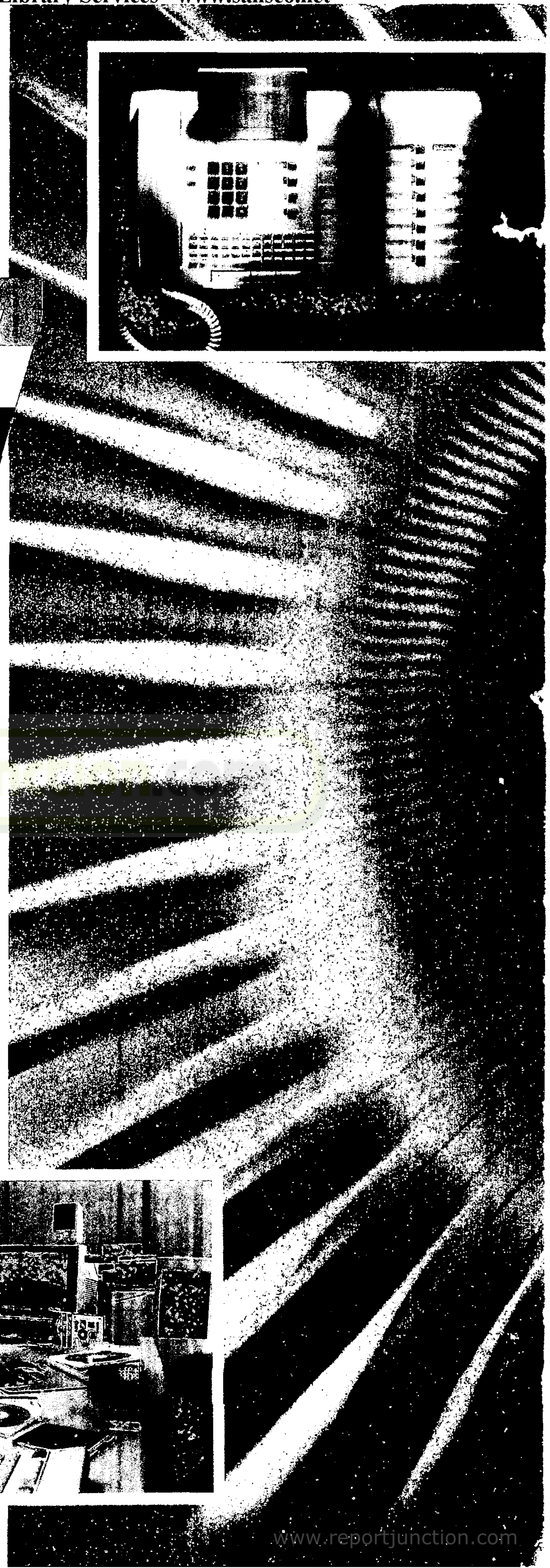
SIEMENS



Annual Report 97

MD	✓		BKC	✓
CS	✓		DPY	
RO	✓		DIV	
TRA	✓		AC	✓
AGM	✓	✓	SHI	✓
YE	✓	✓		

Siemens in India

Siemens Ltd.

Notice

NOTICE is hereby given that the Fortieth Annual General Meeting of the Members of Siemens Ltd. will be held at Patkar Hall of the S.N.D.T. Women's University, 1, Nathibai Thackersey Road, Mumbai 400 020, on Friday, 19th December, 1997 at 11.00 a.m. to transact the following business :

Ordinary Business :

1. To receive and adopt the Directors' Report, Auditors' Report and the audited Balance Sheet and Profit and Loss Account for 18 months period ended on 30th September, 1997.
2. To appoint a Director in place of Mr. Deepak S. Parekh, who retires by rotation and is eligible for re-appointment.
3. To appoint a Director in place of Mr. A. V. Chindarkar, who retires by rotation and is eligible for re-appointment.
4. To appoint Auditors and fix their remuneration.

