

Management's Discussion & Analysis

General Performance Review

The financial year 2018 was a year where Siemens Ltd continued to face headwinds resulting from a mixed macro-economic environment. While crude oil prices demonstrated an upward trend, the depreciation of the Indian Rupee impacted margins. Opportunities in Power Generation were restricted to Renewables though the demand for power from captive power plants across industries such as Fertilizer and Sugar grew. While large-scale Central Transmission projects were muted, the demand for improved distribution at the State level increased. Capital expenditure from the private sector continued to remain low but is growing in segments such as Automotive, Pharmaceuticals, Food and Beverages and Cement.

The Index of Industrial Production for manufacturing and infrastructure rebounded during the financial year. Capacity utilization, an indicator of manufacturing growth, improved reaching close to its long-term average. Retail inflation was lower in financial year 2018 compared to the previous year.

During financial year 2018, New Orders were down by 5.6 percent at ₹ 127,404 million, compared with ₹ 135,030 million in financial year 2017. Sales (excluding Other Operating Revenues) were up by 11.1 percent to ₹ 122,927 million, compared with ₹ 110,602 million in financial year 2017, while Profit after Tax (PAT) was at ₹ 8,939 million compared with ₹ 11,336 million in financial year 2017. During financial year 2018 there were no exceptional items, compared with ₹ 5,675 million in financial year 2017.

Operational Performance

POWER AND GAS

Power and Gas Division offers a broad spectrum of products and solutions for reliable, efficient and clean power for generation of electricity from fossil fuels and for the reliable generation of power for oil and gas as well as for industrial applications. The Division's customers are utilities, independent power producers and engineering, procurement and construction (EPC) companies as well as businesses in industries such as oil and gas, sugar and cement.

The Power and Gas Division continued to operate in challenging domestic market conditions. Order growth was mainly driven by industrial (small) steam turbines in domestic and export markets.

The Indian power sector witnessed surplus power equipment manufacturing capacities, with thermal power plants still operating at low plant load factors. The thermal-based power generation market (large gas and steam turbine) continued to face challenges due to various factors such as subdued demand, lower industrial growth, inadequate availability of gas and measures to increase renewable energy. It was also impacted by a shift toward smaller-scale projects and localization. The variable nature of renewables is forcing conventional energy producers to continue at base load and to become more flexible in their operations.

Among the highlights, the Division won several orders from industrial customers across chemicals, cement and metals segment. During the year, it achieved a milestone in Additive Manufacturing in the power generation industry with the

Company's first replacement parts 3D-printed from metal for an industrial steam turbine.

For financial year 2018, the New Orders were down by 7.1 percent to ₹ 17,135 million, Sales up by 4.1 percent to ₹ 14,807 million, while Profit from Operations was ₹ 2,460 million compared to ₹ 2,015 million in the previous year.

Outlook

The Power and Gas Division expects energy demand to grow in line with the projected GDP growth. Several policies and initiatives under implementation by the Government of India such as Power for All 24x7, reduction in emissions through green energy, flexibility in thermal power generation, smart cities and promotion of electric vehicles are expected to revive the power generation sector. Progress in implementation of policies such as Hydrocarbon Exploration and Licensing Policy (HELP), for instance, the Open Acreage Licensing Policy (OALP), are expected to benefit the oil and gas sector in the future. The Division continues to develop solutions to build on "Make in India" and "Power for All 24x7" programs. It will use local capabilities to provide engineering for global projects and manufacture steam turbines for India and export.

ENERGY MANAGEMENT

Energy Management Division provides solutions for the development of intelligent, digitally-managed power transmission and distribution infrastructure. Energy Management Division is a supplier of products, systems, solutions and services for transmission and distribution, management and control of electrical energy. Its electrification portfolio ranges from low voltage products for domestic electrification, through products, systems and solutions for electrification of medium voltage distribution and ultra high-voltage transmission grids. Its portfolio also covers automation and digitalization products and solutions for all elements of power value chain. Its customers are central and state utilities, private transmission and distribution system operators.

During the financial year 2018, the market for Energy Management solutions remained highly competitive with reduced investment from utilities. Industry investment increased due to projects shifting as a consequence of demonetization and GST impact.

Among the key highlights in financial year 2018, the Division won orders such as the first smart city order from Delhi Mumbai Industrial Corridor Project for 33/11kV power distribution air insulated switchgear (AIS) substations; renewable energy management order for western region from Power Grid Corporation of India Limited and meter data management system order from Tata Power Delhi Distribution Limited. The Division also won orders for AIS from Kerala State Electricity Board and Ceylon Electricity Board, and an order for gas insulated switchgear substations from Odisha Power Transmission Corporation Limited.

