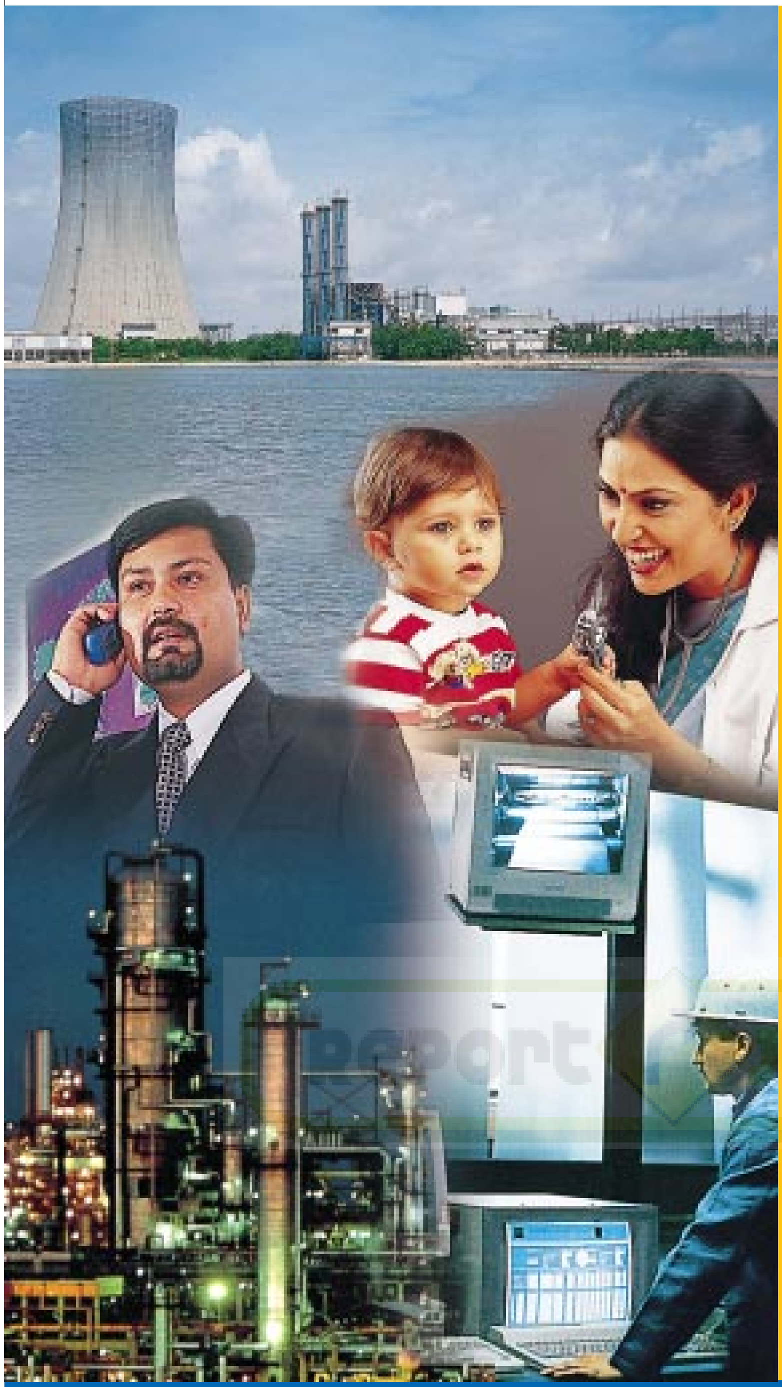

SIEMENS

INDIA

annual report : 2001

Highlights

Siemens Ltd.

		1997-98	1998-99	1999-00	2000-01
○	Orders Received	8383	12740	12071	**10836**
○	Sales	9959	10506	11157	**11572**
○	Profit before Tax	-466	381	946	**964**
	As % of Sales	-5%	4%	9%	**8%**
○	Profit After Tax	-560	351	840	**687**
	As % of Sales	-6%	3%	8%	**6%**
*	Net Worth per Share	63.55	68.50	79.89	**95.46**
*	Earning per share	-19.73	12.37	24.11	**19.49**
○	Dividend	—	—	224	**133**
	Dividend %	—	—	65%	**40%**
	Debt/Equity Ratio	1.3:1	0.52:1	0.15:1	**0.01:1**
○	Investment in Fixed Assets	342	317	86	**119**
	No.of Employess	5228	4604	4342	**4167**
	No.of Shareholders	44012	46434	50796	**49188**

