

# Annexure III to the Directors' Report

## Management's Discussion & Analysis

The financial year 2019 saw a muted capital expenditure in general, in both public and private sectors, and across market verticals. The muted market conditions impacted the new business opportunities in thermal power generation due to low plant load factors, inventory build-up across sectors and declining sales forcing industry to defer capital expenditure plans. The financial year also witnessed continued slowdown in Central Government ordering, which meant orders for large infrastructure projects were absent.

India's GDP forecasts were lowered by various agencies such as World Bank and International Monetary Fund. GDP growth for the three-month period ending June 2019 was at the lowest level in the last six years. The slowdown in industrial production was accompanied by lower capacity utilization and increase in inventories. Exports too have remained subdued, growing at its lowest rate in over two years.

The Index of Industrial Production (IIP) fell by 4.3 percent year-on-year in September 2019, adding to the 1.4 percent contraction in August 2019, a sharp drop from the 4.6 percent growth witnessed in the same month of the previous year. Retail inflation remained below 4 percent during the year.

In this scenario, the focus of Siemens Limited continues on driving our product and digitalization businesses with a clear focus on profitable growth and working capital management.

During financial year 2019, New Orders increased by 3.9 percent at ₹ 132,377 million, compared to ₹ 127,404 million in financial year 2018. Sales (excluding Other Operating Revenues) were up by 8.4 percent to ₹ 133,231 million, compared to ₹ 122,927 million in financial year 2018, while Profit after Tax (PAT) was at ₹ 10,869 million compared to ₹ 8,939 million in financial year 2018. The Company's Operating Profit Margin (%) and Net Profit Margin (%) for financial year 2019 was 9.4 and 8.2 compared to 9.1 and 7.3, respectively, in financial year 2018.

Details of Return on Networth as compared to previous financial year is given below:

Particulars	2018-19	2017-18
Return on Networth (after tax)	12.0%	10.8%

The increase in Return on networth is mainly due to improved profits for the year.

During financial year 2019, the Company reorganized as a market-oriented set-up with a new company structure which includes individual Businesses namely Digital Industries, Gas and Power, Smart Infrastructure, Mobility and Portfolio Companies (POC).

### Digital Industries

Digital Industries Business provides technologies for the automation and digitalization of the discrete and process industries, supporting their digital transformation. Its

portfolio consists of industrial software, drive and automation technologies for optimizing the manufacturing value chain, covering product design, production planning, engineering, execution and after-sales services. Its 'Digital Enterprise Suite' offers flexibility and efficiency to various discrete and process industries, general engineering segments and original equipment manufacturers (OEMs) engaged in machine tools, printing, packaging and electrical panel manufacturing. The business environment in which the Division operates is primarily driven by core sector industries.

During financial year 2019, Digital Industries Business witnessed order pick-up in digitalization initiatives across automotive, food & beverage, and machine building sectors, which are driving growth. Water and pharmaceutical sectors also contributed to growth during the financial year. Among the highlights, the Business launched the Digital Experience and Application Center (DEX), a full-fledged testing, simulation and training center for the machine tool industry, in Bangalore. Spread across 9,000 square feet, the Digital Experience and Application Center allows machine tool manufacturers and users to experience the integrations of hardware with software solutions as well as that of the physical with virtual worlds. Digital Industries created successful references in the adoption of Industry 4.0 manufacturing practices in key industry verticals.

In its second year, the Ingenuity Tour covered 66 cities across 16 states of India. In total, the tour is scheduled to travel more than 30,000 kilometers. The tour has an array of latest products covering electrification, automation and digitalization from the fields of industry software, automation, power distribution, drive technology, digital & cloud services, industrial training as well as customized financing solutions.

For financial year 2019, the New Orders were up by 10.6 percent to ₹ 26,536 million, Sales increased by 15.5 percent to ₹ 25,783 million, while Profit from Operations was ₹ 1,648 million compared to ₹ 1,521 million in the previous year.

### Outlook

Demand is growing in the manufacturing industry for cloud-based digital services, data analytics solutions and digitalization in its push towards Industry 4.0. Siemens' cloud-based open Internet of Things (IoT) platform MindSphere has already seen an increase in interest, and it is expected to gain momentum leading to new orders going forward. Private sector capital expenditure, which has been impacted due to the continued slowdown in the economy, is expected to pick up too as consumption trend turns positive. Capital expenditure is seen to be growing in certain segments such as F&B, pharmaceuticals, chemicals and water.