For financial year 2018, the New Orders were down by 24.9 percent to ₹ 45,096 million, Sales up by 18.7 percent to ₹ 51,598 million, while Profit from Operations was ₹ 4,203 million compared to ₹ 3,234 million in the previous year.

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Outlook

The Division expects the Government's focus on "Power for All", continued thrust on Renewables (targeting 227GW generation capacity by 2022), "Make in India," and infrastructure upgrade programs including smart cities, to result in investment in improving state-level transmission networks. This will also drive modernization and upgradation of distribution grids. These drivers will propel the market for electrification solutions as well as Smart Grid solutions to pare aggregate technical and commercial power losses. Digitalization solutions are expected to improve efficiency and performance of electrical assets of utility and industrial operators. The Division also expects growing demand from the government's vision of significant electric vehicle sales in 2030.

BUILDING TECHNOLOGIES

Building Technologies Division provides solutions for safe, secure, energy-efficient and eco-friendly buildings and infrastructures. It has solutions for applications such as fire safety, security, building automation, heating, ventilation, air conditioning and energy management.

The growth in demand for solutions from Building Technologies during financial year 2018 was due to investments by the government and corporates in technologies aimed at improving safety (fire and surveillance), comfort (building management system and HVAC) and energy efficiency. Major contributors to new orders continued to be commercial spaces, life sciences, data centers, IT/ITES and hospitality sectors. Among the highlights of the financial year, Building Technologies Division implemented its energy efficiency solution Demand Flow for many hospitality customers. This solution helped the customers reduce power consumption leading to lower energy cost and higher savings.

For financial year 2018, the New Orders were up by 26.3 percent to ₹ 5,942 million, Sales up by 15.7 percent to ₹ 4,907 million, while Profit from Operations was ₹ 444 million compared to ₹ 289 million in the previous year.

Outlook

The demand for Building Technologies solutions is expected to pick up, driven by increase in private investment and government-led infrastructure projects continued growth in commercial spaces, data centers and IT/ITES. Also growth areas are seen in digitalization and energy efficiency opportunities in hotels, airports and industries.

MOBILITY

Mobility Division provides solutions for Mainline and Metro Railways covering the entire gamut of Rail infrastructure comprising of signaling and electrification and Rolling stock components and systems. This is complimented by comprehensive customer services across all technologies as well as Turnkey Solutions.

The financial year 2018 witnessed major disruptions in the rail market such as 100% electrification policy of Indian Railways leading to phasing out of diesel electric locomotives and adopting European Train Control System Level 2 for rail signaling and safety instead of the planned Level 1. Both these developments impacted the Division's business.

The Division benefited from expansion of the Metro rail market as well as government initiatives to enhance capacity and improve rail safety which led to acquisition of various projects in both mainline and metro rail segments. The Mobility Division won an order for the electrification of the new double-track metro line and also provided a supervisory control and data acquisition (SCADA) system for monitoring and controlling the traction power for Metro Link Express for Gandhinagar and Ahmedabad (MEGA) Company. It also received orders for electronic interlocking of railway stations. For financial year 2018, the New Orders were up by 18.9 percent to ₹ 14,809 million, Sales down by 17.6 percent to ₹ 9,764 million, while Profit from Operations was ₹ 985 million compared to ₹ 903 million in the previous year.

Outlook

The outlook for the Mobility Division is intrinsically linked to the policies, initiatives and timelines of the Indian Railways as also the various local authorities responsible for implementing Metro initiatives in the States. The Government has announced initiatives in safety, infrastructure development, electrification and energy efficiency. The order position of the Company is therefore largely dependent on the timing when these opportunities are tendered.

DIGITAL FACTORY

Digital Factory Division offers a portfolio of industrial software and automation technologies for optimizing the manufacturing value chain, covering product design, production planning, engineering and execution, and after-sales services. The Division's 'Digital Enterprise Suite' offers flexibility and efficiency to various discrete industries, general engineering segments and original equipment manufacturers (OEMs) engaged in machine tools, printing, packaging and electrical panel manufacturing.

