferred Units for an aggregate amount of $44.9 million of which $9.4 million remained outstanding as of December 31, 2008 (the DownREIT Partnership Redemption Obligation). On August 29, 2008, one of the limited partners party to an ERP Redemption Agreement entered into an agreement with the DownREIT Partnership revoking the redemption of its remaining Class A Preferred Units and electing to retain such units. On September 12, 2008, November 25, 2008 and December 12, 2008, the DownREIT Partnership entered into amendments to the ERP Redemption Agreements with the remaining eleven limited partners which provided for, among other things, an extension of the redemption date of the DownREIT Partnership Redemption Obligation to January 15, 2009. Additionally, on November 11, 2008, another Class A Preferred Unit Holder (separate to the previously discussed twelve limited partners that had made a redemption election) elected to redeem substantially all of its Class A Preferred Units. Such units were redeemed in exchange for the fee interest in a property. As of March 31, 2009, no other limited partners with Class A Preferred Units have made a redemption election. Such redemption election may be made at any time and we are required to make such redemption on the second to last business day of the quarter in which such election is made, provided that we receive the redemption election at least ten business days prior to such date.

On January 15, 2009, we paid in full the DownREIT Partnership Redemption Obligation using proceeds from distributions from the Residual Joint Venture that were funded with borrowings from the Residual Credit Facility.

We are not presently involved in any material litigation arising outside the ordinary course of its business. However, we are involved in routine litigation arising in the ordinary course of business, none of which is believed to be material in light of our reserves for such matters. In connection with a specific tenant litigation, and based upon certain rulings occurring during the third quarter of 2005, we maintain an aggregate reserve of approximately $4.3 million as of March 31, 2009. Given the increase in the reserve previously taken by our predecessor, and the current status of the tenant litigation, we believe that any loss in excess of the established reserve would be immaterial.

For a discussion of other factors which may adversely affect our liquidity and capital resources, please see the section titled Risk Factors in Item 1A of our Quarterly Report on Form 10-Q for the period ended March 31, 2009.

Description of Amended July 2007 Facility

The Amended July 2007 Facility is a $350.0 million revolving credit facility. On January 15, 2009, we entered into the Supplement to the Amended July 2007 Facility modifying certain terms and conditions of the Amended July 2007 Facility, and superseding the terms and conditions set forth in letter agreements entered into by us with Bank of America, as administrative agent, on February 14, 2008, March 28, 2008, May 7, 2008, May 30, 2008, September 26, 2008, and the December 2008 Facility Extension Agreement. Following the Supplement to the Amended July 2007 Facility, the Amended July 2007 Facility has a maturity date of December 31, 2010. As of January 15, 2009, we had an aggregate of $306.5 million borrowing outstanding under the Amended July 2007 Facility. Borrowings under the Amended July 2007 Facility bear interest at a rate per annum equal to, at our option, LIBOR or the prime rate, plus an applicable margin of 1.75%. To comply with our agreement to pay interest on the Amended July 2007 Facility at the same rate as applied to the Prior Super Bridge Loan, we agreed to pay interest on the outstanding balance that accrued during the period from December 16, 2007 through February 14, 2008 at a rate equal to LIBOR or the prime rate plus 1.75% less the applicable margin in effect immediately prior to the amendment entered into on February 14, 2008. In addition to the interest that accrues and is paid currently, upon the occurrence of an event of default, additional interest would accrue from May 7, 2008 to January 15, 2009 at a rate of 5.5%, thereby increasing the total interest rate to LIBOR or the prime rate plus 7.25% for that period. This additional interest becomes due and payable only upon the occurrence of an event of default as defined in the Amended July 2007 Facility. For illustrative purposes only, if such event of default had arisen as of March 31, 2009, total additional interest to be accrued would be approximately $11.6 million. No such event of default has occurred, therefore interest continues to accrue at LIBOR or the prime rate plus 1.75%.

Additionally, post January 15, 2009, if an event of default occurs and is continuing, interest on the balance accrues at a rate equal to LIBOR or the prime rate plus 11.25% (an increase of 4% from the previous default rate). The new default interest rate provided under the Amended July 2007 Facility is applicable from the date of such event of default. No further borrowings under the Amended July 2007 Facility are permitted and any amounts repaid or prepaid prior to the maturity date may not be reborrowed.

The Amended July 2007 Facility is secured with assets held by us, as well as by certain assets held by the Residual Joint Venture.

Additionally, the loans and other obligations under the Amended July 2007 Facility are required to be paid, and the commitments will be reduced accordingly, upon the receipt by us of net proceeds from the disposition of certain properties. Net proceeds in respect of certain casualty and condemnation events affecting certain properties are required to be applied towards the prepayment of the loans as well. Except under certain limited circumstances, we are prohibited from selling or transferring property, making equity issuances or making payments of cash or other property with respect to indebtedness without lender consent. The requirement that we manage at least 90% of our properties was revised to permit the Management Joint Venture or one of its indirect or direct subsidiaries to also act as manager of such properties.

CPT and CPL agreed under the Supplement to the Amended July 2007 Facility to take and avoid taking certain actions with respect to us, such as (i) entering into any agreement that limits our flexibility, or grants lender consent rights, with respect to the sale of our assets, (ii) obtaining guaranties from us with respect to parent debt, (iii) pledging any of our assets in favor of their creditors, and (iv) permitting us to transfer assets to CPT and CPL. A breach of such covenants was made an event of default under the Supplement to the Amended July 2007 Facility. The Supplement to the Amended July 2007 Facility also releases the parent company guaranty under that certain Guaranty Agreement, dated July 31, 2007, by and among CPT and CPL as guarantors in favor of Bank of America, N.A., as administrative agent.

