

**SIEMENS**

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

# Annual Report 1998



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## Chairman's Statement



*Dear Shareholders*

### Results show operational improvement

The last twelve months for Siemens have been indeed trying, but not in vain. Having set out with a loss burden of 1556 million for the 18 months ended September 1997, the Company has posted a modest operational improvement in the last fiscal year. To make the comparison on a twelve months basis, the Profit / Loss after taxes for the 12 month period ending 30.09.98, shows a loss of Rs.560 million as compared to Rs.1317 million for the corresponding period in the previous 12 months.

Disheartening as these figures may seem at first glance, the trend reflects the positive effects of restructuring efforts and productivity initiatives undertaken by your Company in its 4-point program for turnaround. The gains can be attributed to:

- The restructuring of the balance sheet, in particular, better asset management and reduction in borrowings leading to a sharp decline in interest costs.
- Productivity gains attained through rationalization of business processes & introduction of various efficiency improvement programs; as also, the optimization of manpower with focus on building intellectual capital.

We will elaborate these points later on.

Due to the overall sluggish conditions of the depressed economy, delayed decisions in order placement and selective orders booking, the order book declined by 22% and stood at Rs. 8383 million on a 12 months comparable basis. As a reflection of the slow order inflow, the turnover too declined by 14% and stood at Rs. 9960 million.

Let us analyze these results in light of the overall economic environment.

### External environment

Last year, what began as an economic slowdown has given way to a deep – seated recession, almost bordering on depression. It is not showing any signs of lifting in the near future. As a result, the real GDP estimates for India have fallen far short for the present financial year and the growth projected has been scaled down to a flat 4.5 percent (CMIE). Also, the trends in the capital goods sector show a steep down-trend and industrial production has plummeted to an all time low since 1992-98. Unbelievably, in 1997-98, only about 3300 MW of power has been added as against a planned growth of 8000 MW per year.

And, to add to the troubles, the continued South East Asian crisis further aggravated the position with nearly 40% of the world economy either already in a recession or skidding into a difficult economic situation. This has indeed shaken up the entire world, naturally affecting companies like ours.

How has this affected us, you may ask? Very directly, as our business is heavily dependent upon the capital goods sector which drives growth in infrastructure, a key area of our business operation. Growth in the infrastructure sector, in turn triggers growth in the industry segment, where we have a dominant presence. In other words, our business growth was sandwiched as a result of the stagnation in both the core segments of infrastructure and industry. This is reflected in the decline in the order book as explained above. Also, the south east Asian crisis has dampened our plans for participating in the Asian Market.

Our plans for turnaround in this year were based on the clear assumption that the economy would not slide any further. Unfortunately, this did not happen. Our plans based on a certain minimum expected volume required to break-even, could not subsequently materialise. While turnover and order value declined due to the difficult

## Chairman's Statement

market situation, we on our own front consciously focused on quality orders.

Therefore, our costs have reduced far faster, and our performance as measured by Earnings Before Interest, Tax, depreciation and Amortisation (EBITA), showed an improvement from 7.7% to 8.4% of the turnover in the corresponding 12 months.

### Success of our internal working

While we could not control the external environment, we did control our internal working and posted an operational improvement. This was mainly due to the effects of restructuring, cost efficiency measures undertaken, productivity gains achieved in the factories and various Process improvements consequent to the 4-point program for turnaround announced 18 months ago. Addressing these 4-points, 102 business fields were examined and about 118 sub-projects launched. All these initiatives are well in progress, and the focus is now on implementation.

On the interest front alone, we have attained a substantial savings of Rs. 332 million with the interest charges declining from 798 million to 466 million in the comparable 12 months' period. As additional details on the Company's financials are given in the Section "Management's Discussion and Analysis," I shall desist from further elaboration.

Simultaneously, considerable headway has been made on the sales front, the service areas and the logistics are being strengthened. However, the factories are still our areas of concern and we have to find future-oriented solutions, within right-sized recourses.

What we can say confidently at this juncture is that much has been achieved and your Company is definitely on the right path of progress. And as any operation takes time to heal, the pangs of pain are slowly, but surely, beginning to decline, thanks to the unfailing efforts of the Management and the employees of the Company. But the process is a painful one, needing continuous care and nurturing.

### Changing Market Dynamics

Which brings me to another important aspect – that of the changing market dynamics.

The Indian economy is in a transitory phase and will have to undergo a period of adjustment. And so will

Siemens. In anticipation of high growth, we were optimistic and built-up capacities to meet the much promised future demands. Perhaps, we were too early. Today, this has taken a reverse trend, particularly in a shrunk market, whereby optimum loading of the factories is a far reality.