During the financial year 2018, Digital Factory Division witnessed order pick-up in the automotive, tyre, food & beverage and various infrastructure-related segments. The Division maintained steady growth amid continued lower capital expenditure by customers mainly in the private sector. Among key highlights, during the year the Division connected over 300 assets to MindSphere, Siemens' open IoT cloud platform. It also launched the Ingenuity Tour, a multi-city tour across India covering 120 cities over a period of two years. The tour demonstrates the Division's offerings for the manufacturing industry. On display are products, solutions and digitally-enabled services covering electrification, automation and digitalization.

For financial year 2018, the New Orders were up by 16.8 percent to ₹ 23,042 million, Sales up by 18.4 percent to ₹ 22,654 million, while Profit from Operations was ₹ 1,962 million compared to ₹ 1,230 million in the previous year.

Outlook

Manufacturing-led growth and greater adoption of digitalization and Industry 4.0 are expected to boost demand for factory automation, software and data analytics. The Division expects a growth in demand for applications based on MindSphere open IoT cloud platform to be driven by these segments. Private sector capital expenditure is expected to gradually gain momentum as they near their capacity utilization thresholds. It foresees demand to pick up, driven by

the increasing focus among customers on cost productivity, energy savings and regulatory compliance through retrofit and modernization of equipment.

PROCESS INDUSTRIES & DRIVES

Process Industries and Drives Division offers a comprehensive portfolio for industrial application and solutions in the field of automation and drives for process industries such as chemical, pharmaceuticals, food and beverages, water and waste water, cement, mining, oil & gas, paper and marine. The business environment in which the Division operates is primarily driven by core sector industries. Major investments by the Government in roads, highways, railways and irrigation projects helped improve capacity utilization.

Key highlights of the Division include winning an order from Indian Navy for setting up the first-ever technology induction project with the Medium Voltage (MV) Lab. The Lab is equipped with infrastructure for training crew, both hands-on and simulation, on MV electric propulsion. It also won an order from BHEL for the Government of Telangana's Kaleshwaram Lift Irrigation Project. The order includes the communication and instrumentation package for three pumping stations and SINAMICS GL150 static frequency converter to start up the some of the world's largest pumps. The Division saw a success in digitalization – for online monitoring of gearboxes.

The Board of Directors of the Company, at its meeting on February 21 2018, agreed in-principle to sell the Mechanical Drives business to Siemens AG or its subsidiary.

For financial year 2018, the New Orders were up by 8.8 percent to ₹ 21,379 million, Sales up by 8.6 percent to ₹ 19,192 million, while Profit from Operations was ₹ 769 million compared to ₹ 545 million in the previous year.

Outlook

An increasing number of customers in the process industries are seeking means to develop their company into a "Digital Enterprise". This will be a lever for growth for Siemens' digitalization initiatives. The Division also expects orders to come in from the defence segment, specially for diesel-electric propulsion of large ships, metals and mining, paper, food & beverage, pharmaceuticals and cement segments. The Division expects demand from these segments for its portfolio of digitalization solutions that offer 'integrated engineering to integrated operations' approach.

HUMAN RESOURCES

The Company enhanced its emphasis on the 'Customer First, People Always' motto, implementing several initiatives to nurture, care and sustain its dynamic workforce.

In line with the business growth and constantly changing market demands, the Company invested significantly in various training and development activities to better equip employees by enhancing their competencies. Twenty six employees were selected for its CORE two-year talent development program aimed at developing young talent. It also initiated a multi-city program to amplify its employer brand across over 40 offices and factories across India. In addition, to make the Company an 'employer of choice' and improve the Company's Ownership Culture, the Company undertook a program to train 750 people managers.

The Company continues to have a cordial relationship with its Unions.

As of September 30 2018, Siemens Limited had 9,452 employees compared to 9,551 as on September 30 2017.

COMPLIANCE

For Siemens, promoting integrity means acting in accordance with our values – responsible, excellent and innovative. The integrity of Siemens employees' decisions and actions is an essential part of it. A key element of integrity is compliance: adherence to the law and to our internal regulations.

The Company's rules are contained in the Business Conduct Guidelines ("BCG") which include the obligation to comply with applicable laws and the prohibition of corruption and other violations of the principles and rules of fair competition. They include the areas of anti-corruption, antitrust, anti-money laundering, data privacy and export control as well as overall human rights aspects. This dictates the way Siemens conducts business.

The Company has a 24/7 whistleblower hotline, "Tell Us" through which any compliance violations including potential cases can be notified. This is available for employees, Directors, as well as external stakeholders. It is operated by a provider that is independent of Siemens to enable receipt of anonymous as well as protected information to be passed on without any bias.