As part of the Supplement to the Amended July 2007 Facility which was executed on January 15, 2009, we agreed to put in place an interest rate cap with respect to the debt under the Amended July 2007 Facility. The strike rate of the interest rate cap is 2.6%.

There are seven separate letters of credit outstanding under the Amended July 2007 Facility in connection with certain property or insurance related matters. As of March 31, 2009, there was no balance outstanding under any of the letters of credit. If the letters of credit were fully drawn, the combined maximum amount of exposure would be approximately $12.5 million. The expiration of these letters of credit may be automatically extended pursuant to the terms of the Amended July 2007 Facility and Bank of America, as the issuing bank under these letters of credit, has agreed not to prevent the automatic extension of such letters of credit.

The Amended July 2007 Facility contains various representations, warranties and covenants customary for financings of this type, including, among others, mandatory prepayment upon the occurrence of certain events. Under the Amended July 2007 Facility, we are also subject to compliance with certain covenants substantially similar to those contained in our Indentures relating to the public notes. These covenants include: (i) total debt to total adjusted assets of no more than 65%; (ii) total secured debt to total adjusted assets of no more than 40%; (iii) unencumbered total asset value not to be less than 100% of the aggregate principal amount of all of our outstanding unsecured debt and that of our subsidiaries; and (iv) consolidated income available for debt service of at least 1.5 times the maximum annual service charge on total debt.

The Amended July 2007 Facility contains customary defaults, including, among others: the nonpayment of interest or principal of any loan; failure to comply with restrictions on use of proceeds; failure to observe or perform covenants under any loan document, including the Supplement to the Amended July 2007 Facility; bankruptcy or insolvency; certain judgments and decrees; change of control; defaults under the Super Bridge Loan, Residual Credit Facility and Amended and Restated Preston Ridge Facility; and defaults under any existing credit facility of us, our subsidiaries and certain of our affiliates in excess of $10 million.

Amounts outstanding under the Amended July 2007 Facility are guaranteed pursuant to an Amended and Restated Guaranty Agreement dated July 31, 2007, by and among certain of our subsidiaries, as guarantors in favor of the administrative agent and the Guaranty, dated as of March 28, 2008, from certain subsidiaries of Centro NP Residual Holding LLC in favor of the administrative agent.

Description of Residual Credit Facility

The Residual Credit Facility is a $370.0 million credit facility entered into by certain subsidiaries of the Residual Joint Venture (the Residual Credit Facility Borrowers) on January 15, 2009. The Residual Credit Facility is collateralized by properties owned by the Residual Credit Facility Borrowers and certain other subsidiaries of the Residual Joint Venture and has a maturity date of December 31, 2010. The Residual Credit Facility is guaranteed by Super LLC, the Residual Joint Venture, Centro NP Residual Holding Sub 1, LLC, a subsidiary of the Residual Joint Venture and the 100% owner of each of the borrowers under the Residual Credit Facility, and certain other subsidiaries of the Residual Joint Venture. An initial draw on the Residual Credit Facility in the amount of approximately $150.0 million was used for the repayment of a portion of the Super Bridge Loan, the payment of the DownREIT Partnership Redemption Obligation and the payment of the Secured Term Loan Payments. The remaining proceeds of the Residual Credit Facility may be used for development and redevelopment of certain properties, the payment of certain maturing debt and general corporate cash needs. However, we do not control the Residual Joint Venture and cannot cause the Residual Joint Venture to make a draw under the Residual Credit Facility or distribute the proceeds therefrom.

Borrowings under the Residual Credit Facility bear interest at a rate per annum equal to, at our option, the prime rate or LIBOR plus an applicable margin of 3.75%. Additionally, if an event of default occurs and is continuing, interest on the outstanding balance accrues at a rate equal to LIBOR or the prime rate plus 7.75%, not to exceed the maximum nonusurious interest rate under the laws of the state of New York. The Residual Credit Facility is not a revolving credit facility and any amounts repaid or prepaid prior to the maturity date may not be reborrowed.

Additionally, mandatory draws of the Residual Credit Facility and the distribution of such proceeds up to Super LLC are required to repay loans and other obligations under the Super Bridge Loan, and the commitments will be reduced accordingly, upon the receipt by Super LLC or its subsidiaries of net proceeds from the disposition of certain properties. The Residual Credit Facility Borrowers are prohibited from selling or transferring any properties owned by the Residual Credit Facility Borrowers without lender consent.

The Residual Credit Facility contains various representations, warranties and covenants customary for financings of this type, including, among others, mandatory prepayment upon the occurrence of certain events. Under the Residual Credit Facility, we are also subject to compliance with certain covenants, which include: (i) consolidated EBITDA to consolidated total debt of no less than 9.3%; and (ii) consolidated EBITDA to consolidated total interest expense of no less than 1.47 to 1.00.

The Residual Credit Facility contains customary defaults, including, among others: the nonpayment of interest or principal of the loan; failure to comply with restrictions on use of proceeds; failure to observe or perform covenants including the financial covenants described above; bankruptcy or insolvency; certain judgments and decrees; change of control; and defaults under the Super Bridge Loan and Amended and Restated Preston Ridge Facility.

