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CHAIRMAN'S LETTER

DEAR SHAREHOLDERS,

For this year's letter, I would like to start with a bit of history. Your Company was a leading India-based player in transformers, switchgears, motors, fans, lights and other electrical consumer products in 2005, when it made its first international acquisition of the Belgium based Pauwels Group. It gave CG additional manufacturing facilities for power and distribution transformers in Belgium, Ireland, Canada, the USA and Indonesia.

This was followed by a series of other acquisitions: of Ganz' transformer and rotating machine facilities in Hungary in 2006; of a series of automation businesses in Ireland, the USA, the UK and of ZIV in Spain; of power systems and solutions businesses in the USA and the UK; of drives and automation in India and Sweden; and some other operations involving services. The rationale for such acquisitions were two-fold: first, to give CG a strong presence in markets abroad; and, second, to integrate these enterprises in a manner such that your Company became a 'full solutions provider' to customers across the world.

Thanks to soaring demand right up to FY2011, majority of these acquisitions earned good profits for your Company as a whole. In the first six years, the gains to CG were excellent. The net present value of what your Company earned from these businesses exceeded the cost of acquisition.

Matters began to turn for the worse from FY2012, and the more so during the next four years leading up to FY2016. In large part, it had to do with a tremendous slowdown in demand for electrical equipment and solutions throughout the developed nations. Moreover, barring a few international facilities, the effects of a demand downturn were exacerbated by a flawed integration strategy in the power systems business.

For four consecutive years, actions were taken to correct the execution strategy. Among others, these involved substantial new investments in setting up modern plant and equipment, calibrated rationalisation of the work force and exploring new markets. None of these worked sufficiently enough to turnaround most of the businesses from making losses to earning sustained profits. It became unsustainable.

Recognising this your Board of Directors decided that it was time for taking hard decisions. In summary, these have involved:

INTERNATIONAL

a) Selling the power transformer business in Canada for an enterprise value of Canadian $20 million subject to post-closing adjustment. Operation of the entity has been transferred to the buyer from 17 November 2015.

b) Closing down the power systems business in Brazil and starting the process of winding up its systems businesses in North America and the UK.

c) Entering into a binding agreement with First Reserve for the sale of its transmission and distribution businesses in Indonesia, Hungary, Ireland, France, the USA and Belgium at an enterprise value of €115 million. First Reserve is a leading global private equity and infrastructure investor exclusively focused on energy.

DOMESTIC

Your Board decided to exit some of the Company's Indian operations. If you will recollect, we had entered into a franchise agreement with the Maharashtra State Electricity Distribution Company Limited (MSEDCL) from June 2011 for the distribution of electricity in the Jalgaon Circle Area, and was managing this business since November 2011. However, Distribution Franchisee Agreement stood terminated w.e.f 12 August 2015 upon MSEDCL exercising its step-in rights consequent to unresolved disputes. The Company is confident of arriving at an amicable settlement with MSEDCL on all pending issues under the agreement.

The consumer products business, became a separate, independent corporate entity called Crompton Greaves Consumer Electricals Limited with effect from 1 October 2015. This was a profitable operation that generated significant free cash for your Company. Even so, your Board of Directors and I believed that: (i) this B2C business sat uncertainly on the core B2B operations involving power transformers and industrial systems, and (ii) the aggregate shareholder value from the sum of two distinct companies — CG and CGCEL — would be larger than that of the earlier whole. Since it is your Board's duty to focus on enlarging long term shareholder value, it collectively decided on this course of action.

In addition, your Company voluntarily adopted the Ind AS accounting standards a year earlier than mandated. That has helped CG to create a leaner balance sheet and a more sustainable financial architecture for future growth as well as for the return on capital employed and the return on net worth.

There have been three significant senior managerial changes. Laurent Demortier, your Company's CEO and Managing Director from 2011 has demitted office. K N Neelkant, an experienced CG hand, has taken over as the new CEO, Managing Director and an Executive member of the Board and Madhav Acharya, the CFO, has been elevated to the Board as an Executive Director with independent charge of all finance functions.

To summarise, CG now has new leadership. It is less cluttered, more manageable and, most importantly, a more profitable enterprise, without the burden of losses of most of its internationally located businesses. With India's GDP looking to grow at least at 7.6% in FY2017 — as it has in FY2016 — we expect the demand for power equipment, rotating machines, drives and railway traction equipment to increase at the expected rates, I expect a better future in FY2017 and beyond.

As always, thank you for your support.

Yours sincerely,

GAUTAM THAPAR
Chairman