

# SIEMENS

## Annual Report 1999



India

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## Chairman's Statement



Dear Shareholders,

Let me begin where I should. In the first instance, let me thank you for all the patience and understanding that you have shown while Siemens India was passing through a very critical period, battling for restructuring at one end and against recession at the other. We, on the Board of Siemens, and of course its Top Management, are deeply grateful to you for the manner in which you have stood by us.

My next round of thanks, in which I am sure you, our shareholders, will join me, go to our Directors, executives and employees who have gone through a period of unparalleled challenges, of hard work and of tough decisions. In 1997-98, our Company closed with a loss of Rs.56 crores; even so, our Top Management under the dynamic leadership of Mr. Schubert and Mr. Kroll set themselves a goal of attaining a break-even in an atmosphere of political uncertainty and an economic downturn.

Our Top Management has lived up to its promise. For the year ended September 30, 1999, Siemens has posted a profit after tax of over Rs.35 crores. Even more significantly, our Company's order book registered an overall increase of 52 per cent at Rs.1,274 crores as

compared to Rs.838 crores at the end of the previous year.

The sun has broken through the clouds, but the clouds still remain.

### The Economic Factors

We must recognise a number of factors which have created major problems for us :-

- Firstly, not only did the industrial growth rate slow down during much of the last three years, but whatever rapid growth took place, has been in a sector which does not create a demand for capital goods. We undoubtedly did benefit from the upsurge in the informatic sector, and indeed, our subsidiary Siemens Information Systems Ltd. has made a valiant contribution to our profits. Nevertheless, the fact remains that the fastest growing sector of the Indian economy was not the sector that created the demand for most of our products.
- Secondly, after the tremendous investment explosion during the last three years from 1993-94 to 1996-97, there has been a consequence, a plague of over-capacity in almost all industries. Not only has this contributed substantially to the recession, though there have been subsequently aggravating factors, but most companies and most industries inevitably deferred their investment programmes. Once again, our Company was the victim of this investment famine during the last three years.
- Thirdly, it was only natural in an atmosphere of over-investment and over-capacity that companies concentrated on better capacity utilization in the first place, but even when they did want to expand their investment, did so not by greenfield projects but through mergers and acquisitions, as was remarkably done by the cement industry last year. Once again, these mergers and acquisitions did not supply Siemens the investment tonic that a Company like ours needed.
- Again, it was only natural in an atmosphere of over-capacity and over competition that the price levels have dropped quite sharply in real terms at any rate. On the one side, companies have to bear the cost

of restructuring and the programmes of Voluntary Retirement Schemes; on the other side, they have to meet the increased provisions to be made for depreciation and interest, and all this has to be done at a time when the prices in the market are very competitive. Happily, in our case, thanks to managerial measures, there was a sharp reduction in our interest cost.

- Last but not the least, the long-awaited dawn of “the infrastructure facilities” once again did not take place in the last year. Though much was said, little concrete was achieved. This is the sector that will have certainly the most galvanizing impact in stimulating the demand for our products.

### **The Political Factors**

These economically adverse factors were further re-inforced last year, when the country went through a rough patch due to the political instability and the resultant elections. They led to delays in extremely relevant policy decisions, which, if taken timely, would have given an impetus to core sectors such as power, telecommunication, transportation, etc. Last year the power generation capacity did not reach desired levels, with most power projects held up on account of financial, environmental or other problems. Investment proposals also dropped by 14 per cent according to CMIE reports. During this time, no major infrastructure projects took off the ground. For your Company, the drop in investments directly affected operations, both in the infrastructure and industry segments, since almost 80 percent of the business is generated from these areas. As a consequence, the projected growth levels in some of these areas fell short of plans.

Hence, despite the sluggish external environment, over which we have no control, we focussed on internal measures to gear ourselves for the tough market conditions. In the meantime, our competitors have awakened to the harsh realities and have jumped on the “restructuring bandwagon”, something we started more than two years back. After much persistence, our efforts have now yielded the first fruits of success, thanks to the unfailing dedication and commitment of the Management and Employees of your Company.

### **Success of the Four Point Program**

What then was our winning formula? Undoubtedly, the vigorous pursuance of our four-point program. I will now give you some highlights of the same.