Special Business :

To consider and, if thought fit, to pass with or without modifications, the following Resolutions as Ordinary Resolutions:

5. "RESOLVED that Mr. A. B. Nadkarni be and is hereby appointed as a Director of the Company and shall be liable to retire by rotation."
6. "RESOLVED that, pursuant to the provisions of Sections 198, 269 and 309 of the Companies Act, 1956 and subject to the approval of the Central Government, the Company hereby approves the appointment of Mr. A. B. Nadkarni as a Whole-time Director of the Company for a period of five years with effect from 20th February, 1997 on the terms and conditions including those of remuneration as set out under Sr. No. 4 of the Explanatory Statement annexed to this Notice."
7. "RESOLVED that, pursuant to the provisions of Sections 198, 269, 309 and Schedule XIII of the Companies Act, 1956, the Company hereby approves the re-appointment of Mr. S. R. Patri as a Whole-time Director of the Company with effect from 4th September, 1997 upto 22nd December, 1999 i.e. the date of his retirement, on the existing terms and conditions including those of remuneration as set out under Sr. No. 4 of the Explanatory Statement annexed to this Notice."
8. "RESOLVED that Mr. W. Kroll, who was appointed as an Additional Director with effect from 1st September, 1997 and holds office upto the conclusion of this Meeting, be and is hereby appointed as a Director of the Company and shall be liable to retire by rotation."
9. "RESOLVED that, pursuant to the provisions of Sections 198, 269 and 309 of the Companies Act, 1956 and subject to the approval of the Central Government, the Company hereby approves the appointment of Mr. W. Kroll as the Executive Director of the Company for a period of five years with effect from 1st September, 1997 on the terms and conditions including those of remuneration as set out under Sr. No. 4 of the Explanatory Statement annexed to this Notice."

   "FURTHER RESOLVED that, subject to the approval of the Central Government and pursuant to the provisions of Sections 198, 269 and 310 of the Companies Act, 1956, the Company hereby approves an increase in the monthly salary of Mr. W. Kroll from Rs.70,000 to Rs.80,000 with effect from 1st November, 1997. All other terms and conditions of his remuneration, as set out under Sr. No. 4 of the Explanatory Statement annexed to this Notice, shall remain the same."

By Order of the Board

Ashok P. Jangid
Corporate Secretary

Registered Office :
130, Pandurang Budhkar Marg,
Worli, Mumbai 400018.

Mumbai, 21st November, 1997.

Notes :

(a) A MEMBER ENTITLED TO ATTEND AND VOTE AT THIS MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER OF THE COMPANY.

Proxies, in order to be effective, must be received by the Company not less than 48 hours before the Meeting.

(b) The relevant Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 in respect of the Special Business at Items No.5 to 9 of the Notice is annexed hereto.

(c) The Share Transfer Books and Register of Members of the Company will remain closed from Tuesday, 2nd December, 1997 to Friday, 19th December, 1997, both days inclusive.

(d) Members desirous of getting any information about the accounts and operations of the Company are requested to address their queries to the Corporate Secretary at least seven days in advance of the Meeting so that the information required can be made readily available at the Meeting.

(e) Pursuant to Section 205A of the Companies Act, 1956 the unclaimed dividend for the financial years 1992-93 and 1993-94 have been transferred to the General Revenue Account of the Central Government. Shareholders who have not encashed the dividend warrants are requested to claim the amount from the Registrar of Companies, Maharashtra, Hakoba Compound, 2nd Floor, Dattaram Lad Marg , Kalachowki, Chinchpokli, Mumbai 400 033. Hence, Members who have not encashed the dividend warrants for the year 1994-95 and onwards are requested to claim the same from the Company.

Explanatory Statement

As required by Section 173 of the Companies Act, 1956.

In respect of Items of Special Business mentioned in the Notice.

1. Resolution No. 5

The Board of Directors appointed Mr . A. B. Nadkarni as a Director of the Company with effect from 20th February, 1997 in the casual vacancy caused by the resignation of Mr . S. S. Muzumdar. At the same Meeting , the Board of Directors also appointed Mr. A. B. Nadkarni as a Whole -time Director for five years with effect from 20th February, 1997, subject to the approval of the Shareholders. Mr. A. B. Nadkarni is the Head of the Personnel Division of the Company . He is 50 years of age and holds a Degree in Mechanical Engineering. Prior to being appointed as Director , he was working as Executive Vice President - Personnel Division. He has been working with the Company for nearly 24 years and during the period, he has held various senior positions. His knowledge and vast experience will be of great value to the Company .

The Company has received Notices under Section 257 of the Companies Act, 1956 from some Members signifying their intention to propose Mr. A. B. Nadkarni as a Director of the Company.

