

Directors' Report

Your Directors have pleasure in presenting their Sixty Ninth Annual Report and Audited Accounts for the year ended December 31, 2018.

1. Financial Results:

Particulars	(₹ in Crores)	
	For the year ended	
	December 31, 2018	December 31, 2017
Profit before tax	794.24	621.76
Tax expense:		
– Current tax	282.05	189.90
– Deferred tax	1.30	11.91
Profit after tax	510.89	419.95
Other comprehensive income/ (loss) (net of tax)	1.95	2.22
Balance brought forward from previous year	397.68	127.53
Amount available for appropriation	910.52	549.70
Appropriations:		
Equity dividend paid	93.24	84.76
Tax on equity dividend paid	19.17	17.26
Debenture redemption reserve	-	50.00
General reserve	-	-
Balance carried forward	798.11	397.68

2. Dividend:

Your Directors recommend payment of a dividend at the rate of Rs.4.80 (Rupees Four and Paisa Eighty only) per share for the year ended December 31, 2018 on 211,908,375 equity shares of Rs.2/- each.

3. Performance Review:

During the year, orders touched Rs.10,115 crore as against Rs.9,490 crore in the Previous Year. In the year 2018, the orders witnessed a healthy growth of 7%, reflecting the technology push and continued traction in transportation and renewable energy. Services and export-led orders resulted in more comprehensive customer engagements. The order backlog at the end of the year stood at Rs.10,111 crore which continued to provide visibility to the future revenue streams. The revenue from operations for the Company for the year 2018 stood at Rs.10,862 crore as against Rs.9,087 crore in the previous year, reflecting stability of operations in an uncertain market situation. Profit before tax was up by 28% at Rs.794.24 crore in 2018 on higher sales as compared to Rs.621.76 crore in the previous year mainly due to operational excellence initiatives, supply chain efficiencies, focus on project management. Net profit after tax was up by 22% at Rs.511 crore for the current year as compared to Rs.420 crore in the previous year. Consequently the earnings per share for the year 2018 stood at Rs.24.11 per share as compared to Rs.19.82 per share in the year 2017.

For detailed analysis of the performance, please refer to the Management's Discussion and Analysis given in **Annexure – A**, forming part of this Report.

4. Extract of Annual Return:

As per provisions of Section 92 (3) of the Act read with Rule 12 of the Companies (Management and Administration) Rules, 2014 as amended from time to time, the extract of the Annual Return in the Form MGT-9 is given in **Annexure – B**, forming part of this report.

5. Board Meetings held during the year:

During the year, 5 meetings of the Board of Directors were held and one meeting of Independent Directors was also held. The details of the meetings are furnished in the Corporate Governance Report.

6. Compliance on criteria of Independence by the Independent Directors:

All Independent Directors of the Company have given declarations to the Company under Section 149 (7) of the Act that, they meet the criteria of independence as provided in Sub-Section 6 of Section 149 of the Act and also under the SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015 (Listing Regulations).

7. Remuneration Policy of the Company:

The Remuneration Policy of the Company for appointment and remuneration of the Directors, Key Managerial Personnel and Senior Management of the Company along with other related matters have been provided in the Corporate Governance Report.

As and when need arises to appoint Director, the Nomination and Remuneration Committee (NRC) of the Company will determine the criteria based on the specific requirements. NRC while recommending candidature to the Board, will take into consideration the qualification, attributes, experience and Independence of the Candidate. Director(s) appointment and remuneration will be as per NRC Policy of the Company.

A Statement of Disclosure of Remuneration pursuant to Section 197 of the Act read with Rule 5(1) of Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, is given in **Annexure – C**, forming part of this report.

8. Dividend Distribution Policy:

As required under the Regulation 43A of the Listing Regulations, the Company has a Policy on Dividend Distribution. This Policy can be accessed on the Company's website at www.abb.co.in.

9. Particulars of loans, guarantees or investments under Section 186 of the Act:

During the year under review, your Company has not granted any Loan, Guarantees or made Investments within the meaning of Section 186 of the Act.

10. Amount, if any, proposed to be transferred to Reserves:

During the year under review, the Company redeemed entire Non-Convertible Debentures, consequent to which, balance amount in the Debenture Redemption Reserve was transferred to General Reserves. Except this, the Company has not transferred any amount to General Reserves.