#### ***(1) Review of Business Portfolio***

With the sweeping changes that have been taking place in the market, reviewing our portfolio formed a core of our activities. After making a detailed study of the market and regional trends, we re-adjusted our portfolio to meet the customers needs competitively. This included:

- Introducing new products, systems, solutions and services; Upgrading, as well as phasing out some existing ones.
- Tie-ups for technology transfers.
- Intensifying the marketing channels and reach through: marketing alliances & tie-ups; introduction of the Key Account Management system; redesigning the indirect sales channels for deeper penetration, economically, and so on.
- To achieve the above, some of the things we undertook included: forming new companies, making additional investments for existing manufacturing facilities, setting-up new manufacturing facilities, extending our sales network, etc.

#### ***(2) Restructuring of balance sheet and asset disposal program***

The restructuring of the balance sheet was dealt in primarily two parts: asset management and borrowings; both areas of which we made substantial progress. With the disposal of certain assets, both in terms of buildings and machinery, your Company reduced its asset base considerably. Other efforts include inventory management, special actions to improve position, improvements in borrowings, channel financing programs throughout Company, customer credit analysis, rationalization of insurance covers and improved quality of payment terms have also contributed positively to the Company.

#### ***(3) Improved productivity, cost and quality***

Your Company has undertaken several internal measures to remain competitive. This entailed overhauling our cost

structure. In doing so, we re-examined our processes and restructured various areas of the value chain to bring higher efficiencies. We are now also outsourcing non-core activities, such as IT infrastructure management and personnel administration like salaries, pension schemes, etc.

Also, our strategic purchasing activity has started yielding positive results with cost of materials reducing considerably and the transparency of vendors increasing. In parallel we stepped up our efforts to improve on the employee productivity. In the factories, the Maynards Operations Sequence Technique (MOST) has been successfully implemented. Overall, I am happy to say a lot has been achieved on the productivity front. Quality continues to be another area of focus with several initiatives for enhancing quality throughout the Company.

#### ***(4) Amplified focus of Human Resource Development***

With competitive pressures increasing by the day it is extremely important for any organization to improve its learning. We believe that our people are our greatest assets - for without them, the Company cannot function. Living up to this, we have, even during the worst of times invested in further developing our people with a view to equip them with better skills and knowledge.

#### **Outlook**

Having given you a comprehensive overview of the Company's performance, let me give you the outlook for the next year: with the commitment of the new government to forge ahead the reform process, the economy is expected to get a moderate boost in the fiscal year 1999-2000, particularly in the second half, after the presentation of the budget. Even so, there will be a time lag of six months to a year between the materialization of projects and the roll-over effect into the industrial segments and markets.

In effect, a demand gap will continue to exist for some time. Moreover, with increased number of players in the market, competition is expected to intensify, further bringing down the price levels. The renewed focus of the Government to give an impetus to the infrastructure sector, especially in telecommunication, power and transportation - will hopefully enhance business opportunities for Siemens. Healthcare industry is also

set to witness a jump with the insurance privatization. With the increased spend on computerization, the Information Technology sector is on the top priority of the Indian Government

In view of the anticipated slow pick-up of the economy and demand gap as projected, the year ahead will continue to be challenging for your Company. In order to keep it's competitive edge, the Company will have to further optimize operations and focus on improving the cost structure by making the Company more robust.

#### **Conclusion**

I have said at the outset that the sun has broken through the clouds but the clouds still remain. Over-capacity, over-crowding and over-competition will be with us as almost permanent challenges. They will call for continuous discipline, continuous search for new products, continuous build-up of systems, and not least, in the Indian environment, as much flexibility as is permitted by the Indian politico-economic environment. We have tough battles ahead of us.

We shall need the continued understanding and cooperation of all our stake-holders to bring the Company back to a solid position. Our stake-holders are our shareholders, our executives, our employees, and above all, our customers. But we shall need no less the breath of fresh air and quick decision-making which has been denied to us for the last several years. Our Government is now committed, happily so, to "the second generation reforms". But would it be too much to plead that those of us whose fortunes are linked to the infrastructure sectors, would be no less grateful at the fulfillment of "the first generation reforms"? And this must mean giving a kick-start - so long delayed - to the infrastructure projects in our country. May the Millennium for us in Siemens begin on this note.