This explanation together with the accompanying Notice is to be regarded as an Abstract of Terms and Memorandum of Interest under Section 302 of the Companies Act, 1956. The details of the remuneration being paid to Mr. A. B. Nadkarni are given under Serial No. 4 hereunder.

None of the Directors, other than Mr. A. B. Nadkarni, is interested in this Resolution.

2. Resolution No.7

Mr. S. R. Patri was appointed as a Whole-time Director of the Company at the 35th Annual General Meeting held on 4th September, 1992 for a period of five years. Therefore, his term as Whole-time Director expired on 3rd September, 1997. Mr. S. R. Patri was re-appointed by the Board of Directors with effect from 4th September, 1997, upto 22nd December, 1999, subject to the approval of the Shareholders. Mr. S. R. Patri is 58 years of age and is with the Company since August, 1964. As a Whole-time Director, he is responsible for the Medical Division of the Company. Considering his age, qualifications, experience and contribution to the Company, it is proposed to re-appoint him with effect from 4th September, 1997 till 22nd December, 1999 i.e. till the date of his retirement, on the existing terms and conditions, including salary and perquisites, as set out under Serial No. 4 hereunder.

This explanation together with the accompanying Notice is to be regarded as an Abstract of Terms and Memorandum of Interest under Section 302 of the Companies Act, 1956.

None of the Directors, other than Mr. S. R. Patri, is interested in this Resolution.

3. Resolution No. 8 and 9

Mr. H-J. Neubuerger was appointed as the Executive Director for five years with effect from 1st May, 1996. However, he has been called back by our Parent Company, Siemens AG from 25th October, 1997 for a very senior level position with them. Considering the importance of the office of the Executive Director, Siemens AG recommended Mr. W. Kroll for this post. The proposal was considered and approved by the Board of Directors at its Meeting held on 2nd August, 1997. Mr. W. Kroll was appointed as an Additional Director with effect from 1st September, 1997. At the same meeting, the Board of Directors also appointed Mr. W. Kroll as the Executive Director, subject to the approvals of the Central Government and Shareholders, with effect from 1st September, 1997 for a period of five years.

The Company has received Notices under Section 257 of the Companies Act, 1956 from some Members signifying their intention to propose Mr. W. Kroll as a Director of the Company.

Mr. W. Kroll is 51 years old, a German national and has done his MBA in Finance. He has over 25 years experience with the House of Siemens and during the period he has held various senior level positions. Before coming to India, Mr. W. Kroll was Chief Financial Officer of Siemens Medical Systems Group in America. The Board of Directors is confident that his vast knowledge and experience will be of great value to the Company.

Mr. W. Kroll was appointed as the Executive Director of the Company, along with Mr. H-J. Neubuerger with effect from 1st September, 1997. During this period he has very well acquainted himself with the functions and responsibilities of Executive Director. Following Mr. H-J. Neubuerger's departure from India on 25th October, 1997, Mr. W. Kroll has taken over independant charge of his functions. Considering the increase in his functions and responsibilities, the Board of Directors at their Meeting held on 21st November, 1997 decided to increase, subject to the approvals of the Central Government and the Shareholders, Mr. W. Kroll's monthly salary from Rs.70,000 to Rs.80,000 with effect from 1st November, 1997, in line with the salary of Mr. H-J. Neubuerger.

Pursuant to the provisions of Section 302 of the Companies Act, 1956 an Abstract of Terms and Memorandum of Interest giving details of remuneration, etc. being paid to Mr. W. Kroll was sent to the Members of the Company. The details of remuneration as approved by the Board of Directors at the Meetings held on 2nd August, 1997 and 21st November, 1997, is provided under Serial No. 4 hereunder.

4. Resolutions No. 6, 7 and 9

I. Salary:

Name of the Appointee	Designation	Tenure	Salary (Rs. per month)
Mr. A. B. Nadkarni	Whole-time Director	20.2.1997 to 19.2.2002	60,000
Mr. S. R. Patri	Whole-time Director	4.9.1997 to 22.12.1999	70,000
Mr. W. Kroll	Executive Director	1.9.1997 to 30.8.2002	70,000 w.e.f. 1.11.97 80,000

Salary Grade : Rs.60,000/- to Rs.1,00,000/-. Annual Increment as may be decided by the Board of Directors.