### Gas and Power

Gas and Power Business provides fully-integrated products, solutions and services across the energy value chain of oil and gas production, power generation and transmission in

an effort to make society carbon-neutral. Its offerings include sustainable products, solutions and services that make fossil energy greener. Gas and Power also helps deliver decentralized, flexible power; manage the complexities of the grid; improve and de-risk aging assets; and connect supply and demand through storage technologies such as grid-scale batteries and Power-to-X technologies. The Business has a broad customer base that includes oil and gas, utilities, independent power producers, engineering, procurement and construction companies (EPCs), transmission system operators, and industrial companies in sectors such as mining and chemicals.

The Gas and Power Business continued to operate in challenging market conditions. Ordering was driven by small steam turbine business across cement, chemicals and sugar verticals. The contribution of renewables as an energy source continued to increase during the year and conventional energy producers have started becoming more flexible in their operations while continuing at base load. Thermal power plants continued to operate at low plant load factors.

Among the highlights, the Gas and Power Business rolled out its 1,000<sup>th</sup> steam turbine from its Vadodara Factory. It won an order from Hindustan Zinc Limited to modernize and commission 80 MW steam turbines and provide on-site project services on a turnkey basis. It won another order from GAIL (India) Limited to install state-of-the-art Remote Diagnostic Services covering gas turbines installed at GAIL's pipelines and plant. As part of the order, a 24/7, year-around accessible operational service desk is being equipped with machine learning tools and manned by technical experts to provide faster, higher quality troubleshooting and guidance for problem resolution.

Gas and Power Business also launched a MindSphere Application Center, a state-of-the-art digitalized technology Center, supported by Siemens' MindSphere, an open, cloud-based IoT operating system that lets customers connect machines and physical infrastructure to the digital world and its thermodynamic digital twin. The MindSphere Application Center launched in Gurgaon, is the first in the world, specifically aimed at digital solutions for coal and steam-based power plants.

For financial year 2019, the New Orders increased by 6.8 percent to ₹ 45,085 million, Sales were up by 5.4 percent to ₹ 49,466 million, while Profit from Operations was ₹ 6,911 million compared to ₹ 5,184 million in the previous year.

### Outlook

We expect progress in implementation of policies such as Hydrocarbon Exploration and Licensing Policy (HELP) and the Open Acreage Licensing Policy (OALP) to benefit the sector in the future and an increased use of digitalization solutions to improve efficiency and performance of assets of power utilities and industrial operators. These drivers are expected to boost the market for electrification solutions as well as Smart Grid solutions to pare aggregate technical and commercial power

losses. There has also been an increased focus on improving state-level transmission networks, driving modernization and upgradation of distribution grids. Further enhancements and policies are expected to contribute to the achievement of the goals set by the government, for instance, sector coupling, or Power-to-X involving flexible storage capabilities and hydrogen technologies, could emerge as critical innovation areas.

We will continue to use local capabilities to provide engineering for global projects and manufacture steam turbines for India and export.

### SMART INFRASTRUCTURE

Smart Infrastructure Business intelligently connects energy systems, buildings and industries to adapt and evolve the way we live and work. The Business, together with customers and partners creates an ecosystem that intuitively responds to the needs of people and helps customers to better use resources. The Business is engaged from the macro to the micro level, from physical products, components and systems to connected, cloud-based digital offerings and services. From intelligent grid control and electrification to smart storage solutions, from building automation and control systems to switches, valves and sensors. During the financial year, the Company saw growing demand for "smart" infrastructure in verticals and markets that included data centers, airports, metros, utilities and smart campuses.

Among the highlights, it has successfully executed digital solutions for various utilities in the country which supports the government's focus on performance by improving quality and reliability of distribution networks. In this context, it has set up a first-of-its-kind protection automation and control laboratory as part of the Powergrid Advanced Research Technology Center at Manesar, Haryana. The laboratory has been designed to be used for advanced studies and research on digital substation technologies, multivendor interoperability studies, conformance tests of servers, clients and engineering tools, cyber security-related vulnerabilities, network optimization, etc. The Intelligent Integrated platform – AVATAR, set up at its office in Navi Mumbai provides customers with a deeper understanding of the digital "Smart Campus", which can contribute to the increasing demand from private investors, to improve the utilization of existing assets. To enhance the competency and skill set of future engineers and to nurture innovation, it has also set up a Protection Laboratory at Indian Institute of Technology (IIT) Delhi.

For financial year 2019, the New Orders increased by 7.4 percent to ₹ 39,185 million, Sales increased by 1 percent to ₹ 35,102 million, while Profit from Operations was ₹ 3,516 million compared to ₹ 3,024 million in the previous year.