Inflation

The majority of our leases contain provisions designed to mitigate the adverse impact of inflation. Such provisions contain clauses enabling us to receive percentage rents, which generally increase as prices rise but may be adversely impacted by tenant sales decreases, and/or escalation clauses which are typically related to increases in the consumer price index or similar inflation indices. In addition, we believe that many of our existing lease rates are below current market levels for comparable space and that upon renewal or re-rental such rates may be increased to be consistent with, or get closer to, current market rates. This belief is based upon an analysis of relevant market conditions, including a comparison of comparable market rental rates, and upon the fact that many of our leases have been in place for a number of years and may not contain escalation clauses sufficient to match the increase in market rental rates over such time. Most of our leases require the tenant to pay its share of operating expenses, including common area maintenance, real estate taxes and insurance, thereby reducing our exposure to increases in costs and operating expenses resulting from inflation. In addition, we periodically evaluate our exposure to interest rate fluctuations, and may enter into interest rate protection agreements which mitigate, but do not eliminate, the effect of changes in interest rates on our floating rate loans.

In the normal course of business, we also face risks that are either non-financial or non-qualitative. Such risks principally include credit risks and legal risks.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

As of March 31, 2009, we had approximately $8.0 million of outstanding floating rate mortgages. We also had approximately $306.5 million outstanding under our floating rate Amended July 2007 Revolving Facility and $163.7 million outstanding under floating rate secured term loans. We do not believe that the interest rate risk represented by our floating rate debt is material as of March 31, 2009, in relation to our approximately $1.7 billion of outstanding total debt and our approximately $3.7 billion of total assets as of that date. This assessment may change depending upon changes in market floating interest rates in the short term.

If market rates of interest on our variable rate debt increase by 1%, the increase in annual interest expense on our variable rate debt would decrease future earnings and cash flows by approximately $4.8 million. If market rates of interest on our variable rate debt decrease by 1%, the decrease in interest expense on our variable rate debt would increase future earnings and cash flows by approximately $4.8 million. This assumes that the amount outstanding under our variable rate debt remains at approximately $478.2 million as of March 31, 2009. If market rates of interest increase by 1%, the fair value of our total outstanding debt would decrease by approximately $42.5 million. If market rates of interest decrease by 1%, the fair value of our total outstanding debt would increase by approximately $89.0 million. This assumes that the fair value of our total debt outstanding remains at approximately $1.8 billion as of March 31, 2009.

As of March 31, 2009, we had no material exposure to market risk (including foreign currency exchange risk, commodity price risk or equity price risk). In addition to the other factors which may constrain our ability to refinance our short-term debt obligations addressed elsewhere in this Quarterly Report on Form 10-Q, our ability to refinance such obligations may be further constrained as a result of recent dislocations in the global credit markets.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

We are not presently involved in any material litigation arising outside the ordinary course of our business. However, we are involved in routine litigation arising in the ordinary course of business, none of which is believed to be material in light of reserves taken by us.

Item 1A. Risk Factors

Overview

Set forth below are the risks that we believe are material to investors who purchase or own our securities that are not otherwise described in this Quarterly Report on Form 10-Q. The occurrence of any of the following factors or circumstances could adversely affect our cash flows, financial condition, results of operations and/or our ability to meet our operating expenses, including debt service and capital expenditure obligations, any or all of which could in turn cause a decline in the value of our securities.

We have substantial short-term liquidity obligations consisting primarily of short-term indebtedness, which we may be unable to refinance on favorable terms or at all. During the remaining nine months of 2009, we have an aggregate of $180.0 million of mortgage debt, notes payable and credit facilities scheduled to mature and $25.3 million of scheduled mortgage amortization payments. If principal payments on debt due at maturity cannot be refinanced, extended or paid, we will be in default under our debt obligations, and we may be forced to dispose of properties on disadvantageous terms. Such defaults may in turn cause cross defaults in certain of our or our affiliates other debt obligations.

In addition, because we are no longer permitted to make draws under our Amended July 2007 Facility and because of the restrictions imposed on us by the Amended July 2007 Facility, the Super Bridge Loan, the Residual Credit Facility and the Indentures, we may not be able to repay or refinance short-term debt obligations that comes due. Until such time as we are able to incur additional indebtedness, put in place an appropriate liquidity facility, raise additional capital or receive distributions from the Residual Joint Venture and/or contributions from our parent, we may be unable to refinance our short-term debt obligations on favorable terms or at all. Also, due to financial constraints of our ultimate Australian parents, it is unlikely that they will be able to make additional equity contributions to alleviate any short-term liquidity issues we may encounter.

In connection with our refinancing difficulties, our credit ratings are all below investment grade. Standard & Poor s current rating is CCC+; CreditWatch with developing implications. Fitch s current ratings is CCC/RR4; rating watch negative. Moody s current rating is Caa2; negative outlook. There may be additional reductions in our ratings depending on our operating performance and our ability to refinance the Amended July 2007 Facility.

Furthermore, under certain agreements governing our joint venture investments, our joint ventures may make capital calls upon the joint venture members or partners to fund certain costs of operation. Capital calls by a joint venture could increase our short-term liquidity obligations. If we are unable to satisfy our obligations pursuant to a capital call, we will be in breach of the agreement governing the particular joint venture.