II. Perquisites:

i. In addition to the above, the appointees shall also be entitled to perquisites and allowances like furnished accommodation or house rent allowance/ stay in hotel in lieu thereof; house maintenance allowance together with reimbursement of expenses or allowances for utilities such as gas, electricity, water, furnishings and repairs; medical reimbursement; leave travel concession for self and family; club fees; medical insurance and such other perquisites and allowances restricted to 125% of their Annual Salary.

For the purpose of calculating the above ceiling, the perquisites and allowances shall be valued as per the Income Tax Rules, wherever applicable. In the absence of any such Rules, they shall be evaluated at actual cost.

ii. Provision for use of Company's car for official duties and telephone at residence (including payment for local calls and long distance official calls) shall not be included in the computation of the ceiling on the perquisites.

iii. Company's contribution to Provident Fund and Superannuation or Annuity Fund, to the extent these either singly or together are not taxable under the Income Tax Act. Gratuity payable as per the Rules of the Company and encashment of leave at the end of tenure shall not be included in the computation of the ceiling on the perquisites.

Mr. W. Kroll, being an expatriate, shall not be entitled to iii above.

In addition to the perquisites specified above, Mr. W. Kroll, being an expatriate, shall be entitled to the following perquisites which shall not be included in the computation of the ceiling on perquisites specified above.

(a) Children's Education Allowance:

In case of children studying in or outside India, an allowance limited to a maximum of Rs.15,000 per month per child or actual expenses incurred, whichever is less, is admissible. Such allowance is admissible upto a maximum of two children.

(b) Holiday passage for children studying outside India/family staying abroad:

Return holiday passage is admissible once in a year by economy class or once in two years by first class to children from their place of study abroad to India and to the members of the family from the place of their stay abroad to India if they are not residing in India with him.

(c) Reimbursement of expenses incurred on joining duty and returning to home country after completion of tenure:

Actual expenses incurred on travel and on packing, forwarding, loading or unloading as well as freight, insurance, customs duty, clearing expenses, local transportation and installation expenses in connection with the moving of personal effects for self and family for joining duty in India may be allowed in case these have not been claimed from the previous employer. After completion of the tenure, such expenses may also be allowed if he is finally leaving the employment of the Company. In case he is joining another branch of the same / related multinational company, the branch to which he is transferred should bear these expenses.

(d) Leave travel concession:

In case it is proposed that the leave be spent in the home country instead of any where in India, return passage may be allowed for self and family in accordance with the Rules specified by the Company.

III. Commission

The appointees shall also be entitled to remuneration by way of Commission, as may be decided by the Board of Directors. The amount of it based on the net profits of the Company in a particular year shall be subject to the overall ceiling laid down in Section 198 and Section 309 of the Companies Act, 1956.

Minimum Remuneration

Notwithstanding anything hereinabove, where in any financial year during the currency of their tenure as Executive Director / Whole -time Director, the Company has no profits or its profits are inadequate, the Company will pay the aforesaid remuneration by way of salary and perquisites as minimum remuneration.

No sitting fees shall be paid to the appointees for attending the Meetings of the Board of Directors or any Committee thereof.

None of the Directors of the Company, other than Mr. S. R. Patri, Mr. A. B. Nadkarni and Mr. W. Kroll, is interested in these Resolutions.

By Order of the Board

Ashok P. Jangid
Corporate Secretary

Registered Office :
130, Pandurang Budhkar Marg,
Worli, Mumbai 400018.

Mumbai, 21st November, 1997.

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Chairman's Statement

Dear Shareholders,

The just ended financial year was an *annus horrible* or horrible year for Siemens Ltd. While would have liked to celebrate the nation's 50th anniversary of independence, Siemens Ltd.'s 40th anniversary, Siemens' 75th anniversary of operations in India and the parent Company's 150th anniversary with a superb performance, we unfortunately have to report to you on a very painful year for Siemens Ltd., its shareholders and its employees. Of course, the factors responsible for the poor performance are many and I will provide explanation. Before doing so, please note that the Board of Siemens Ltd. decided earlier to change the Company's accounting year to October-September to coincide with the accounting period of our parent company, Siemens AG. Consequently, the financial year of the Company was extended to September 30, 1997 and therefore, covers a period of 18 months. Furthermore, this report includes for the first time consolidated accounts, i.e. a single set of accounts for Siemens Ltd. and its majority owned subsidiaries. Finally, while the erstwhile Telecommunications Division has been spun-off as per 1.10.1996, its business performance affected Siemens Ltd. for the first 6 months (April-September 1996) of this 18 months financial year (April 1996 to September 1997).The sad upshot has been that for the 18 months from April 1996 to September 1997, our loss has been Rs. 155.6 crores on a total Turnover of Rs. 1,751.4 crores.