○ Rupees in Millions
* Rupees

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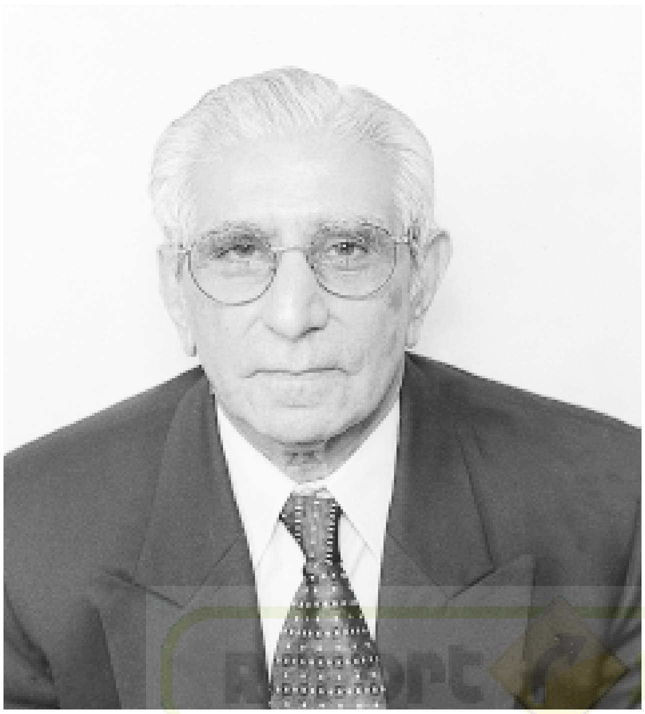
Chairman's Statement



Dear Shareholders,

It is a matter of no small gratification that despite the overall environment of recession, Siemens Ltd. has turned out another good year. Last year was, of course, unique insofar as the profits of Siemens jumped over the previous year by as much as 139 percent; this year naturally nobody would have expected a repetition of the same performance in quantitative terms (though in qualitative terms, there has been a sharp improvement, but of this, more anon). The significant point to note straight away is that our operational profits this year have improved by as much as 35 percent, though as we recently re-entered into the tax paying brackets, our profits after tax are naturally lower. Even so, our shareholders will be particularly happy that the ordinary dividend of 35 percent declared last year has been increased to 40 percent this year and it is to be hoped that this will meet with their approval at the forthcoming AGM.

We should then make this the occasion to pay a tribute to the entire management team at Siemens Ltd. led by Mr. Schubert, the Managing Director and aided by Mr. Gelis. Corporate strategies have a tendency to remain on paper, but our top management have shown a conspicuous ability to implement them – a skill woefully lacking at the current national economic level.

Let me also take this the opportunity to repeat our thanks to our biggest single stakeholder, viz. Siemens AG. Shareholders have only to recall the very difficult time that we passed not long ago and at that stage, we received unstinted help, both managerial and monetary, from our parent company. We trust our own performance in recent times will assure them that all the help they have given us has proved worthwhile.

Towards a Strategy of "Creative Pessimism"

Around three years ago, both the top management and the Board of Directors evolved a policy and a strategy based on "Creative Pessimism". This pattern of pessimism does not call for demoralisation; it calls for re-activation, re-engineering and re-structuring.

The central premise of "Creative Pessimism" we started with was that for the next three years, we shall receive very little help from the external environment. To the extent that we are so critically involved in the field of Infrastructure, Government expenditure in real terms would in fact shrink, major power projects will not come into existence, most infrastructure projects will be continuously delayed and so on. To the extent that we are in Industry, we then asserted that the over-capacity built up in our country will take atleast 3 to 4 years to work itself out, and therefore while there will be mergers and acquisitions as part of the consolidation within Indian Industry, there will be very few greenfield or brown field projects that will be started. With our membership to the WTO, we then began to add to our own over-capacity, the over-capacity of the rest of the world.

