

Independent Auditors' Report To the Members of ABB India Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ABB India Limited ("the Company"), which comprise the balance sheet as at 31 December 2020, and the statement of profit and loss (including other comprehensive income), statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of the significant accounting policies and other explanatory information.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Companies Act, 2013 ("Act") in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at 31 December 2020, and profit and other comprehensive income, changes in equity and its cash flows for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Act. Our responsibilities under those SAs are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Act and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the financial statements.

Emphasis of matter

In relation to corresponding figures, we draw attention to note 33 to the financial statements regarding the Scheme for demerger of the power grid business of the Company to ABB Power Products and Systems India Limited. The Scheme had been approved by the National Company Law Tribunal ("NCLT") vide its order dated 27 November 2019 and a certified copy had been filed by the Company with the Registrar of Companies, Bangalore, on 1 December 2019. In accordance with the scheme approved by NCLT, in the previous year, the Company had given effect to the Scheme from the appointed date of 1 April 2019.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of Key Audit Matter

Revenue recognition from fixed price contracts

See note 2.3.1(a), 2.6, 24 and 44 to the financial statements

The key audit matter	How the matter was addressed in our audit
<p>Revenues recognised from fixed price contracts is a material part of the Company’s revenues for the year. Revenue from these contracts is recognized in accordance with Ind AS 115, Revenue from Contracts with Customers, and as detailed in note 2.6 of the “significant accounting policies” in the financial statements.</p> <p>There are key judgements and estimates involved in recognition of revenue relating to fixed price contracts on a percentage of completion method, which includes:</p> <ul style="list-style-type: none"> • Estimation of total contract costs and remaining costs to completion, which is a critical factor in measuring progress of a contract and amounts of revenue to be recognized; • Evaluation of risks arising from operational delays, contract terms, changes in estimations, technical, legal, external environment etc. This requires the Company to estimate costs to capture such risks, including liquidated damages and warranties. <p>In view of the above and given the Company and its stakeholders focus on revenue as a key performance indicator, we determined this to be a key audit matter.</p>	<p>In view of the significance of the matter, we applied the following audit procedures in this area, among others to obtain sufficient appropriate audit evidence:</p> <ol style="list-style-type: none"> 1. We assessed the appropriateness of the revenue recognition accounting policies by comparing with applicable accounting standards. 2. We understood the process on revenue recognition of fixed price contracts and tested key internal controls (both design and operating effectiveness) with respect to revenue recognition of such contracts. 3. We carried out analytical procedures on revenue recognised during the year to identify unusual variances and discussed with designated management personnel. 4. We performed substantive testing on the statistically selected samples of revenue transactions recorded during the year by testing the underlying documents. 5. We evaluated management’s estimates over contract costs by performing analytical procedures on such estimates and discussed with designated management personnel. 6. We performed a retrospective review for contracts completed during the current year by comparing the final outcome of the contracts with previous estimates made for those contracts to assess the reliability of the management’s estimation process. 7. We tested provision for onerous contracts on a random sampling basis. 8. We performed tests on whether actual costs have been accrued in the correct period, by testing the underlying documents for samples selected using statistical sampling. 9. We tested the disclosures made in the financial statements.
<p>Recoverability of trade receivables</p> <p>See note 2.3.1(e), 2.12(a), 11 and 37(iii)(i) to the financial statements</p> <p>Trade receivables, including retention money with customers, forms a significant part of the financial statements. Customer contracts typically involve time consuming and complex conditions around closure of contracts, including technical acceptances. This generally leads to longer and significant time for realization of receivables. As a result of the above, management’s assessment of recoverability of trade receivables, involves critical evaluation of all factors impacting recoverability, including impact of external environment such as capability of customers to pay.</p> <p>Management makes an impairment allowance for trade receivables on the basis of its assessment of recoverability of specific customers and on the basis of expected credit loss model for the remaining customers in accordance with Ind AS 109, Financial Instruments. For the purposes of impairment assessment, significant judgements and assumptions are made, including assessing credit risk, timing and amount of realization, etc. In view of above, we determined this to be a key audit matter.</p>	<p>In view of the significance of the matter we applied the following audit procedures in this area, among others to obtain sufficient appropriate audit evidence:</p> <ol style="list-style-type: none"> 1. We obtained an understanding of the processes implemented by management to estimate impairment provision against trade receivables. 2. We tested key controls (both design and operating effectiveness) over management’s estimate of impairment loss. 3. We obtained and tested the appropriateness of ageing of trade receivables with the underlying invoices on a sample basis using random sampling. 4. We evaluated the impairment model adopted by management to estimate the expected credit loss and tested related computations. We corroborated management’s estimates on the basis of past trends. 5. We obtained, discussed and tested management assessment of impairment for specific customer balances with designated management personnel. 6. We have circulated direct confirmations on a sample basis using statistical sampling. In case of non-receipt of such confirmations, alternate test procedures such as testing subsequent receipts and underlying documents have been performed.