Furthermore, with the easing out of the tariff barriers, imports have provided manufacturers with a better alternative in terms of both, the product and the price. The host of new players, both large and small, have resorted to this alternative, whereas, coming from a historic past, we are saddled with heavy manufacturing bases, involving a high degree of backward integration. This has naturally impacted our cost structure, which in certain areas is substantially higher than that of competition, who have set up lean manufacturing operations and resort to outsourcing of processes, where economical.

As such, the market has witnessed fundamental changes and success factors of the past are no longer valid today. To successfully meet with the changing needs, we too are re-looking at our value chain to make it more competitive and flexible.

Let me explain this a little further. Take for example, our highly sophisticated tool room at Kalwa. Today, it caters only to the internal tooling needs of the factory. The question on hand today is; should we continue to operate it at low capacity? Or, should we not better utilise the facilities by generating external earnings from this high investment? I'm sure, you as investors will only agree that the investment must generate handsome returns.

Similarly, in the case of our Industrial electronics factory at Nashik, the Printed circuit boards unit has been severely affected as the new generation of products contain components with a higher level of functional integration due to which there is substantial reduction in the value-added content. In other words, a single chip has now replaced the population of a number of components, and therefore, the value added content and production time.

Automation is a volume driven business and needs economies of scale. Earlier, we used to manufacture a wide spectrum of boards, even though the quantities were low, and eventually landed with a higher cost factor. Now imports have provided us with economical alternatives, hence releasing further capacities.

## Chairman's Statement

What then is the logical step to take to ensure optimal loading leading to a positive return on our investments? Since the captive volumes are insufficient, we have sought to utilise the strengths of this state-of-the-art factory and throw it open to taking on external orders for other industrial electronics manufacturers. Through this, both mutually benefit. Hence, the Nashik factory is proposed to be hived off as a 100% subsidiary.

In short we have to be flexible and evaluate the returns our assets give us.

Having dwelled upon these aspects, let me turn to a basic issue that many of you may be wavering about. From time to time, you may have read in the newspapers, that Siemens is closing down business activities in India. Let me assure you that at times that some sections of our press over speculates without understanding the logic behind our actions.

I have explained to you the changes that are taking place in the market place and certainly, we need to react, or rather, be proactive. In the process of any restructuring that we are undertaking, we have to keep optimising, adapting and re-defining our businesses. Principally, nothing has changed in our principal strategy for India; we are committed to India and to doing business here. We have been here since the last 76 years and are here to stay. We are a part of the national development and take pride in our efforts to build the country.

This is also reflected in some of the investments that we have in the last fiscal. Some of these include our 30% equity participation in Siemens Semiconductors Limited, Bangalore; setting up of a new facility at KEONICS, Bangalore; the new medical factory at Goa; setting up of a new product line in Aurangabad for Extra High Voltage and so on.

### Outlook

First: We expect the market to remain flat with the projected growth figures and simultaneously expect that competition will increase with the effects of globalisation. India is indeed a great country, moving towards a market driven economy. The process of adaptation is painful, but essential.

Second: Infact, your Company was amongst the early few to take early actions in realization of the new market dynamics. As a consequence, it is in the midst of intense restructuring activities - portfolio review, introduction of new products - manufactured or imported, rightsizing of resources, new activities, investments, divestitures, spin-offs, mergers. We are changing your Company structure to be more transparent, robust, at the same time, flexible enough to adapt always to the new market dynamics and changing order.

Third: This means that we are aiming at the best of international standards, by making our value chain more efficient to deliver better value for the customer.

Fourth: Our employees are the drivers of the Company and we have the responsibility to equip them for the future through intensified HR efforts. Efficiency, quality and better value for the customer are only achievable with well-trained, motivated and self-responsible employees.

Fifth: The management is committed to strengthening shareholder value on a continuing basis. To this end, we are launching initiatives under the banner of "**top+**" which drives at enhancing the Company's value - and therefore the shareholders value. Our yardstick for the future is "Economic Value Added".

Sixth: Based on this, I can say that all of us are confident of ourselves, only because of our recent achievements. Yet, we have not completed our tasks, but are certainly on the right path. Therefore with your co-operation and understanding, and that of our employees, it is our goal to return to profitability by the end of this fiscal year.