11. Material changes and commitment, if any, affecting financial position of the Company from the end of Financial Year and till the date of this Report:

There has been no material change and commitment, affecting the financial performance of the Company occurred between the end of the Financial Year of the Company to which the Financial Statements relate and the date of this Report.

12. Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo:

The particulars as prescribed under Section 134 of the Act read with Rule 8 (3) of the Companies (Accounts) Rules, 2014, relating to Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo are given in **Annexure – D**, forming part of this report.

13. Risk Management Policy:

The Company has a Risk Management Policy and constituted a Risk Management Committee as required under Listing Regulations. The Committee oversees the Risk Management process including risk identification, impact assessment, effective implementation of the mitigation plans and risk reporting. The purpose of the Committee is to assist the Board of Directors in fulfilling its oversight responsibilities with regard to enterprise risk management.

The details and the process of Risk Management as implemented in the Company are provided as part of Management's Discussion and Analysis which forms part of this Report.

14. Corporate Social Responsibility (CSR) initiatives:

The Company has a Policy on Corporate Social Responsibility and has constituted a CSR Committee as required under the Act for implementing various CSR activities. Composition of the Committee and other details are provided in Corporate Governance Report. Education, Access to Electricity, Health Care, Environment, skills enhancement for creating employable opportunities for the differently abled personnel, etc., are the focal area under the CSR Policy.

The Company has implemented various CSR projects directly and / or through implementing partners and the projects undertaken by the Company are in accordance with Schedule VII of the Act. During the year under review, the Company has achieved more than 100% of the amount to be spent by the Company on CSR activities.

Detailed report on CSR activities as required under the Companies (Corporate Social Responsibility Policy) Rules, 2014 is given in **Annexure – E**, forming part of this report.

15. Annual evaluation of Board, its Committees and Individual Directors:

The Board of Directors has carried out an annual evaluation of its own performance, its Committees and Directors pursuant to the requirements of the Act and the Listing Regulations.

Further, the Independent Directors, at their exclusive meeting held during the year, reviewed the performance of the Board, its Chairman and Non-Executive Directors and other items as stipulated under the Listing Regulations.

16. Audit Committee:

The details pertaining to composition of the Audit Committee and terms of reference are included in the Corporate Governance Report, which forms part of this Report.

17. Related Party Transactions:

The Board of Directors has adopted a policy on Related Party Transactions. The objective is to ensure proper approval, disclosure and reporting of transactions as applicable, between the Company and any of its related parties. All contracts or arrangements with related parties, entered into or modified during the financial year were at arm's length basis and in the ordinary course of the Company's business except the one which is reported herein below:

The Company took decision to discontinue its EPC Substation Business hitherto carried out as a strategy to focus more on technology-based value-added business offerings thereby improving margin and lowering high risk businesses. Accordingly, the discontinued EPC Substation Business comprising 32 customer contracts with their corresponding assets and liabilities were transferred to ABB Substations Contracting India Private Limited (Buyer Company), a wholly owned Indian Subsidiary of ABB Group incorporated for this purpose, for a total consideration of Rs 30 Crore. The Company and the Buyer Company executed an "Asset Purchase Agreement" to that effect. Out of the 32 customer contracts transferred, execution status of about 27 contracts have already reached at a significant level and it is expected the final closure of all these contracts might be achieved in 2 to 3 years' time. These 27 contracts will stay with the Buyer Company (ABB Group Company) for completion of execution and handing over the Projects to respective customers.

As the aforesaid transfer of Customer Contracts with their related assets and liabilities fall within the ambit of Related Party Transaction within the provisions of Section 188 of the Companies Act, 2013, required disclosure is made in Form No.AOC-2 pursuant to Section 134 of the Act read with Rule 8 of the Companies (Accounts) Rules, 2014 which is attached as Annexure-F.

The balance 5 Customers Contracts which are new and execution activities are yet to commence and/or at a starting level, will further be transferred by the Buyer Company to a new Company formed in India for

doing the EPC Substation business by the overseas JV Company in which SNC Levlin and ABB Group would be having equity of 51% and 49% respectively.

All contracts or arrangements were entered into only with prior approval of the Audit Committee, except transactions which qualified under Omnibus approval as permitted under law.