We may need to dispose of a number of properties in order to meet our currently budgeted liquidity needs. Based on our currently budgeted liquidity needs, we may need to dispose of certain assets to fund our operations. Because we are no longer permitted to make draws under our Amended July 2007 Facility and because of the restrictions imposed on us by the Amended July 2007 Facility, the Super Bridge Loan, the Residual Credit Facility and the Indentures which, among other things, prohibit us from incurring additional indebtedness, if we are unable to complete such asset sales, we may not be able to meet our liquidity needs. In addition, due to certain repayment obligations under the Amended

July 2007 Facility, proceeds from the disposition of properties may not be available to meet other liquidity needs.

Recent disruptions in the financial markets could affect our ability to obtain financing or renegotiate our existing indebtedness on reasonable terms and may have other adverse effects on us. Recent events in the financial markets have had an adverse impact on the credit markets and, as a result, credit has become more expensive and difficult to obtain. The United States credit markets have recently experienced significant price volatility, dislocations and liquidity disruptions, which have caused the spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in certain cases have resulted in the unavailability of certain types of financing. The negative impact on the tightening of the credit markets may have a material adverse effect on us resulting from, but not limited to, an inability to refinance our short-term and long-term debt obligations on favorable terms, if at all, increased financing costs or financing with increasingly restrictive covenants. In addition, these factors may make it more difficult for us to renegotiate our existing indebtedness or to sell properties or may adversely affect the price we receive for properties that we do sell, as prospective buyers may experience increased costs of financing or difficulties in obtaining financing. The negative impact of the recent disruptions in the credit markets on the real estate sector generally or our inability to obtain financing on favorable terms, if at all, may have a material adverse effect on our results of operations and business.

Cross-default provisions in our borrowing arrangements increase the consequences of a default. The Amended July 2007 Facility will cross default upon any default under the Super Bridge Loan, the Residual Credit Facility, the Amended and Restated Preston Ridge Facility or other property debt. Accordingly, should an event of default occur under any of these debt agreements, we face the prospect of being in default under each of such debt instruments to which we are an obligor. Although we are not an obligor under the Super Bridge Loan, the Residual Credit Facility, or the Preston Ridge Facility, a default by any of the obligors pursuant to any of these debt facilities (through non-payment upon maturity, among other things) would, pursuant to the cross-default provisions, trigger a default under the Amended July 2007 Facility. In addition, any defaults or foreclosures under our mortgage debt outstanding could expose us to the possibility of cross-defaults under our obligations under the Indentures or the Amended July 2007 Facility. Our parent s pledge of its ownership interest in us may expose us to possible claims of default in certain of our mortgage debt outstanding, which, if demand for payment is made by the lenders, could cause cross-defaults in certain of our other debt. In the event of a cross-default, we might not be able to obtain alternative financing for the defaulted obligations or, if we are able to obtain such financing, we might not be able to obtain it on terms acceptable to us. There are currently no instances of default of debt obligations where cross-default provisions exist with certain debt obligations.

There are default and cross-default provisions in our borrowing arrangements which may be triggered by actions that could be taken (or which are not taken) by entities that we do not control. The Amended July 2007 Facility has several events of default that may be triggered by actions taken (or not taken) by our direct and indirect equity owners and by their other subsidiaries. In addition, the Amended July 2007 Facility will cross-default upon any default under the Super Bridge Loan, the Residual Credit Facility and the Amended and Restated Preston Ridge Facility. As we do not control our equity owners or the obligors under the Super Bridge Loan, the Residual Credit Facility or the Preston Ridge Facility, our liquidity and financial condition may be materially and adversely affected by actions that are not within our control.

We are limited to financing any liquidity requirements from distributions received from the Residual Joint Venture, and equity contributions from Super LLC, that are funded with borrowings from the Residual Credit Facility, and we may be unable to finance such liquidity requirements after exhaustion of the Residual Credit Facility. We have historically met our short-term liquidity requirements with cash generated from operations and borrowings under our credit facilities. Our short-term liquidity requirements consist primarily of funds necessary to pay for management fees, operating and other expenses directly associated with our portfolio of properties, interest expense and scheduled principal payments on our outstanding debt and capital expenditures incurred in our development and redevelopment projects. Our current new development pipeline in our Consolidated Portfolio is comprised of two projects, the aggregate cost of which, including costs incurred in prior years on these projects, is expected to be approximately $74.5 million. Our current redevelopment pipeline in our Consolidated Portfolio is comprised of seven projects, the aggregate cost of which, including costs incurred in prior years on these projects, is expected to be approximately $113.2 million. We presently have $16.0 million of costs, including costs incurred in prior years, attributable to our pro rata share of redevelopment costs for projects in our joint venture portfolio.

Our long-term liquidity requirements consist primarily of funds necessary to pay for the principal amount of our long-term debt as it matures significant non-recurring capital expenditures that need to be made periodically at our properties and redevelopment or development projects that we undertake at our properties.