Nothing would have given us greater pleasure than to have been proved wrong but sadly each of the major premises postulated three years ago, on which we built our structure of "Creative Pessimism", has come correct. Our strategy then was that we would have to turn inwards —

* inwards to bring our price cost structure down in such a manner as to make our Company competitive, both locally and globally;
* inwards in launching new products or new applications of existing products;
* inwards in endowing our employees with a continuous sense of improved technology and wherever possible, entrepreneurial skills;
* inwards in making profits and quality our obsession rather than increased sales revenue our key targets;
* and not least inwards, in accepting the sovereignty of our consumers. Our consumer is the source of our sales and of our profit; indeed he can also be made the source of improvement of both our

products and our management. Recent research has demonstrated that companies that treat their customers best are the very companies that invariably treat their employees best.

This strategy based on "Creative Pessimism" has thus paid us rich dividends. It is not that we have won the battle, for by definition, restructuring is a continuous exercise. But today in the field of engineering, we have now secured a place in the market, which must be the envy of our competitors and the pride of our shareholders.

Towards a New Siemens : From a Low Voltage to a High Voltage Enterprise :

In this process of continuous re-invigoration and re-structuring, we can now say that Siemens Ltd. has been rapidly transforming itself. The Indian economy itself has been moving in the direction of the Services Sector and so is Siemens Ltd. This said, we do not believe that the recession in the Industry and the Infrastructure Sectors spells the end of India as an Industrial Power, as is so continuously implied in current economic journalism. It is said times out of number that India having missed the Agricultural and the Industrial Revolutions should now concentrate as its core competence on the Services Sector.

This is good advice as far as it goes but it must not be made to go too far. Taken literally, this strategy of bypassing the Industrial Revolution in India is an admission of a total defeat. It is true that China is now forging ahead with a consumption of 130 million tonnes of steel as against our 26 million; it is also true that China's "consumption" of mobile phones currently runs at the rate of 50 million pieces as against our 7 million. But is it implied that India can afford to just bow out from Industry and rely on the rest of the world to supply them the basic industrial products ?

We, in Siemens, accept that the Services Sector should be an increasing component of our total sales revenue and indeed in each of our principal segments, but we must not contribute to the commonly fashionable thesis that it is all over with Indian Industry, and only the Services Sector can rescue the Indian economy.

We still want power stations, we want a highly developed road system, we want increased production of steel, aluminium, textiles and so on. Our per capita consumption of almost all industrial products continues to be at a woefully low level, and to write off the Industrial Revolution in India is virtually to say that India will not be able to meet the growing needs of its teeming masses. Our foreign exchange reserves (46 million currently against China's 260 billion !) are not so great as to make this country (once glorying in self sufficiency) to depend mercilessly almost entirely on the rest of the world. Wisdom would, therefore, mean that we must activate our Governments (both Central and State) to concentrate on the Infrastructure Sector; we must make our political and economic system such as will invite foreign private investments (India 2.6 billion $ against China's 46 billion $).

We, in Siemens, therefore have not written off our contribution in Industry and in Infrastructure. We are eagerly awaiting the renaissance in these areas. Indeed an index of the transformation we are undergoing can be seen by the emergence of our Medical Equipment Sector as a lead sector in our product composition. To repeat what has already been said, we have received

"New orders in excess of 79 percent over the previous year – a record achievement indeed ! Turnover also registered an impressive rise of 50 percent over the previous year and the division has posted a satisfactory result. The successful introduction of a new range of hi-tech products such as MRI, CT and Digital Angiography saw the division scoring huge successes over competition. The Division also strengthened its service initiatives by teaming up with 16 new call centres".

Likewise in several knowledge-based areas, we are now beginning to forge ahead, it being conspicuous that the Siemens Group now employs more knowledge-workers than factory workers. We are indeed literally, not just metaphorically, moving from being a Low Voltage to a High Voltage enterprise.

Here, it may be appropriate to refer our shareholders to some very interesting information about the emergence not only of the new Siemens but of the new Siemens Group. These remarks taken from a recent presentation by Mr. Schubert will indicate the direction in which Siemens Ltd. is now moving with a steady pace and transformation. Be it then repeated that we are in no way disconnecting ourselves from the opportunities that should emerge with a renaissance in Industry and Infrastructure.

Waiting For Godot ?

The critical question then is: When will the turning point in the Indian economy arrive?