**Dr. F. A. Mehta**

*Chairman*

*Mumbai*

*16 December 1998*

**Siemens Ltd. Group in India  
Consolidated Financial Statements  
for the year ended 30 September 1998**

- Siemens Ltd. (SL)
- Siemens Information Systems Ltd. (SISL)
- Siemens Telecom Ltd. (STL)

## Auditors' Report to the Board of Directors of Siemens Limited

SG

We have audited the accompanying consolidated balance sheet of Siemens Limited and its subsidiaries in India at 30 September 1998 and the related consolidated statements of income and cash flows for the year then ended. These financial statements are the responsibility of the management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards issued by the Institute of Chartered Accountants of India, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We

believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the consolidated financial position of Siemens Limited and its subsidiaries at 30 September, 1998, and of the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles in India.

**For Bharat S Raut & Co.**  
*Chartered Accountants*

**Sammy Medora**  
*Partner*

*Mumbai*  
*27 November 1998*

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**Balance Sheet**  
**at 30 September 1998**  
**(Currency: Indian rupee)**

	Note	30 September 1998 Rs 000	30 September 1997 Rs 000
<b>SOURCE OF FUNDS</b>			
<b>Shareholders' funds</b>			
Share capital	2	1,353,970	783,970
Reserves and surplus	3	597,435	1,118,630
		<b>1,951,405</b>	1,902,600
<b>Minority Interest</b>			
Equity	4	150,920	150,920
Non-Equity	5	31,008	5,973
		<b>181,928</b>	156,893
<b>Loan funds</b>			
Secured loans	6	931,873	2,070,667
Unsecured loans	7	1,331,500	1,557,457
		<b>2,263,373</b>	3,628,124
		<b>4,396,706</b>	5,687,617
<b>APPLICATION OF FUNDS</b>			
<b>Fixed assets</b>			
Gross block		5,648,431	5,782,956
Less: Accumulated depreciation		2,551,600	2,388,184
Net block	8	3,096,831	3,394,772
Capital work-in-progress		195,092	422,310
		<b>3,291,923</b>	3,817,082
<b>Investments (unquoted)</b>	9	<b>218,434</b>	277,079
<b>Current assets, loans and advances</b>			
Inventories	10	1,552,535	2,065,544
Sundry debtors	11	4,001,833	4,529,407
Cash and bank balances	12	366,665	262,595
Loans and advances	13	2,108,103	2,397,887
		<b>8,029,136</b>	9,255,433
<b>Current liabilities and provisions</b>			
Current liabilities	14	6,454,019	7,200,155
Provisions	15	688,768	461,822
		<b>7,142,787</b>	7,661,977
<b>Net current assets</b>		<b>886,349</b>	1,593,456
		<b>4,396,706</b>	5,687,617

The accompanying notes set out on pages 9 to 17 form an integral part of this balance sheet.

As set out in our attached report.

**For Bharat S Raut & Co.**  
*Chartered Accountants*

**Sammy Medora**  
*Partner*

*Mumbai*  
*27 November 1998*

**J. Schubert**

*Managing Director - Siemens Ltd.*

**W. Kroll**

*Executive Director - Siemens Ltd.*

*Mumbai*  
*27 November 1998*



**Profit and Loss Account**  
**for the year ended 30 September 1998**  
**(Currency: Indian rupee)**

SG

	Note	<b>30 September 1998 Rs 000 (12 months)</b>	<b>30 September 1997 Rs 000 (18 months)</b>
<b>Income</b>			
Sales and services	16	<b>11,460,329</b>	19,320,408
Lease income	17	<b>17,294</b>	113,261
Other income	18	<b>420,577</b>	336,418
		<b>11,898,200</b>	<b>19,770,087</b>
<b>Expenditure</b>			
Cost of sales and services		<b>7,428,765</b>	12,515,334
Personnel costs	19	<b>1,413,391</b>	2,321,068
Interest	20	<b>469,399</b>	1,297,500
Depreciation		<b>574,861</b>	860,627
Other costs	21	<b>2,032,246</b>	3,521,568
		<b>11,918,662</b>	20,516,097
Less: Overheads capitalised		<b>(17,483)</b>	(34,103)
		<b>11,901,179</b>	20,481,994
Share of loss in associated companies		<b>(22,871)</b>	(49,366)
<b>Loss before tax and exceptional items</b>		<b>(25,850)</b>	(761,273)
Exceptional items	22	<b>(331,872)</b>	(924,600)
Tax adjustment	23	<b>(93,410)</b>	(37,455)
Prior period adjustment	24	<b>—</b>	194,798
<b>Net Loss</b>		<b>(451,132)</b>	(1,528,530)
Minority Interest		<b>(55,573)</b>	13,046
<b>Net Loss after Minority Interest</b>		<b>(506,705)</b>	(1,515,484)
<b>Accumulated loss brought forward</b>		<b>(70,332)</b>	—
Less: Appropriations			
Dividend tax		<b>—</b>	(4,886)
Transfer from general reserve/(to) capital redemption reserve	3	<b>—</b>	1,450,038
<b>Accumulated loss transferred to reserves and surplus</b>	3	<b>(577,037)</b>	(70,332)

The accompanying notes set out on pages 9 to 17 form an integral part of this profit and loss account.