Because we are no longer permitted to make draws under our Amended July 2007 Facility and certain of our or our affiliates debt agreements currently prohibit us from incurring additional indebtedness, we are presently limited to financing any liquidity requirements from distributions received from the Residual Joint Venture, and equity contributions from Super LLC, that are funded with borrowings from the Residual Credit Facility and certain asset sale proceeds. However, we do not control the Residual Joint Venture and cannot cause the Residual Joint Venture to make a draw under the Residual Credit Facility or to distribute the proceeds therefrom. We also are limited by the terms of the Residual Credit Facility as to how much we are able to borrow in connection with such obligations. If we are unable to negotiate additional capacity under the Residual Credit Facility, negotiate other liquidity facilities or negotiate the ability to incur additional indebtedness, we may be unable to finance the balance of these obligations following exhaustion of the Residual Credit Facility.

Our financial covenants will restrict our operating and acquisition activities. The Amended July 2007 Facility and the Indentures contain certain financial and operating covenants, including, among other things, certain coverage ratios, as well as limitations on our ability to incur secured and unsecured debt, make dividend payments, sell all or substantially all of our assets and engage in mergers and consolidations and certain acquisitions. These covenants may restrict our ability to pursue certain business initiatives or certain acquisition transactions. In addition, failure to meet any of these covenants, including the financial coverage ratios, could cause an event of default under and/or accelerate some or all of our indebtedness, which would have a material adverse effect on us. Due to covenants in the Amended July 2007 Facility, Super Bridge Loan, Residual Credit Facility and our Indentures, we are presently unable to incur additional indebtedness and this restriction will limit our flexibility in restructuring our existing indebtedness.

Downturns in the retailing industry likely will have a direct impact on our performance. Our properties consist of community and neighborhood shopping centers and other retail properties. Our performance therefore is linked to economic conditions in the market for retail space generally, and a decrease in the demand for retail space may have a greater adverse effect on our business and financial condition than if we owned a more diversified real estate portfolio. The market for retail space has been adversely affected by weakness in national, regional and local economies, the adverse financial condition of some retailing companies, the ongoing consolidation in the retail sector, the excess amount of retail space in a number of markets, and increasing consumer purchases through catalogues and the Internet. To the extent that any of these conditions worsen, they are likely to further impact market rents for retail space and could adversely affect our business.

In addition, our concentration in retail properties means that we are subject to the risks that affect the retail environment generally, including the levels of consumer spending, seasonality, changes in economic conditions, consumer confidence and terrorist activities. The U.S. economy has recently experienced a financial downturn, with consumer spending on the decline, credit tightening and unemployment rising. Many financial and economic analysts are predicting that the world economy may be entering into a prolonged economic downturn characterized by high unemployment, limited availability of credit and decreased consumer and business spending. This economic downturn is expected to adversely affect the businesses of many of our tenants. The likelihood that the United States is entering a prolonged recession could adversely affect consumer spending. A further reduction in consumer spending or confidence could have further adverse effects on our results of operations or financial condition.

Mortgage debt obligations expose us to the possibility of foreclosure, which could result in the loss of our investment in a property or group of properties subject to mortgage debt. As of March 31, 2009, we had approximately $394.2 million of mortgage debt outstanding, excluding the impact of unamortized premiums. If a property or group of properties is mortgaged to secure payment of debt and we are unable to meet mortgage payments, the holder of the mortgage or lender could foreclose on the property, resulting in loss of our investment. Alternatively, if we decide to sell assets in the current market to raise funds to repay matured debt, it is possible that these properties will be disposed of at a loss. Also, certain of our mortgages contain customary negative covenants which, among other things, limit our ability, without the prior consent of the lender, to further mortgage the property, to enter into new leases or materially modify existing leases, and to discontinue insurance coverage.

The matters discussed herein under Recent Developments have also made it difficult for us to refinance property level debt in the ordinary course, and we were required to pay higher interest rates on certain property level debt because we were unable to refinance such debt.

Our degree of leverage could limit our ability to obtain additional financing and adversely affect our business and financial condition. The following should be considered with reference to the fact that regardless of our degree of leverage, due to covenants in certain of our indebtedness, we are presently unable to incur additional indebtedness. Our organizational documents do not contain any limitation on the incurrence of debt. The degree of our leverage could have important consequences, including:

- requiring us to dedicate a substantial portion of our funds from operations to servicing our debt;

- affecting our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, development or other general purposes; and

- making us more vulnerable to economic and industry downturns.

In addition, as a result of the financial and operating covenants described below, our leverage could reduce our flexibility in conducting our business and planning for, or reacting to, changes in our business and in the real estate industry.

The economic performance and value of our properties are subject to risks associated with real estate assets and with the real estate industry. As a real estate company, we are subject to all of the risks associated with owning and operating real estate, including:

- changes in national, regional and local economic climate;
- local conditions, including an oversupply of space in properties similar to those that we own, or a reduction in demand for properties similar to those that we own;
- the attractiveness of our properties to tenants;
- the financial stability of tenants, including the ability of tenants to pay rent;
- competition from other available properties;
- changes in market rental rates;
- the need to periodically fund the costs to repair, renovate and re-let space;
- changes in operating costs, including costs for maintenance, insurance and real estate taxes;
- earthquakes, tornados, hurricanes and other natural disasters, civil unrest, terrorist acts or acts of war, which may result in uninsured or underinsured losses;
- the fact that the expenses of owning and operating properties are not necessarily reduced when circumstances such as market factors and competition cause a reduction in income from the properties; and
- changes in laws and governmental regulations, including those governing usage, zoning, the environment and taxes.