Three different views present themselves. The one repeatedly asserted by the Finance Minister expects the Indian economy to take a turning for the better during the period March to June, 2002. The second view is that this could have taken place but for the events in the world economy, which already skidding into recession before the terrorist outbreak on 11th

September, 2001, is now moving into the virtual depression. Given the new sensitivity of the Indian economy to global events, particularly through the Informatic Sector, Exports and the Tourist Sector (all currently adversely impacted), the turning point will not occur till the next monsoon is over. The third view is that the political obstacles to economic reforms are just too strong for India to capitalise on the benefits of the globalisation, it being significant that foreign private capital is not only not coming in but is actively going out. Additionally, both the Centre and State Governments are facing a financial crisis which, amongst other things severely impairs their ability to implement existing projects, leave aside embarking on new projects.

So far as we in Siemens are concerned, it all adds up to saying that it will be atleast October / December, 2002 before any meaningful upturn takes place in the Indian economy. We have then to continue our efforts with our 4-Point Programme with as much dedication as possible, increasing our market share relentlessly, introducing newer products wherever possible, finding new applications for existing products, giving a greater thrust to the service components of our various industrial segments, intensifying satisfaction of our customers, and not least using Siemens Ltd. into both a base for increasing exports and adding value to imports. In short, improving the productivity of the asset base with less and less assets being used for more and more output.

For our Shareholders, there is therefore both short term hope and long term gains. Long term gains come from the thought that if inspite of the three-year long recession, we can produce profit of the magnitude we are producing, then we have a base for maximising our profits even more once the recession begins to lift, hopefully by the end of the next year.

I would be failing in my duty if I do not thank the employees of Siemens, the true soldiers on the front-line, who left no stone unturned to achieve the results that the Company did. They stood strongly united as a team, determined to fight the battle to victory – and victory did they bring.

Also, a very special thanks to Mr. S.K. Thackersey whose term as a Director is due to expire at the forthcoming Annual General Meeting in January 2002 on account of retirement by rotation. However, he has conveyed to the Company that due to his other commitments he does not wish to be re-appointed. Consequently, Mr. Thackersey will cease to be a Director of the Company with effect from 17th January, 2002.

Mr. Thackersey was appointed as a Director of the Company in March, 1978. Thus, he has been associated with the Company for over 23 years. Mr. Thackersey was also the Chairman of the Board of Directors of the Company from 1984 to 1988. On behalf of the Company and the Board, I would like to take this opportunity to place on record our sincere gratitude and appreciation for the guidance and support given by Mr. Thackersey during his long association with the Company. We are going to miss him.

Other Directors

Mr. C. R. Sahu, Whole-time Director, resigned from the Directorship of the Company with effect from 1st January, 2001 due to personal reasons.

Dr. O. Schmitt was appointed as Alternate Director for Dr. K. Wucherer with effect from 15th December, 2000. Dr. Schmitt is working in the Corporate Finance Dept. of Siemens AG, Germany and has over 16 years of experience with Siemens.

Mr. J. Schubert completed his 5 year tenure as the Managing Director on 30th Sept., 2001. Considering his leadership qualities and excellent contribution towards improvement in the Company's performance during the last 5 years, he has been re-appointed for a further period of three years with effect from 1st October, 2001. He has played a very crucial role in the Company's performance during this period. We thank Siemens AG for allowing us to continue to avail of Mr. Schubert's services. We also thank Mr. Schubert for having agreed to our request to stay with us in India for another 3 years.

Mr. O. P. Narula's term as Whole-time Director ended on 30th Sept., 2001. Mr. Narula is working with the Company for nearly 39 years. He has played a key role in the Company's operations as a Director. Mr. Narula with his vast and rich experience can contribute significantly to the Company's future business goals. Therefore, it has been decided to re-appoint him for a further period of two years from 1st October, 2001.

The proposals for re-appointments of Mr. Schubert and Mr. Narula are included in the Notice of the forthcoming Annual General Meeting, for your kind consideration and approval.

Mr. D. C. Shroff, Mr. Y. H. Malegam and Mr. A. B. Nadkarni retire by rotation and, being eligible, offer themselves for re-appointment.

Corporate Governance

Your Company has fully complied with the mandatory requirements of Corporate Governance Code as detailed in the Clause 49 of the Listing Agreement signed with the Stock Exchanges. We are fully committed to the principles of disclosures and transparency to all our stakeholders. We are also aware of our role as a responsible Corporate Citizen.

In keeping with its commitment to Corporate Governance, your Company has adopted and implemented the seven Corporate Principles of its parent Company, Siemens AG. The same are stated in detail in the Corporate Governance Report attached to the Directors' Report.