Transactions with related parties, as per requirements of Indian Accounting Standard 24 are disclosed in the notes to accounts annexed to the financial statements. Your Company's Policy on Related Party Transactions, as adopted by your Board, can be accessed on the Company's website. Link for the same is <http://new.abb.com/docs/librariesprovider19/default-document-library/related-party-transaction-policy.pdf?sfvrsn=2>

18. Reporting of frauds:

There was no instance of fraud during the year under review, which required the Statutory Auditors to report to the Audit Committee and/or Board under Section 143(12) of the Act and Rules framed thereunder.

19. Transfer to Investor Education and Protection Fund:

As required under Section 124 of the Act, the unclaimed dividend amount aggregating to Rs.21.46 lakh lying with the Company for a period of seven years pertaining to the financial year ended on December 31, 2010, was transferred during the financial year 2018, to the Investor Education and Protection Fund established by the Central Government.

20. Particulars of Employees:

The information on employee particulars as required under Section 197(12) of the Act read with Rule 5(2) and 5(3) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 as amended from time to time, are given in **Annexure-G**, forming part of this report. In terms of Section 136 of the Act, the Report and Financial Statements are being sent to the Members and others entitled thereto, excluding this Annexure. This Annexure shall be provided to Members on a specific request made in writing to the Company. The said information is available for inspection by the Members at the Registered Office of the Company on any working day of the Company up to the date of the 69th Annual General Meeting.

21. Demerger of Power Grids business:

The Board of Directors of the Company at their meeting held on February 13, 2019 has granted in-principle approval for the segregation of the Company's Power Grids business from the Company's

other businesses. The Board has also determined that a court-approved demerger is the preferred option. In this regard, your Company has incorporated a wholly owned subsidiary Company i.e., ABB Power Products and Systems India Limited. Necessary approvals as may be required under the law including approval from Members will be initiated at appropriate time.

22. Directors' Responsibility Statement:

To the best of knowledge and belief and according to the information and explanations obtained by us, your Directors make the following statements in terms of Section 134(3)(c) and 134(5) of the Act, that:

- (a) in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- (b) they have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at December 31, 2018 and of the profit and loss of the Company for the year ended on that date;
- (c) they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (d) they have prepared the annual accounts on a going concern basis;
- (e) they have laid down internal financial controls to be followed by the Company and that such internal financial controls are adequate and were operating effectively; and
- (f) they have devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

23. Disclosure on confirmation with the Secretarial Standards:

Your Directors confirm that the Secretarial Standards issued by the Institute of Company Secretaries of India have been duly complied with.

24. Corporate Governance Report and Certificate:

As required under Regulation 34 (3) read with Schedule V (C) of the Listing Regulations, a report on Corporate Governance and the certificate as required under Schedule V (E) of the Listing Regulations from

Messrs V. Sreedharan & Associates, Practicing Company Secretaries, regarding compliance of conditions of Corporate Governance are given in **Annexure – H** and **Annexure – I** respectively, forming part of this report.

25. Secretarial Audit:

Pursuant to provisions of Section 204 of the Act read with Rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 and amendments thereto, your Company engaged the services of Messrs BMP & Co. LLP, Company Secretaries, Bengaluru, to conduct the Secretarial Audit of the Company for the financial year ended December 31, 2018. The Secretarial Audit Report in Form MR-3 is given in **Annexure – J**, forming part of this report.

26. Business Responsibility Report:

As required under Regulation 34 of the Listing Regulations, the Business Responsibility Report forms part of the Annual Report.

27. Whistle Blower Policy:

The Company has a Vigil Mechanism for Directors and Employees to report their concerns about unethical behavior, actual or suspected fraud or violation of the Company's Code of conduct. The mechanism provides for adequate safeguards against victimization of Director(s) and Employee(s) who avail of the mechanism.

The Whistle Blower Policy is available on Company's website at www.abb.co.in.

28. Directors and Key Managerial Personnel:

On the recommendation of the Nomination and Remuneration Committee, the Board of Directors of the Company at its meeting held on October 30, 2018, has approved

- (a) the re-appointment of Mr. Sanjeev Sharma as Managing Director of the Company for a period of three years commencing from January 01, 2019 to December 31, 2021;
- (b) for continuation of Directorship beyond March 31, 2019, by Mr. Darius E. Udawadia, Non-executive Director, who has attained the age of 75 years and in compliance with SEBI (Listing Obligations Disclosure Requirements), Regulations 2015, as amended, subject to approval of Shareholders by way of Special Resolution.