Failure by any anchor tenant with leases in multiple locations to make rental payments to us, because of a deterioration of its financial condition or otherwise, could seriously harm our performance. Our performance depends on our ability to collect rent, through our property managers, from tenants. At any time, our tenants may experience a downturn in their business that may significantly weaken their financial condition. As a result, our tenants may delay a number of lease commencements, decline to extend or renew a number of leases upon expiration, fail to make rental payments when due under a number of leases, close a number of stores or declare bankruptcy. Any of these actions could result in the termination of the tenant s leases, or expiration of existing leases without renewal, and the loss of rental income attributable to the terminated or expired leases. In addition, lease terminations by an anchor tenant or a failure by that anchor tenant to occupy the premises could result in lease terminations or reductions in rent by other tenants in the same shopping centers under the terms of some leases. In that event, our property manager may be unable to re-lease the vacated space at attractive rents or at all. The occurrence of any of the situations described above, particularly if it involves a substantial tenant with leases in multiple locations, could seriously harm our performance. As of March 31, 2009, our largest tenants were The Kroger Co. and Sears Holdings Corp., the scheduled ABR for which represented 4.5% and 3.1%, respectively, of our total ABR excluding our pro rata share of ABR generated by properties owned by unconsolidated joint ventures.

We are unable to collect balances due from an increasing number of tenants in bankruptcy and face potential adverse effects as a result. Bankruptcy filings by retailers occur in the course of our operations. We are continually re-leasing vacant spaces resulting from tenant terminations. We have seen a significant increase in tenant bankruptcies in 2008 and current economic conditions suggest this trend could continue or worsen. A bankruptcy filing by or relating to one of our tenants or a lease guarantor bars all efforts by us to collect pre-bankruptcy debts from that tenant or the lease guarantor, or their property, unless we receive an order permitting us to do so from the bankruptcy court. These tenant or lease guarantor bankruptcies delay our efforts to collect past due balances under the relevant leases, and ultimately preclude collection of these sums. If a lease is assumed by the tenant in bankruptcy, all pre-bankruptcy balances due under the lease must be paid to us in full. However, if a lease is rejected by a tenant in bankruptcy, we would have only a general unsecured claim for damages. Any unsecured claim we hold may be paid only to the extent that funds are available and only in the same percentage as is paid to all other holders of unsecured claims, and there are restrictions under bankruptcy laws that limit the amount of the claim we can make if a lease is rejected. As a result, in many tenant bankruptcies, we recover substantially less than the full value of any unsecured claims we hold from a bankrupt tenant. Additionally, the bankruptcy of a tenant, particularly an anchor tenant, may make it more difficult to lease the remainder of the affected properties. Future tenant bankruptcies could adversely affect our properties or impact our ability to successfully execute our re-leasing strategy. As a result, tenant bankruptcies may have a material adverse effect on our results of operations.

Current and future development and redevelopment of real estate properties may not yield expected returns and may strain management resources. We are actively involved in several ongoing redevelopment projects, and a few development projects. We also expect to complete the current new development projects in our pipeline and invest in additional redevelopment projects in the future if financial and market conditions warrant it.

Redevelopment and new development of properties are subject to a number of risks, including the following:

- abandonment of development activities after expending resources to determine feasibility;
- construction and/or lease-up delays;
- cost overruns, including construction costs that exceed our original estimates;
- failure to achieve expected occupancy and/or rent levels within the projected time frame, if at all; and
- delays with respect to obtaining or the inability to obtain necessary zoning, occupancy, land use and other governmental permits, and changes in zoning and land use laws.

If any of these problems occur, overall project costs may significantly exceed the costs that were estimated when the project was originally undertaken, which will result in reduced returns, or even losses, from such investments. In addition, we may not have sufficient liquidity to fund such projects and delays in the completion of a development or redevelopment project may provide various tenants the right to withdraw from a property.

In connection with the Supplement to the July 2007 Facility, we are no longer permitted to make draws under our Amended July 2007 Facility, and are limited to financing any development and redevelopment costs from distributions received from the Residual Joint Venture, and equity contributions from Super LLC, that are funded with borrowings from the Residual Credit Facility and certain asset sale proceeds. We also are limited by the terms of the Residual Credit Facility as to how much we are able to borrow in connection with such development and redevelopment costs. If we are unable to negotiate additional capacity under the Residual Credit Facility, negotiate other liquidity facilities or complete certain asset sales, we may be unable to finance further development and redevelopment following exhaustion of the Residual Credit Facility.

Our current and future joint venture investments could be adversely affected by a lack of sole decision-making authority and our reliance on joint venture partners financial condition. In some of our joint ventures, we have invested as a co-venturer or partner in the development or redevelopment of new properties, instead of developing projects directly. These investments involve risks not present in a wholly owned development or redevelopment project, including the following:

- in these investments, we do not have exclusive control over the development, financing, leasing, management and other aspects of the project, which may prevent us from taking actions that are opposed by our joint venture partners;

- we may be required to obtain prior consent from our co-venturers or partners for a sale or transfer to a third party of our interests in the joint venture, which restricts our ability to dispose of our interest in the joint venture;

- our co-venturers or partners might have interests or goals that are inconsistent with our interests or goals, and may be in a position to take actions contrary to our interests or otherwise impede our objectives;

- our co-venturers or partners also might become insolvent or bankrupt, which may delay construction or development of a property or increase our financial commitment to the joint venture;

- such investments have the potential risk of impasse on certain major decisions, such as a sale, because neither we nor our partner or co-venturer typically have full control over the joint venture;

- any disputes that may arise between us and our joint venture partners could result in litigation or arbitration that could increase our expenses and distract management from focusing their time and effort on our business; and

- we might be liable for the actions of our joint venture partners in certain circumstances.