As set out in our attached report.

**For Bharat S Raut & Co.**  
Chartered Accountants

**Sammy Medora**  
Partner

Mumbai  
27 November 1998

**J. Schubert**

Managing Director - Siemens Ltd.

**W. Kroll**

Executive Director - Siemens Ltd.

Mumbai  
27 November 1998

**Cash Flow Statement**  
**for the year ended 30 September 1998**  
**(Currency: Indian rupee)**

	<b>30 September 1998 Rs 000 (12 months)</b>	<b>30 September 1997 Rs 000 (18 months)</b>
<b>Cash flow from operating activities</b>		
Loss before tax, after exceptional items and minority interest	413,295	1,477,561
Adjustments for:		
Interest expense	469,399	1,297,500
Depreciation	671,714	797,079
Exceptional items	973,982	735,570
Loss on sale of Telecommunications division	—	102,670
(Profit)/Loss on sale of fixed assets (net)	(642,110)	63,620
Profit on sale of investments	(46,800)	—
Provision for diminution in value of investments	—	49,367
Exchange (gain)/loss net	(13,452)	43,554
Cost of closure of fibre optics business	—	35,000
Provision for loss on assets leased to DoT	—	16,030
Interest and dividend accrued	(35,175)	(131,299)
Preliminary and deferred revenue expenditure written off	—	3,937
Lease equalisation charge	(8,358)	(5,955)
DoT discounting costs	56,527	35,330
Operating profit before working capital changes	1,012,432	1,564,842
<b>(Increase)/Decrease in working capital</b>		
Inventories	513,009	1,557,990
Trade payables	(1,217,608)	339,540
Trade and other receivables	771,550	(205,198)
	66,951	1,692,332
<b>Cash generated from operations</b>	<b>1,079,383</b>	<b>3,257,174</b>
Interest received	32,148	131,299
Interest paid	(532,211)	(1,286,044)
Payments for restructuring and other costs	(322,802)	(541,768)
Direct taxes refund/(paid)	18,842	(137,077)
Exchange gain/(loss) net	13,452	(43,554)
<b>Net cash inflow from operating activities</b>	<b>288,812</b>	<b>1,380,030</b>
<b>Cash flow from investing activities</b>		
Purchase of fixed assets	(439,585)	(1,755,397)
Net assets of Telecommunications division hived off	—	(975,900)
Sale/(Purchase) of investments	105,445	(258,751)
Dividend received	3,027	—
Increase/(Decrease) in minority interest	25,035	(45,589)
Cost of closure of fibre optics business	—	(35,000)
Proceeds from hiving off Telecommunications division	—	837,900
Proceeds from sale of fixed assets	935,140	751,025
Amalgamation of subsidiary	—	41,729
<b>Net cash raised from/(used) in investing activities</b>	<b>629,062</b>	<b>(1,439,983)</b>
(Decrease)/Increase in long term borrowings	(444,985)	(1,827,689)
Dividend paid	(10,090)	(131,591)
Debentures issued/(redeemed)	1,050,000	(80,000)
Redemption of preference share capital	(100,000)	—
(Decrease)/Increase in short term borrowings	(1,969,766)	980,086
Issue of preference share capital	670,000	555,370
Premium on redemption of preference shares	(14,490)	—
Proceeds from discounting of leased assets	—	514,451
<b>Net cash (used in)/raised from financing activities</b>	<b>(819,331)</b>	<b>10,627</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>98,543</b>	<b>(49,326)</b>
<b>Cash and cash equivalents at 30 September 1998</b>	<b>313,047</b>	<b>214,504</b>
<b>Cash and cash equivalents at 30 September 1997</b>	<b>(214,504)</b>	<b>(263,830)</b>
	<b>98,543</b>	<b>(49,326)</b>

J. Schubert

W. Kroll

Mumbai

27 November 1998

Managing Director - Siemens Ltd.

Executive Director - Siemens Ltd.