### Outlook

India is undergoing growth with urbanization on the rise, across the country. The Governments focus on 'Power for All' and upgrading energy infrastructures is expected to pick

# Annexure III to the Directors' Report

## Management's Discussion & Analysis

up. Investments are also expected to be centered around improving grid quality and stability expected in the medium term. Infrastructure projects, data centers, smart campuses are growth areas which are seeing increased demand from governments and customers. Implementation of smart city projects and infrastructure for electric vehicles are other areas in focus for the government. Building smart infrastructure will play a key role in igniting India's manufacturing sector to boost governments visionary 'Make in India' program.

### MOBILITY

Mobility Business 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.

In 2018, Indian Railways decided to drive 100% electrification across its rail network. This caused disruption in the Mobility Rolling Stock Components business for diesel electric locomotives as the manufacture of diesel electric locomotives reduced to zero. Indian Railways has since changed over to electric locomotives and is adding high horsepower locomotives to its fleet, including 9000 HP locomotives. Indian Railways is driving its infrastructure development with enhanced rate of electrification and adapting modern signaling technology like European Train Control System Level 2 (ETCS L2), the tendering process for which has begun.

Mobility continued expansion of its Metro footprint by adding electrification and signalling packages of Chennai Metro extension contract during the financial year. Siemens was the preferred bidder and has executed projects in the phase 1 of 45 kilometers for the project. Similarly, Mobility was also declared the preferred bidder in the package for the Delhi Airport Metrolink Express extension project.

For financial year 2019, the New Orders reduced 42.4 percent to ₹ 8,558 million, Sales increased by 12.8 percent to ₹ 11,011 million, while Profit from operations rose to ₹ 1,126 million compared to ₹ 985 million last year.

### Outlook

The outlook for the Mobility Business 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.

### Portfolio Companies

Portfolio Companies (POC) is a dedicated team focused on specific industry verticals such as Minerals, Mining and Cement, Irrigation, Oil & Gas, Metals, Pulp and Paper, Marine Ports, Renewables and Defence. The POC includes Large Drive

Applications and Mechanical Drives. Large Drive Applications produces heavy-duty electrical drive systems such as electrical motors, converters and generators for medium and high-voltage ranges. Mechanical Drives business is engaged in drives for rotating equipment, for applications such as for windmills and various process industries.

The demand for solutions provided by POC is growing in spite of continued challenges in a muted capex environment. Demand is driven by energy-saving requirements in existing industrial fan or pump applications. Among the highlights of POC during the financial year, it commissioned variable frequency drives for one of the world's largest lift irrigation projects in Telangana State. The Company also won an order to deliver an integrated electrification and automation solution for a large cement grinding project in Sri Lanka.

For financial year 2019, the New Orders increased by 31.7 percent to ₹ 13,012 million, Sales were up by 29.9 percent to ₹ 11,864 million, while Loss from Operations was ₹ 857 million compared to Profit from Operations of ₹ 118 million in the previous year.

### Outlook

The Company continues to innovate to meet customer requirements with products such as Sinamics Perfect Harmony GH180 Gen V, Simotics Platform MV Motors, Digital Drive Train Analytics as well as applications based on Siemens' MindSphere open Internet of Things (IoT) platform. Its demand is expected to remain steady due to the Government thrust towards renewable energy and infrastructure development along with the need among customers for high performance, efficiency and low emission levels. For instance, the cement industry is considering solutions to drive their productivity, process optimization and efficiency improvement in its operations. These solutions include Big Data Analytics & Artificial Intelligence tools.

### HUMAN RESOURCES

During financial year 2019, the Company continued to focus on attracting, retaining and developing talent in order to further strengthen our business, especially in the era of digital transformation.

The Company was certified as "Great Place to Work" (September 2018 - August 2019) based on various dimensions. It initiated various programs aimed at strengthening the Ownership Culture among its employees. One such program was Own Your Career where employees have more choices in their career development and can easily manage their career network within the organization. The program also improved succession planning across many functions.

The Company won awards from Brandon Hall Group – "Gold Award in Best Advance in Corporate Culture Transformation" and "Bronze Award in Best Advance in Measuring Impact of Leadership Development" categories. It also received the TISS LeapVault CLO 2019 "Gold Award for The Best Leadership Development Program".

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The Company intensified its focus on Digitalization in its core learning programs by adding elements such as customer value co-creation and various digital competencies along with behavioral and technical programs. Leveraging digitalization to improve HR processes, the Company launched a chat bot as a single point of interface for addressing basic HR-related queries from employees.

The Company also launched an initiative called Reboot designed to smooth the transitions to and from maternity leave for the Company's women employees. This program is a one of the key initiatives at Siemens that aims to strengthen gender diversity, career growth for women and continued support for their social, physical and mental well-being.

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

As of September 30, 2019, Siemens Limited had 9,437 employees compared to 9,452 as on September 30, 2018.