Other Information

The Company's Management and Board of Directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take necessary actions, as applicable under the applicable laws and regulations.

Management's and Board of Directors' Responsibility for the Financial Statements

The Company's Management and Board of Directors are responsible for the matters stated in section 134(5) of the Act with respect to the preparation of these financial statements that give a true and fair view of the state of affairs, profit/loss and other comprehensive income, changes in equity and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Indian Accounting Standards (Ind AS) specified under section 133 of the Act. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management and Board of Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is also responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Act, we are also responsible for expressing our opinion on whether the Company has adequate internal financial controls with reference to financial statements in place and the operating effectiveness of such controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures in the financial statements made by the Management and Board of Directors.
- Conclude on the appropriateness of the Management and Board of Directors use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditors' Report) Order, 2016 ("the Order") issued by the Central Government in terms of section 143 (11) of the Act, we give in the "Annexure A" a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.
2. (A) As required by Section 143(3) of the Act, we report that:
 - a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
 - b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books.
 - c) The balance sheet, the statement of profit and loss (including other comprehensive income), the statement of changes in equity and the statement of cash flows dealt with by this Report are in agreement with the books of account.
 - d) In our opinion, the aforesaid financial statements, read with note 33 therein and the Emphasis of Matter paragraph above, comply with the Ind AS specified under section 133 of the Act.
 - e) On the basis of the written representations received from the directors as on 31 December 2020 taken on record by the Board of Directors, none of the directors is disqualified as on 31 December 2020 from being appointed as a director in terms of Section 164(2) of the Act.
 - f) With respect to the adequacy of the internal financial controls with reference to financial statements of the Company and the operating effectiveness of such controls, refer to our separate Report in "Annexure B".

(B) With respect to the other matters to be included in the Auditors' Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:

- i. The Company has disclosed the impact of pending litigations as at 31 December 2020 on its financial position in its financial statements - Refer note 21 and note 40 to the financial statements;
- ii. The Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts- Refer note 19 and note 21 to the financial statements;
- iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company;
- iv. The disclosures in the financial statements regarding holdings as well as dealings in specified bank notes during the period from 8 November 2016 to 30 December 2016 have not been made in these financial statements since, they do not pertain to the financial year ended 31 December 2020.

(C) With respect to the matter to be included in the Auditors' Report under section 197(16):

In our opinion and according to the information and explanations given to us, the remuneration paid by the Company to its directors during the current year is in accordance with the provisions of Section 197 of the Act. The remuneration paid to any director is not in excess of the limit laid down under Section 197 of the Act. The Ministry of Corporate Affairs has not prescribed other details under Section 197(16) which are required to be commented upon by us.

for **B S R & Co. LLP**

Chartered Accountants

Firm's Registration No.: 101248W/W-100022



Amit Somani

Partner

Membership No: 060154

UDIN: 21060154AAAAAL3275

Place: Bengaluru

Date: February 10, 2021

Annexure – A to the Independent Auditors' Report

The Annexure referred to in Independent Auditors' Report to the members of the Company on the financial statements for the year ended 31 December 2020, we report that:

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) The Company has a regular programme of physical verification of its fixed assets by which all fixed assets are verified in a phased manner over a period of three years. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the programme, certain fixed assets were physically verified during the year. No material discrepancies were noticed on such verification.
- (c) According to the information and explanations given to us and on the basis of our examination of the records of the Company, the title deeds of immovable properties are held in the name of the Company, except for freehold land aggregating to 3 acres and 24 guntas, acquired by the Company, on a slump sale basis in 2011. As explained to us, registration of the title deeds for this land is in process.