We know how painful this bottom line might appear to our shareholders, and we have no intention of passing the buck on to other parties. That is why, in this Chairman's Statement, we shall seek to answer a number of questions which are foremost in the minds of the shareholders. We shall explain to you why "re-structuring" continues to be the need of the hour, not only for the Indian corporate sector, but for Siemens in particular. Next, we shall review the specific steps that we are taking and then go on to assess what success or progress we have made. Last but not the least, we shall ask what is the future of Siemens after this "re-structuring". We shall also make this the occasion to inform you of major changes in the Top Management structure.

Having raised these questions, which we shall very soon answer step by step, let us unequivocally state that for the last five years, we, in Siemens, have been stressing in every Chairman's Statement the necessity of stepping up our investments in the infrastructure sectors as quickly and as much as possible. We have done this partly because few private sector companies in India are better fitted to meet the challenges and the opportunities opened up by increased investments in the infrastructure facilities than Siemens. In fact, the substantial investments we, in Siemens, made during the last four years were due to our hopes of playing a very major role in the development of India's infrastructure facilities, benefiting thereby both our country and our Company.

Alas, by and large, these hopes have not been realized. We are in the capital goods sector in general but in the infrastructure industries in particular. But how significant is the fact that *in real terms* the capital expenditure of the Central Government, even in this coming year 1997-98, is actually going to be 16% less than what it was in 1990-91? How shocking again is the fact that the addition to the installed capacity of power in 1996-97 is just a little more than half of what it was in 1993-94. We have had any number of speeches and seminars but the momentum is missing, and indeed any hope of a major revival in industrial production can only be based on a massive upsurge in infra-structural projects, of which to-date we see no signs.

Governments cannot step up the infra-structural investments; the private sector by and large cannot fill in the gap due to a vast variety of political, procedural and financial reasons. The result is that the economy of our country falls between two stools; so does our company. All this means that the economic environment currently prevalent, both for the industry and the infra-structural sectors, multiply our already existing difficulties by several times. We shall have to turn inward more and more for finding the right remedies, which we seek to do in the ongoing process of "restructuring".

Why Indian Industry must "Re-structure"?

It can be only a small consolation to us that in the period we are now reviewing, a great majority of the major Indian companies have witnessed a sharp shrinkage in their profit margins, and indeed excluding their "other income", their genuine operating profits have shown a sharp decline. This is all the more strange as on few occasions in the economic history of independent India have the policy measures been so favourable. Beginning October 1996, we have been witnessing a slow and steady decline in the interest rates; the liquidity position of the economy is conspicuously better than before; even so, the overall rate of inflation has been conspicuously low; and last but by no means the least, we have had through our budget of March 1997, what is perhaps the best tax structure since 1956.

It was only natural that the reactions to these policy measures, particularly such as were made immediately after the budget, showed an enthusiasm bordering on euphoria. However, we were in a hopeless minority of economists who painfully had to disagree with these euphoric reactions. While undoubtedly, Indian industry would be the beneficiary of the substantive decline in both the tax and the interest rates for which we cannot be too grateful, the most important factor now emerging on the Indian scene has been that of local and global competitiveness.

Surprisingly, this factor was almost totally ignored in the early reactions, though now it has been increasingly appreciated as an overriding factor in the contraction of profit margins. Companies after companies have had to reduce their prices due to the savagery of competition, aided and abetted by over capacities and over-crowding in several industries, particularly the major ones like the capital goods industries and the infrastructure products and services sector, to which our own Company belongs. In case of several major companies, the subsequent shrinkage in profit margins has negated the otherwise real benefits of reduced tax and interest rates.