Dr. F. A. Mehta  
Chairman

Mumbai  
15th December, 1999.

Siemens Ltd. Group in India  
Consolidated Financial Statements  
for the year ended 30 September 1999

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

# Auditors' Report to the Board of Directors of Siemens Ltd.

Siemens Group

We have audited the accompanying consolidated balance sheet of Siemens Ltd. and its subsidiaries in India at 30 September 1999 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 consolidated financial statements referred to above give a true and fair view of the consolidated financial position of Siemens Ltd. and its subsidiaries at 30 September 1999, and of the results of its operations and the cash flows for the year then ended in accordance with the criteria described in note 1 to the financial statements.

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

**Vikram Utamsingh**  
*Partner*

*Mumbai*  
*12 November 1999*



**Balance Sheet**  
**at 30 September 1999**  
**(Currency: Indian rupee)**

	Note	30 September 1999 Rs '000	30 September 1998 Rs '000
<b>SOURCE OF FUNDS</b>			
<b>Shareholders' funds</b>			
Share capital	2	1,353,970	1,353,970
Reserves and surplus	3	854,015	597,435
		<b>2,207,985</b>	1,951,405
<b>Minority Interest</b>			
Equity	4	150,920	150,920
Non-Equity	5	50,788	31,008
		<b>201,708</b>	181,928
<b>Loan funds</b>			
Secured loans	6	417,233	931,873
Unsecured loans	7	551,300	1,331,500
		<b>968,533</b>	2,263,373
		<b>3,378,226</b>	4,396,706
<b>APPLICATION OF FUNDS</b>			
<b>Fixed assets</b>			
Gross block		6,095,565	5,648,431
Less: Accumulated depreciation		3,110,060	2,551,600
Net block	8	2,985,505	3,096,831
Capital work-in-progress		112,661	195,092
		<b>3,098,166</b>	3,291,923
<b>Investments (unquoted)</b>	9	265,774	218,434
<b>Current assets, loans and advances</b>			
Inventories	10	1,242,578	1,552,535
Sundry debtors	11	3,665,562	4,001,833
Cash and bank balances	12	976,599	366,665
Loans and advances	13	1,338,895	2,108,103
		<b>7,223,634</b>	8,029,136
<b>Current liabilities and provisions</b>			
Current liabilities	14	6,645,330	6,454,019
Provisions	15	564,018	688,768
		<b>7,209,348</b>	7,142,787
<b>Net current assets</b>		<b>14,286</b>	886,349
		<b>3,378,226</b>	4,396,706

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

**Vikram Utamsingh**  
Partner

Mumbai  
12 November 1999

**J. Schubert**

Managing Director - Siemens Ltd.

**W. Kroll**

Executive Director - Siemens Ltd.

Mumbai  
12 November 1999



**Profit and Loss Account**  
for the year ended 30 September 1999  
(Currency: Indian rupee)

Siemens Group

	Note	30 September 1999 Rs '000	30 September 1998 Rs '000
<b>Income</b>			
Sales and services	16	12,374,747	11,460,329
Lease income	17	48,356	17,294
Other income	18	403,966	420,577
		<b>12,827,069</b>	<b>11,898,200</b>
<b>Expenditure</b>			
Cost of sales and services		7,929,691	7,428,765
Personnel costs	19	1,504,650	1,413,391
Interest	20	283,646	469,399
Depreciation		471,169	574,861
Other costs	21	2,227,769	2,014,763
		<b>12,416,925</b>	<b>11,901,179</b>
Share of profit/(loss) in associated companies		39,782	(22,871)
<b>Profit/(loss) before tax and exceptional items</b>		<b>449,926</b>	<b>(25,850)</b>
Exceptional items	22	104,760	(331,872)
<b>Profit/(loss) before tax adjustments</b>		<b>554,686</b>	<b>(357,722)</b>
Tax adjustment	23	(29,795)	(93,410)
<b>Net profit/(loss) after tax adjustments</b>		<b>524,891</b>	<b>(451,132)</b>
Minority Interest		(57,511)	(55,573)
<b>Net profit/(loss) after minority interest</b>		<b>467,380</b>	<b>(506,705)</b>
<b>Accumulated loss brought forward</b>		<b>(577,037)</b>	<b>(70,332)</b>
<b>Accumulated loss transferred to reserves and surplus</b>	3	<b>(109,657)</b>	<b>(577,037)</b>

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

**J. Schubert**

Managing Director - Siemens Ltd.