#### **COMPLIANCE**

Siemens Limited's active ownership culture makes the difference. People rightly associate Siemens with Reliability, Fairness and Integrity. Promoting Integrity means acting in accordance with our Values – Responsible, Excellent and Innovative. The Company's rules are contained in the Business Conduct Guidelines ("BCG") which help Siemens employees apply Siemens values to conduct business, besides complying applicable laws of the land and prohibition of corruption and other violations of the principles and rules of fair competition.

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 or any sort of retaliation against whistleblowers.

The Company continues to exhibit "zero tolerance" towards any non-compliant behavior and violations have attracted disciplinary consequences, in line with the company's stress on "Clean Business Everywhere, Everytime". (Details on compliance activities are included in the Business Responsibility Report available on [www.siemens.co.in](http://www.siemens.co.in)).

The Company is fully aware of its obligations to create a sustainable environment and thus continues its drive to create awareness about a corruption-free environment by addressing the topic of corporate corruption at various public forums as well as invites from other like-minded corporates to provide an overview of Siemens compliance processes 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 (ICFR). The ICFR 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 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 ICFR as of September 30, 2019. As a result of the evaluation, the Management has concluded that the Company's ICFR was effective as of September 30, 2019 with no significant deficiency.

During the year, the Company conducted and actively participated in an industry forum of Enterprise Risk Managers. The Risk and Internal Control team is actively involved in training and developing the employees of the Company, as well as that of Siemens group companies to foster a conducive internal control environment and risk culture. The 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.

#### **ENVIRONMENTAL PROTECTION, HEALTH MANAGEMENT AND SAFETY**

The Company's Environmental Protection, Health Management and Safety (EHS) performance is monitored regularly by the Board of Directors as well as the Heads of Business who actively propagate EHS through constant communications and business review meetings. During financial year 2019, Siemens Limited intensified and expanded its efforts towards the journey of Zero Harm Culture maturity level 4, focusing on technical preventive measures as well as personal attitudes and the commitment of management and employees.

Among the various measures to promote Zero Harm Culture were workshops for vendors and contractors aimed at enhancing competency levels, best practice and knowledge exchange sessions among the factory and project teams and implementation of EHS digitalization projects such

## Annexure III to the Directors' Report

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as dynamic dashboards, remote surveillance through application software. The Company received the Safety Systems Excellence Gold Award 2019 from FICCI under 'Large scale construction' category.

During the financial year, 30,000 person-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. These measures were done to reduce health risk factors and raise awareness on topics such as mental health, nutrition and chronic diseases and hereby sets national benchmark. The Company's Health Management team conducted over 3,500 preventive health checkups of eligible employees.

As part of its initiatives to improve environmental protection, the Company undertook various measures that led to improved energy and water efficiency in its various manufacturing units and offices. The Company implemented the Extended Producer Responsibility program for collection and recycling of electrical and electronic waste. Due to procurement of green energy, carbon footprint has been reduced by approximately 100 tons during the financial year 2019.

### OUTLOOK

During financial year 2019, the Government of India announced that it has set an ambitious goal of a \$5 trillion economy by 2024-25. In September 2019, the Finance Minister announced revisions in corporate taxation with an aim to boost the economy. While these measures are expected to invigorate the "Make in India" programme and attract fresh investments into the manufacturing sector, real growth would require investments in infrastructure and energy.

Siemens Limited is best positioned to take advantage of opportunities that arise when the demand for infrastructure and energy improves. In the infrastructure space, the Company has solutions that intelligently connects energy systems, buildings and industries. The Company's mobility solutions address the needs of urban, inter-urban and freight transportation providers for efficient, highly-available and sustainable technology. Its energy portfolio spans both demand-side and supply-side management. Together, the Company's strong portfolio of technology and digital

solutions, project experience, understanding of the Indian market and long-term customer relationships will continue to be the key drivers of growth in new orders and revenue.

MindSphere, Siemens' Internet of Things (IoT) platform, has delivered strategic as well as operational benefits to numerous customers across verticals. The solutions developed by a strong team of Siemens IoT experts based in Bangalore not only complements but also enhances the Company's work done at the MindSphere Application Centers, based in Pune, Noida and Gurgaon. These solutions are in the areas of Smart Urban Infrastructure, Digital Enterprise, Connected Mobility, Future of Energy and Artificial Intelligence. In the MindSphere Application Centers, software developers, data specialists and engineers work together with Siemens customers to develop digital innovations for data analysis and machine learning.

The Management of the Company believes that profitable growth would be in line with the market in financial year 2020. Higher growth is dependent on the Government of India's announcements to spur growth translating into tendering and increased investments in infrastructure. The Company's focus remains on sustainable profitable growth.

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

Mumbai, 19<sup>th</sup> November 2019