Hence, while we have every right to look with hope to the coming second-half of this financial year which, alas, is different from the new accounting year we have adopted ending 30th September, the fact or the fear cannot be ignored that even if the recession begins to disappear, the emerging benefits will go only to the companies endowed with competitive power, and the great majority of companies operating in India, even though they may enjoy a temporary reprieve, will have to save themselves only through a painful process of 'restructuring'. It is the companies which can overcome the challenge of shrinking profit margins by sharply increasing their volumes and/or by sharply cutting down their costs that will eventually win the day.

In this sense, paradoxical or even perverse as it sounds, this year of 1997-98 which has witnessed such excellent policy measures will, in fact, be the year of the beginning of the pain for most Indian companies, if not for most Indian industries. It will be the year of mergers, divestitures, buy-backs, take-overs, and of course of the voluntary retirement schemes. The key word now for most companies in India is 'competitive strength' and for this it will be virtually impossible to escape what we in Siemens have found so difficult to escape, namely, the harsh process of re-structuring. This emphatically does not mean that we shall not be pro-active in meeting the challenges of competition, but we will have to pass through a period of painful adjustments in our employee strength, in our inventory holdings, in our use of credit and capital, and so on.

Why Siemens Ltd. must "Re-structure"?

Let's turn to the question as to what caused this disappointing performance of Siemens Ltd.? Since we had comprehensively commented on this question during the three General Meetings which we held during the last 18 months, i.e. the AGM on September 6, 1996, the EGM on January 9, 1997 and another EGM on August 2, 1997 and since the speeches of the Managing Director, the Executive Director and myself were sent to you for references, I ask for your understanding if I only summarize here the key previous statements and explanations given:

- Siemens Ltd. was positioned like most of Indian industry for continued considerable growth, as it has experienced since the beginning of the economic liberalization in 1991. Our major investment programme started in 1994 is representative of this optimism and which misled many of us to be more lenient to the slow deterioration of the cost structure due to "cost pushes" on many fronts, notably labour cost.

- The sharp increase in interest rates in late 1995 combined with the increasing inability of customers to obtain bank financing resulted in a sharp slow down of investment by industry at large. The major infrastructure sectors like power, telecom and transport, which were supposed to provide additional stimulus to growth, were delayed for many reasons including financing problems.
- Siemens Ltd. as a major supplier to industry and the infrastructure sector is comprehensively affected by this slow-down. The resulting low capacity utilization combined with the continuing increase in cost and a more sober assessment of the intermediate growth prospects have forced us to drastically alter our operational set-up as a means to ensure an early return to profitability and dividend paying ability.

How is Siemens Ltd. going about its "Re-structuring"?

To achieve our objective, we have embarked on a four point action programme, which calls for:

- *Improvement in productivity and cost structure and quality.* This means all functional areas like Purchasing, Manufacturing, Marketing, Service, etc. will need to be optimized in respect to their processes in order to streamline operations as well as to their cost factors like capital, labour, overheads, etc.
- *Review of our business portfolio.* The liberalization of the economy and the lowering of import barriers exposes industry to the chilling wind of global competition. Unless we can meet world class *benchmarks in* respect to cost, quality, service, etc., we will be unlikely to succeed even domestically in the future. We have, therefore, embarked on a comprehensive strategic review of all *our businesses and* may, in some instances have to conclude that they can no longer profitably be operated. Conversely, the same review may identify areas that now are feasible to enter or where an expansion of current activities as a partner of the international network of Siemens AG is possible.
- *Restructuring of the balance sheet.* The major investment programme, which has drawn to a planned end this year, and the funding need of the considerably expanded working capital, had resulted in a considerable increase in our borrowings. Combined with the substantial loss reported for the financial year 1996/97 and erosion of our equity, led to a sharp deterioration of the Debt/Equity ratio. A range of measures has been taken to improve this situation.
- *Amplified focus for the development of Human Resource Development.* We have to appreciate that liberalization changed the overall business environment and hence not only organizationally we have to adjust to the new success factors but we also have to ensure that our employees and particularly business managers are suitably trained and prepared to operate under such a different competitive climate. In addition, the compensation and reward systems need to be developed to address the needs of the market place while supporting the overall business objectives of the Company.

What has been achieved so far ?

Shareholders may rightly be asking, to what extent this programme has already been implemented or whether it merely reflects intentions of management. When we met at the EGM in January, I had indicated that management had already taken measures to correct the situation of the Company. Today, I can not only again confirm that we are well on our way to achieve the *turnaround but also give* you very specific evidence of such