Shareholders of the Company have approved both aforesaid proposals with requisite majority through Postal Ballot held during January/February 2019.

Apart from aforesaid changes there are no changes in Directors and Key Managerial Personnel of the Company during the rest of the year. Details of Directors, Key Managerial Personnel and Composition of various Committees of the Board are provided in the Corporate Governance Report forming part of this report.

In accordance with the provisions of the Companies Act, 2013 read with Article 157 of the Articles of Association of the Company, Mr. Tarak Mehta (DIN: 06995639), Director, retire by rotation at the ensuing Annual General Meeting of the Company, and being eligible, offers himself for re-appointment.

Necessary resolution relating to Mr. Tarak Mehta, Director, who is seeking re-appointment as a Director is included in the Notice of Annual General Meeting. The relevant details of Mr. Mehta are given in the annexure to the Notice of the Annual General Meeting.

As on date, Mr. Sanjeev Sharma, Managing Director, Mr. B. Gururaj, Company Secretary and Mr. T.K. Sridhar, Chief Financial Officer, are the Key Managerial Personnel of the Company.

29. Deposits:

During the year under review, your Company did not accept any deposit within the meaning of the provisions of Chapter V – Acceptance of Deposits by Companies read with the Companies (Acceptance of Deposits) Rules, 2014.

30. Debentures:

During the year under review, the Company has redeemed the entire 600 Unsecured Redeemable Non Convertible Debentures of face value of Rs.1,00,00,000/- each, i.e., on September 4, 2018.

31. Significant and Material Orders Passed by the Regulators or Courts or Tribunals impacting the going concern status of the Company:

There has been no significant and material order passed by the Regulators or Courts or Tribunals impacting the going concern status and Company's operations.

32. Internal Control Systems and their adequacy:

The details on Internal Control Systems and their adequacy are provided in the Management's Discussion and Analysis which forms part of this Report.

33. Disclosure as per the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013:

The Company has zero tolerance towards sexual harassment at the workplace and has adopted a policy on prevention, prohibition and redressal of sexual harassment at workplace in line with the provisions of the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 and the Rules thereunder. As required under law, an Internal Complaints Committee has been constituted for reporting and conducting inquiry into the complaints made by the victim on the harassments at the work place. During the year 2018, two complaints of sexual harassment were received. These complaints were investigated by the Internal Complaints Committee and Report is awaited.

34. Statutory Auditors:

Pursuant to provisions of Section 139 of the Act read with the Companies (Audit and Auditors) Rules, 2014, Messrs B S R & Co. LLP, Chartered Accountants (Firm Registration No.101248W/W-100022), were appointed as Statutory Auditors of the Company for a term of 5 years, to hold office from the conclusion of 67th Annual General Meeting held on May 9, 2017 until the conclusion of 72nd Annual General Meeting.

35. Cost Auditor:

In terms of the provisions of Section 148 of the Act read with the Companies (Cost Records and Audit) Rules, 2014 as amended from time to time, the Board of Directors, on the recommendation of the Audit Committee, has appointed Messrs Ashwin Solanki & Associates, Cost Accountants (Registration No: 100392) as Cost Auditor of the Company, for the financial year ending December 31, 2019, on a remuneration as mentioned in the Notice convening the 69th Annual General Meeting for conducting the audit of the cost records maintained by the Company.

A Certificate from Messrs Ashwin Solanki & Associates, Cost Accountants has been received to the effect that their appointment as Cost Auditor of the Company, if made, would be in accordance with the limits specified under Section 141 of the Act and Rules framed thereunder.

A resolution seeking Members' approval for remuneration payable to Cost Auditor forms part of the Notice of the 69th Annual General Meeting of the Company and same is recommended for your consideration.

Cost Audit and Compliance reports for the year 2018 were filed with the Registrar of Companies, within the prescribed time limit.

their support and co-operation extended to the Company during the year.

36. Acknowledgements:

The Board of Directors take this opportunity to thank the Company's parent company, customers, members, suppliers, bankers, associates, Central and State Governments and employees at all levels for

Place: Bengaluru
Date: March 1, 2019

For and on behalf of the Board

J C Deslarzes
Chairman
DIN: 08064621