In respect of immovable properties taken on lease and disclosed as right-of-use-assets in the financial statements, the lease agreements are in the name of the Company.

- (ii) The inventory, except goods-in-transit and stocks lying with third parties, has been physically verified by the Management during the year. In our opinion, the frequency of such verification is reasonable. The discrepancies noticed on such verification between the physical stock and book records were not material. For stocks lying with third parties at the year-end, written confirmations have been obtained by the Management.
- (iii) According to the information and explanation given to us, the Company has granted unsecured loan to a company covered in the register maintained under section 189 of the Companies Act, 2013 ('the Act'). According to the information and explanations given to us, the Company has not granted any loans, secured or unsecured to any other companies, firms, limited liability partnerships or other parties covered in the register maintained under Section 189 of the Act.
 - (a) In our opinion and according to the information and explanation given to us, the terms and conditions on which the loan had been granted to the company listed in the register maintained under section 189 of the Act, are not prejudicial to the Company's interest.
 - (b) According to the information and explanation given to us, the loan granted along with interest thereon, is repayable on the date of maturity. The loan granted along with interest thereon, has been fully repaid during the year and there has been no default on the part of the company to whom the money had been lent.
 - (c) There are no amounts of loans which are overdue for more than ninety days.
- (iv) In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of section 186 of the Act, with respect to the loans given. There are no investments made, guarantees given and securities given in respect of which section 186 of the Act are applicable. Further, there are no loans, guarantees and securities given in respect of which the provisions of section 185 of the Act are applicable.
- (v) According to the information and explanations given to us, the Company has not accepted any deposits from the public. Accordingly, paragraph 3(v) of the Order is not applicable.

(vi) We have broadly reviewed the books of account maintained by the Company pursuant to the rules prescribed by the Central Government of India for maintenance of cost records under Section 148(1) of the Act and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. However, we have not made a detailed examination of the records.

(vii) (a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted/ accrued in the books of account in respect of undisputed statutory dues including provident fund, employees' state insurance, income tax, duty of customs, goods and services tax, cess and other material statutory dues have been generally regularly deposited during the year by the Company with the appropriate authorities. As explained to us, the Company did not have any dues on account of sales tax, value added tax, service tax and excise duty.

According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, employees' state insurance, income tax, duty of customs, goods and services tax, cess and other material statutory dues were in arrears as at 31 December 2020 for a period of more than six months from the date they became payable.

(b) According to information and explanations given to us, the following dues of goods and services tax, income tax, sales tax, duty of excise, duty of customs, service tax and value added tax have not been deposited by the Company on account of disputes:

Name of the statute	Nature of dues	Amount* (in Rs. crores)	Period to which the amount relates	Forum where dispute is pending
Customs Act, 1962	Customs duty, interest and penalty demanded	15.80	2008-2018	Commissioner of Customs/ Custom Excise and Service Tax Appellate Tribunal
Income Tax Act, 1961	Income tax, interest and penalty demanded	80.28	2011-2015	Commissioner of Income Tax (Appeals)
Goods and Service Tax Act 2017	Goods and service tax, interest and penalty demanded	7.43	2018-2020	GST Tribunal / Joint Commissioner of Commercial Taxes (Appeals)/High court
Central Excise Act, 1944	Excise duty, interest and penalty demanded	70.11	1996-2015	Commissioner (Appeals)/Commissioner (LTU) / Ministry of Finance (Department of Revenue)/ Custom Excise and Service Tax Appellate Tribunal
Finance Act, 1994	Service tax, interest and penalty demanded	26.92	2006-2015	Commissioner (Appeals)/ Custom Excise & Service Tax Appellate Tribunal/ Supreme Court
Sales Tax Act	Sales tax, value added tax, interest and penalty demanded	220.53	1994-2019	Additional Commissioner (Appeals) / Assistant Commissioner of Commercial Taxes / Commissioner of Commercial Taxes/ Deputy Commissioner of Commercial Taxes (Appeals) / Deputy Commissioner (Appeals) / Joint Commissioner of Commercial Taxes (Appeals) / Taxation Board/ High Court/ Sales Tax Appellate Tribunal/ Supreme Court