As of March 31, 2009, we had approximately $820.4 million of investments in and advances to ten unconsolidated joint ventures that own an aggregate of 296 properties. The largest of these investments is our investment in the Residual Joint Venture. We have a 49% equity interest in the Residual Joint Venture. Our investment in the Residual Joint Venture is subject to the risks described above for jointly owned investments. As of March 31, 2009, this joint venture was comprised of 158 stabilized assets and three assets undergoing redevelopment.

Potential continued deterioration of investments in / advances to unconsolidated joint ventures. With the potential continued negative outlook over the US retail real estate markets and also potential decreases in risk free rates pertaining to long term debt, there is a risk of continued deterioration of the value of our investments in / advances to unconsolidated joint ventures. This may result in further impairments of the carrying value of our investments in / advances to unconsolidated joint ventures in addition to the $2.6 million impairment recorded by us that was deemed to be an other than temporary impairment for the three month ended March 31, 2009.

We currently do not have any plans to undertake any additional investments in / advances to unconsolidated joint ventures other than those which we are contractually obligated to make to our current investments in / advances to unconsolidated joint ventures.

Real estate property investments are illiquid, and therefore we may not be able to dispose of properties when appropriate or on favorable terms. Real estate property investments generally cannot be disposed of quickly. Return of capital and realization of gains, if any, from an investment generally will occur upon disposition or refinance of the underlying property. We may be unable to realize our investment objectives by sale, other disposition or refinance at attractive prices within any given period of time or may otherwise be unable to complete any exit strategy. In particular, these risks could arise from weakness in or even the lack of an established market for a property, changes in the financial condition or prospects of prospective purchasers, changes in national or international economic conditions, and changes in laws, regulations or fiscal policies of jurisdictions in which the property is located. Recently, it has become increasingly more difficult to dispose of real estate properties due to the downturn in the U.S. economy and the limited availability of credit. Additionally, based on our currently budgeted liquidity needs, we may need to dispose of certain assets in order to fund our operations but are limited by certain of our debt agreements as to the aggregate value of the assets we may dispose of. This requirement may require us to dispose of properties on less than favorable terms. Therefore, we may not be able to vary our portfolio in response to economic or other conditions promptly or on favorable terms, which may adversely affect our financial position.

Some potential losses are not covered by insurance, so we could lose a significant portion of our investment in a property. We carry comprehensive liability, fire, extended coverage, rental loss and acts of terrorism insurance on all of our properties. We believe the policy specifications and insured limits of these policies are adequate and appropriate given the relative risk of loss, the cost of the coverage and industry practice. There are, however, certain types of losses, including lease and other contract claims, acts of war and acts of God, and, in some cases, flooding, that generally are not insured, either because such coverage is not available or is not available at commercially reasonable rates. If we experience a loss which is uninsured or which exceeds policy limits, we could lose a significant portion of the capital we have invested in the damaged property, as well as the anticipated future revenue from the property. Inflation, changes in building codes and ordinances, environmental considerations, and other factors also might make it impractical or undesirable to use insurance proceeds to replace a property after it has been damaged or destroyed. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if these properties were irreparably damaged.

There can be no assurance as to future costs and the scope of coverage that may be available under insurance policies. Although we believe our properties are adequately covered by insurance, we cannot predict at this time if we will be able to obtain full coverage in the future at a reasonable cost. The costs associated with property and casualty renewals may be higher than anticipated.

We currently have variable rate debt obligations, which could be substantial in the future and may impede our operating performance and put us at a competitive disadvantage. As of March 31, 2009, we had approximately $8 million of outstanding floating rate debt not subject to any form of interest rate cap, maturing at various times up to September 1, 2011. In connection with the Supplement to the Amended July 2007 Facility, we are presently not permitted to make draws under our Amended July 2007 Facility. Furthermore, the rates on our variable rate indebtedness increase when interest rates increase. Interest rates are currently low relative to historical levels and may increase significantly in the future. Increases in interest rates would increase our interest expense not subject to interest rate cap, which would adversely affect cash flow and our ability to service debt.

As discussed above, we may borrow additional money with floating interest rates in the future. Increases in interest rates, or the loss of the benefits of our existing or future hedging agreements, would increase our interest expense, which would adversely affect cash flow and our ability to service our debt. Future increases in interest rates will increase our interest expense as compared to the fixed rate debt underlying our hedging agreements and could result in our making payments to unwind such agreements.

Environmental problems that exist at some of our properties could result in significant unexpected costs. We are subject to federal, state and local environmental regulations that apply generally to the ownership of real property and the operations conducted on real property. Under various federal, state and local laws, ordinances and regulations, we may be considered an owner or operator of real property or may have arranged for the disposal or treatment of hazardous or toxic substances or petroleum product releases at a property and, therefore, may become liable for the costs of removal or remediation of certain hazardous substances released on or in our property or disposed of by us, as well as certain other potential costs which could relate to hazardous or toxic substances (including governmental fines and injuries to persons and property). Such liability may be imposed whether or not we knew of, or were responsible for, the presence of these hazardous or toxic substances. As is common with community and neighborhood shopping centers, many of our properties had or have on-site dry cleaners and/or on-site gasoline facilities. These operations could potentially result in environmental contamination at the properties. The cost of investigation, remediation or removal of such substances may be substantial, and the presence of such substances, or the failure to properly remediate such substances, may adversely affect our ability to sell or rent such property or to borrow using such property as collateral.