**W. Kroll**

Executive Director - Siemens Ltd.

**Vikram Utamsingh**  
Partner

Mumbai  
12 November 1999

Mumbai  
12 November 1999

**Cash Flow Statement**  
for the year ended 30 September 1999  
(Currency: Indian rupee)

	<b>30 September 1999 Rs '000</b>	<b>30 September 1998 Rs '000</b>
<b>Cash flow from operating activities</b>		
(Loss)/Profit before tax after exceptional items and minority interest	<b>497,175</b>	(413,295)
Adjustments for:		
Interest expense	<b>280,952</b>	469,399
Depreciation	<b>603,403</b>	671,714
Write back/(creation) of restructuring costs (net)	<b>(31,550)</b>	973,982
Profit on sale of fixed assets (net)	<b>(73,847)</b>	(642,110)
Profit on sale of investments	<b>(4,500)</b>	(46,800)
Exchange (gain)/loss (net)	<b>66,844</b>	(13,452)
<b>Interest and dividend accrued</b>	<b>(45,585)</b>	(35,175)
Lease equalisation (charge)/credit	<b>3,903</b>	(8,358)
DOT discounting costs	<b>5,029</b>	56,527
Operating profit before working capital changes	<b>1,301,824</b>	1,012,432
<b>(Increase)/decrease in working capital:</b>		
Inventories	<b>309,957</b>	513,009
Trade payables	<b>51,504</b>	(1,217,608)
Trade and other receivables	<b>890,268</b>	771,550
	<b>1,251,729</b>	66,951
<b>Cash generated from operations</b>	<b>2,553,553</b>	1,079,383
Interest received	<b>42,047</b>	32,148
Interest paid	<b>(281,937)</b>	(532,211)
Payments for restructuring costs	<b>(102,044)</b>	(322,802)
Direct taxes refund	<b>87,663</b>	18,842
Exchange gain/(loss) (net)	<b>(66,844)</b>	13,452
<b>Net cash inflow from operating activities</b>	<b>2,232,438</b>	288,812
<b>Cash flow from investing activities:</b>		
Purchase of fixed assets	<b>(418,219)</b>	(439,585)
(Purchase)/sale of investments	<b>(42,840)</b>	105,445
Interest and Dividend received	<b>3,538</b>	3,027
Proceeds from sale of fixed assets	<b>82,420</b>	935,140
Increase in minority interest	<b>19,780</b>	25,035
<b>Net cash used in investing activities</b>	<b>(355,321)</b>	629,062
Increase/(Decrease) in long term borrowings	<b>352,903</b>	(444,985)
Premium paid on redemption of preference shares	<b>(65,800)</b>	(14,490)
Dividend paid	<b>(799)</b>	(10,090)
Debentures issued/(redeemed)	<b>(1,050,000)</b>	1,050,000
Decrease in short term borrowings	<b>(597,743)</b>	(1,969,766)
Redemption of Preference share capital	<b>(520,000)</b>	(100,000)
Issue of 10.5% Preference shares	<b>520,000</b>	670,000
<b>Net cash (used in)/raised from financing activities</b>	<b>(1,361,439)</b>	(819,331)
<b>Net increase in cash and cash equivalents</b>	<b>515,678</b>	98,543
<b>Cash and cash equivalents at 30 September 1999</b>	<b>828,725</b>	313,047
<b>Cash and cash equivalents at 30 September 1998</b>	<b>(313,047)</b>	(214,504)
	<b>515,678</b>	98,543

**J. Schubert**  
**W. Kroll**

Mumbai  
12 November 1999

Managing Director - Siemens Ltd.  
Executive Director - Siemens Ltd.