* Net of amounts paid under protest.

(viii) According to the information and explanations given to us, the Company did not have any outstanding loans or borrowings from any financial institution or bank or government or dues to debenture holders during the year.

(ix) The Company did not raise any money by way of initial public offer or further public offer (including debt instruments) and term loans during the year. Accordingly, paragraph 3 (ix) of the Order is not applicable.

(x) According to the information and explanations given to us, no material fraud on the Company by its officers or employees or fraud by the Company has been noticed or reported during the course of our audit.

(xi) According to the information and explanations given to us and based on our examination of the records of the Company, the Company has paid/provided for managerial remuneration in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Act.

(xii) In our opinion and according to the information and explanations given to us, the Company is not a Nidhi company. Accordingly, paragraph 3(xii) of the Order is not applicable.

(xiii) According to the information and explanations given to us and based on our examination of the records of the Company, all transactions with the related parties are in compliance with sections 177 and 188 of the Act where

applicable and details of such transactions have been disclosed in the financial statements as required by the applicable accounting standards.

- (xiv) According to the information and explanations give to us and based on our examination of the records of the Company, the Company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year.
- (xv) According to the information and explanations given to us and based on our examination of the records of the Company, the Company has not entered into non-cash transactions with directors or persons connected with him. Accordingly, paragraph 3(xv) of the Order is not applicable.
- (xvi) The Company is not required to be registered under section 45-IA of the Reserve Bank of India Act 1934.

for **B S R & Co. LLP**

Chartered Accountants

Firm's registration number: 101248W/W-100022

Amit Somani

Partner

Membership number: 060154

UDIN: 21060154AAAAAL3275

Place: Bengaluru

Date: February 10, 2021



Annexure B to the Independent Auditors' report on the financial statements of ABB India Limited for the year ended 31 December 2020.

Report on the internal financial controls with reference to the aforesaid financial statements under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013

(Referred to in paragraph 2(A)(f) under 'Report on Other Legal and Regulatory Requirements' section of our report of even date)

Opinion

We have audited the internal financial controls with reference to financial statements of ABB India Limited ("the Company") as of 31 December 2020 in conjunction with our audit of the financial statements of the Company for the year ended on that date.

In our opinion, the Company has, in all material respects, adequate internal financial controls with reference to financial statements and such internal financial controls were operating effectively as at 31 December 2020, based on the internal financial controls with reference to financial statements criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India (the "Guidance Note").

Management's Responsibility for Internal Financial Controls

The Company's management and the Board of Directors are responsible for establishing and maintaining internal financial controls based on the internal financial controls with reference to financial statements criteria established by the Company considering the essential components of internal control stated in the Guidance Note. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013 (hereinafter referred to as "the Act").

Auditors' Responsibility

Our responsibility is to express an opinion on the Company's internal financial controls with reference to financial statements based on our audit. We conducted our audit in accordance with the Guidance Note and the Standards on Auditing, prescribed under section 143(10) of the Act, to the extent applicable to an audit of internal financial controls with reference to financial statements. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls with reference to financial statements were established and maintained and whether such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls with reference to financial statements and their operating effectiveness. Our audit of internal financial controls with reference to financial statements included obtaining an understanding of such internal financial controls, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.