We are aware that soil and groundwater contamination exists at some of our properties. The primary contaminants of concern at these properties include perchloroethylene and trichloroethylene (associated with the operations of on-site dry cleaners) and petroleum hydrocarbons (associated with the operations of on-site gasoline facilities). We also are aware that asbestos-containing materials exist at some of our properties. While we do not expect the environmental conditions at our properties, considered as a whole, to have a material adverse effect on us, there can be no assurance that this will be the case. Further, no assurance can be given that any environmental studies performed have identified or will identify all material environmental conditions, that any prior owner of the properties did not create a material environmental condition not known to us or that a material environmental condition does not otherwise exist with respect to any of our properties.

Further information relating to recognition of remediation obligation in accordance with generally accepted accounting principles is provided in the Consolidated Financial Statements and notes thereto included in this Quarterly Report on Form 10-Q.

We face considerable competition in the leasing market and may be unable to renew leases or re-let space as leases expire. Through our property manager, we compete with a number of other companies in providing leases to prospective tenants and in re-letting space to current tenants upon expiration of their respective leases. If our tenants decide not to renew or extend their leases upon expiration, we may not be able to re-let the space. Even if the tenants do renew or we can re-let the space, the terms of renewal or re-letting, including the cost of required renovations or concessions to tenants, may be less favorable or more costly than current lease terms or than expectations for the space. As of March 31, 2009, leases were scheduled to expire on a total of approximately 8.3% of the space at our properties (excluding our pro rata share of properties owned by unconsolidated joint ventures) through 2009. Our property manager may be unable to promptly renew the leases or re-let this space, or the rental rates upon renewal or re-letting may be significantly lower than expected rates.

Our ability to continue as a going concern. As a result of the liquidity risk factors discussed above, specifically our reliance upon funding provided by an entity that we do not control; current prohibition upon our ability to incur further indebtedness; the existence of restrictions upon operations which increase the risk of default and cross-default of existing debt, combined with the continued liquidity issues of our ultimate parents, there is substantial doubt about our ability to continue as a going concern.

The half yearly financial statements of our ultimate parents, CPL and CPT, which were lodged with Australian regulatory bodies on February 26, 2009 included discussion of significant uncertainty (equivalent to substantial doubt) about those entities ability to continue as a going concern.

We have obtained extension of our existing debt facilities, and during the period to the maturity of these facilities we will be working with management of our ultimate parent investors and our lenders to restructure and address our liquidity issues.

Item 6. Exhibits

10.1* Supplement to Amended and Restated Revolving Credit Agreement, by and, among Centro NP LLC, the Lenders party thereto and Bank of America N.A., as Administrative Agent, dated as of January 15, 2008,, filed as Exhibit 10.15 to the Company s Annual Report on Form 10-K, filed on March 31, 2008.

10.2* Contribution, Distribution and Assignment Agreement (the Agreement), dated as of January 15, 2009, by and among New Plan Property Holding Company, CA New Plan Asset Partnership IV, L.P., CA New Plan Asset LLC, CA New Plan VI, Excel Realty Trust ST, LLC, New Plan Maryland Holdings, LLC, New Plan of Michigan, LLC, New Plan of Michigan Member, LLC, NP of Tennessee, L.P., New Plan of Tennessee, LLC, NPTN, Inc., CA New Plan Texas Assets, L.P., CA New Plan Texas Assets, LLC, CA New Plan IV, HK New Plan Exchange Property Owner I, LLC, HK New Plan Exchange Property Holdings I, LLC, HK New Plan STH Upper Tier II Company, HK New Plan Exchange Property Owner II, LP, HK New Plan Lower Tier OH, LLC, HK New Plan Mid Tier OH, L.P., HK New Plan OH TRS, Inc., HK New Plan ERP Property Holdings, LLC, Excel Realty Partners, L.P., New Plan DRP Trust, New Plan ERP Limited Partner Company, ERP New Britain Limited Partnership, New Plan Realty Trust, LLC, New Plan Pennsylvania Holdings, LLC, Centro NP ERT, LLC, HK New Plan Macon Chapman TRS GP Company, ERT Development Corporation, New Plan Florida Holdings, LLC, HK New Plan STH Lower Tier, LLC, HK New Plan STH Mid Tier II, LLC, Centro NP LLC, Super LLC, Centro NP Residual Holding LLC and Centro NP Residual Holding Sub 1, LLC, filed as Exhibit 10.16 to the Company s Annual Report on Form 10-K, filed on March 31, 2008.

10.3 Employment Agreement, dated as of April 29, 2009, by and between Centro US Management Joint Venture 2, LP and Tiffanie Fisher.

31.1 Certification of Chief Executive Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.3 Certification of Chief Accounting Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

---

* Incorporated herein by reference as above indicated.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: May 15, 2009

CENTRO NP LLC

By:	/s/ Michael Carroll Michael Carroll Chief Executive Officer
By:	/s/ Tiffanie Fisher Tiffanie Fisher Chief Financial Officer (Principal Financial Officer)
By:	/s/ Steve Splain Steve Splain Chief Accounting Officer