To conclude :

Our Top Management recognises that the year ahead will continue to be a tough one, and its policies of extracting and motivating the best from the existing capital assets, both human and capital, will continue unabated. We are happy that even with a three-year long recession, our Top Management has been able to produce remarkably good profits; let us now pray that as and when the recession does disappear, our profits will hopefully be sizeably better. Recession or not, Siemens is thus assured of its role as a star performer in the Indian engineering and electronic horizon.

FAMehta

Mumbai
December 4, 2001

Dr. F. A. Mehta
Chairman

A New Siemens – Indeed a New Siemens Group Emerges:

J. Schubert , Managing Director, Siemens Ltd.

Our renewed 4-Point Program needs to be reiterated.

* Customer loyalty and satisfaction
* Flexible and optimized processes with quality thrust
* Enhancing company value through profitable growth
* Competent and motivated employees

<u>This renewed 4-point program for growth describes our strategy for creating a New Siemens – a World Class organization.</u>

Here, I would like to remind you about Siemens in India. Siemens is not just Siemens Ltd. but 13 other companies in the fold. The Siemens group with a consolidated turnover of Rs. 26.4 billion is unique! No other company, in India, and also in the World, has the kind of offering that we have under one roof.

In Power – from Power plants to meters

In Industry – from Airports to contactors

In Medical – from complete hospital solutions to in-the canal hearing aids

In Communication – from the large public networks to the mobile phones

In Transportation – from complete high speed trains to safety relays

In Lighting – from stadium lighting to light bulbs

Besides being strong in the above areas, we have the unique capability to "integrate" all the above segments into turnkey solutions - out of one hand. Our strength therefore lies in our combined capability to innovate, design, produce, consult, execute and maintain and take over responsibility for the complete life cycle of a project. Tell me, which other company can do all this?!

Therefore, we will further consolidate our position, as a "unique" partner for all our customers in India. This capability is our competitive advantage and our passport for growth and success in the future.

Siemens Ltd.

Forty-fourth Annual Report
for the year ended 30 September 2001

Board of Directors

Chairman

Dr. F. A. Mehta

Whole-time Directors

J. Schubert
Managing Director

H. Gelis
Executive Director
(from 01.01.2001)

A. B. Nadkarni

Harminder Singh

O. P. Narula

W. A. Kroll
Executive Director
(upto 31.12.2000)

C. R. Sahu
(upto 31.12.2000)

Non-executive Directors

S. K. Thackersey

D. C. Shroff

Y. H. Malegam

P. M. Thampi

Dr. K. Wucherer

N. J. Jhaveri

Dr. O. Schmitt
Alternate Director for
Dr. K. Wucherer
(from 15.12.2000)

Corporate Secretary

Ashok P. Jangid

Audit Committee

Y. H. Malegam (Chairman)

Dr. F. A. Mehta

Dr. K. Wucherer / Dr. O. Schmitt

Ashok P. Jangid (Corporate Secretary)

Investors Grievance Committee

D. C. Shroff (Chairman)

P. M. Thampi

J. Schubert

Ashok P. Jangid (Corporate Secretary)

Remuneration Committee

N. J. Jhaveri (Chairman)

D. C. Shroff

S. K. Thackersey

Ashok P. Jangid (Corporate Secretary)

Bankers

American Express Bank Ltd.

Standard Chartered Grindlays Bank Ltd.

Bank of America N. A.

Citibank N. A.

Deutsche Bank AG

HDFC Bank Ltd.

The Hongkong and Shanghai
Banking Corporation Ltd.

Standard Chartered Bank

State Bank of India

Syndicate Bank

Auditors

Bharat S Raut & Co.

Solicitors

Crawford Bayley & Co.

Mulla & Mulla & Craigie, Blunt & Caroe

Negandhi Shah & Himayatullah

Little & Co.

Registered & Corporate Office

130, Pandurang Budhkar Marg
Worli, Mumbai 400 018

Head Office

Plot 2, Sector 2, Kharghar Node
Navi Mumbai 410 210

Works

Maharashtra	:	Aurangabad - Waluj Nashik - Ambad Thane - Kalwa
West Bengal	:	Joka - 24 Parganas
Goa	:	Verna

Sales Offices

Ahmedabad

Bangalore

Baroda

Kolkata

Chandigarh

Chennai

Coimbatore

Hyderabad

Mumbai

New Delhi

Pune

Registrar & Share Transfer Agent

MCS Ltd.
Sri Venkatesh Bhavan
Plot No. 27, Road No.11
MIDC Area, Andheri (E)
Mumbai 400 093

The above information is as on
22nd November, 2001

Directors' Report

The Directors have pleasure in presenting the Forty-fourth Annual Report of your Company and the Audited Accounts for the year ended on 30th September, 2001.