The Company continues to exhibit "zero tolerance" towards any non-compliant behavior and violations have attracted disciplinary consequences. (Details on compliance activities are included in the Business Responsibility Report available on www.siemens.co.in).

The Company continues its drive to create awareness about a corruption-free environment by addressing the topic of corporate corruption in various public forums as well as invites by other like-minded corporates and demonstrating by example the feasibility of combating corruption, a task that the corporate world has acknowledged. The Company aims at the creation of a level playing field for corporates to operate in a corruption free environment.

RISK & INTERNAL CONTROL

The Management of Siemens Limited is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in

Annexure III to the Directors' Report

Management's Discussion & Analysis

accordance with authorizations of management and directors of the Company; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Siemens Limited's Management assessed the effectiveness of the Company's internal control over financial reporting as of September 30 2018. As a result of the evaluation, the Management has concluded that the Company's internal control over financial reporting was effective as of September 30 2018 with no significant deficiency.

During the year, Siemens Limited actively participated in industry forums of Enterprise Risk Managers. Siemens Enterprise Risk Register captures key points related to the risks that could impact the businesses and ensures that adequate mitigation measures are put in place and monitored.

SAFETY AND ENVIRONMENT

The Company's EHS performance is monitored regularly by the Board of Directors as well as the Heads of Business Divisions who actively propagate EHS through constant communications and business review meetings. During the financial year 2018, Siemens Limited increased its efforts in the direction of acting responsibly, collaborating and excelling towards the journey of Zero Harm Culture maturity level 4.

The Company undertook various measures to promote Zero Harm Culture, mainly focused on enhancement of competency levels, implementation of various EHS digitalization projects, workshops for vendors and contractors, best practice and knowledge exchange sessions among the factory and project teams. During the year, 50,074 hours of training were conducted. The Company also continuously engaged one-on-one with the top management of customers to ensure an overall improvement in the EHS performance.

In order to improve access to healthcare facilities for project employees located at remote sites, our medical officers regularly travel to these sites to conduct health awareness sessions, first aid trainings, health checkups and health risk assessments. In order to promote the EHS message among the various stakeholders, the Company presented papers on best practices at the National Conclave on 'Prevention of Accidents on Distribution and Power Transformers' organized by Central Board of Irrigation and Power and International Council on Large Electric Systems.

Among the key highlights, the Company's EHS initiatives were recognized by Europe's industry association VDMA (Verband Deutscher Maschinen und Anlagenbau - Mechanical Engineering Industry Association). The Company's Nashik factory achieved a milestone of 2,000 accident-free days. A solar PV plant capable of generating around 2.9 million kilowatt hour of power has been setup in the Kalwa factory complex using a variety of the Company's products such as low-voltage panels, combiner boxes and SCADA. Our Siemens

Kharghar office got the ASSOCHAM (Associated Chambers of Commerce) Green & Ecofriendly Movement (GEM) 4 rating award. The Company also received the award for Best performance in the "Construction Safety in Substation" category from Power Grid Corporation of India Limited (PGCIL) and an award for "Best Approach towards HSE implementation of the Project" by GlaxoSmithKline Pharmaceuticals Limited.

OUTLOOK

The Company's focus continues on digitalization initiatives. The Company has already witnessed a pickup in digitalization-related projects based on the Siemens Internet of Things platform MindSphere. This momentum is expected to continue as more customers in a wider range of industries experience productivity and efficiency-related benefits. The Company will remain focused on this area in the year ahead.

The Company's Management expects to maintain growth in line with the market in financial year 2019. A higher growth rate is dependent on increased investments by the government of India, public sector undertakings and state governments in infrastructure, industry and utility services. Sustained government investment in infrastructure is required to encourage capex investment and revival of private sector.

The focus of Siemens Limited continues to be on profitable growth and operational excellence. The Company is strengthening its go-to-market considering the emergence of digitalization and its impact on the industry.

Note: This report contains forward-looking statements based on beliefs of Siemens' management. The words "anticipate," "believe," "estimate," "forecast," "expect," "intend," "plan," "should," and "project" are used to identify forward-looking statements. Such statements reflect the Company's current views with respect to future events and are subject to risks and uncertainties. Many factors could cause the actual result to be materially different, including, among other things, 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. Actual results may vary materially from those projected here. Siemens does not intend to assume any obligation to update these forward looking statements.

On behalf of the Board of Directors
For Siemens Limited

Deepak S. Parekh
Chairman
DIN - 00009078

Goa, 18th November 2018