Financial Performance

		Rs. in Millions
	2000-01	1999-00
Gross Profit before Interest, Depreciation and Exceptional Items	**1389.30**	1155.20
Less: Interest	**17.12**	48.85
Depreciation	**294.58**	315.01
Exceptional Items	**113.37**	(154.86)
Profit before Tax adjustment	**964.23**	946.20
Less : Tax adjustment	**236.43**	106.16
Deferred Tax adjustment	**40.59**	–
Net Profit after Tax adjustment	**687.21**	840.04
Less : Accumulated Loss brought forward	**–**	372.53
Profit available for appropriation	**687.21**	467.51
Appropriations:		
General Reserve	**541.14**	194.52
Proposed Dividend	**132.55**	223.76
Tax on Dividend	**13.52**	49.23

Dividend

In view of the better overall performance for the year and the financial position of the Company, the Board of Directors is happy to recommend a higher dividend of Rs.4 (40%) per Equity Share as compared to Rs.3.50 (35%) per Equity Share paid last year (exclusive of one time Special Dividend of Rs. 3 per Equity Share).

The proposed dividend, if approved at the forthcoming Annual General Meeting, will be paid to all those Shareholders whose names appear on the Register of Members as on 17th January, 2002 (the 'Record Date').

The proposed dividend as mentioned above is calculated @ 40% based on the Paid-up Equity Share Capital of Rs.331,384,030 as on 22nd November, 2001. However, the actual dividend will be paid on the amount of the Share Capital outstanding as on 17th January, 2002, after taking into account the Shares bought back, if any, between these dates.

Operations

During the year, Orders booked amounted to Rs.10,836 million as compared to Rs.12,071 million last year. The major volume contributors for new orders were Power Transmission & Distribution, Industrial Solutions & Services and Medical Solutions Divisions. Turnover increased by 4% to Rs.11,572 million as compared to Rs.11,157 million last year. The improvement reflects the combined effect of successful market penetration, introduction of innovative offerings across business groups and vigorous cost management attained through continuos process optimisation and effective asset management measures practiced by the Company. The Company posted a steady performance with Profit before Tax increasing by 2% in a declining market situation from Rs.946 million to Rs.964 million. However, due to high tax incidence, the Profit after Tax stood at Rs.687 million as against Rs.840 million last year. The major growth drivers were Power Transmission & Distribution and Automation & Drives Divisions while the Medical Solutions Division posted the highest growth where the Company gained market share.

With effect from 1st April, 2001, the Components Division of the Company ceased to exist consequent upon the premature termination of the Agency and Distributorship Agreements entered into with the various partners.

Buyback of Shares

At the Extra-ordinary General Meeting held on 15th June, 2001, the Shareholders had given their consent for buyback by the Company of its Equity Shares not exceeding 8,873,549 Equity Shares of Rs.10 each at a price not exceeding Rs.250 per Equity Share for an aggregate consideration not exceeding Rs.805,252,859.

The Company has till 30th September, 2001, bought back 1,867,576 Equity Shares of Rs.10 each for an aggregate consideration of Rs.368,988,270 at an average price of Rs.197.58 per Share under the Open Market through Stock Exchange method. Consequently, the Share Capital has reduced from Rs.354,941,970 as on 30th September, 2000 to Rs.336,266,210 as on 30th September, 2001.

Since 1st October, 2001, the Company has bought back further 488,218 Shares for an aggregate consideration of Rs.96,246,298.78 at an average price of Rs.197.14 per Share. As on date, the Paid-up Share Capital of the Company is Rs.331,384,030 comprising of 33,138,403 Equity Shares of Rs.10 each. Consequently, the shareholding of Siemens AG has gone up from 51% as on 25th June, 2001 (the date of commencement of buyback) to 54.63% as on date, for which necessary Government approval has been obtained.

Foreign Exchange Earnings & Expenditure

Details concerning Foreign Exchange Earnings and Expenditure have been given under Note No. 26.2 (iv) of the Notes to the Accounts.