



REF:INABB:STATUT:LODR COMPL:69th AGM:

April 22, 2019

BSE Limited  
P.J. Towers  
Dalal Street  
Mumbai 400 001  
**(Attn: DCS CRD)**

National Stock Exchange of India Limited  
Exchange Plaza, 5<sup>th</sup> floor  
Plot No. C/1, G Block  
Bandra-Kurla Complex, Bandra (E)  
Mumbai 400 051

Attn: Listing Dept.

Dear Sirs,

Ref: (i) Scrip Code – BSE: 500002 / NSE: ABB  
(ii) 69th AGM Notice dated March 1, 2019, scheduled on May 8, 2019 at Bengaluru.

We are sending in the attachment a write-up on ABB technology advantage, which may provide an insight for the Company's proposal to pay Royalty and License fee to ABB Group company, which is one of the special businesses included in the Notice convening the 69th Annual General Meeting, for shareholders' approval.

The said write-up is being shared with a few investors as per their request.

Thanking you

Yours faithfully  
For ABB India Limited

**B Gururaj**  
General Counsel & Company Secretary  
FCS 2631

Encl: as above

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# ABB technology advantage: Global development for localization and deployment

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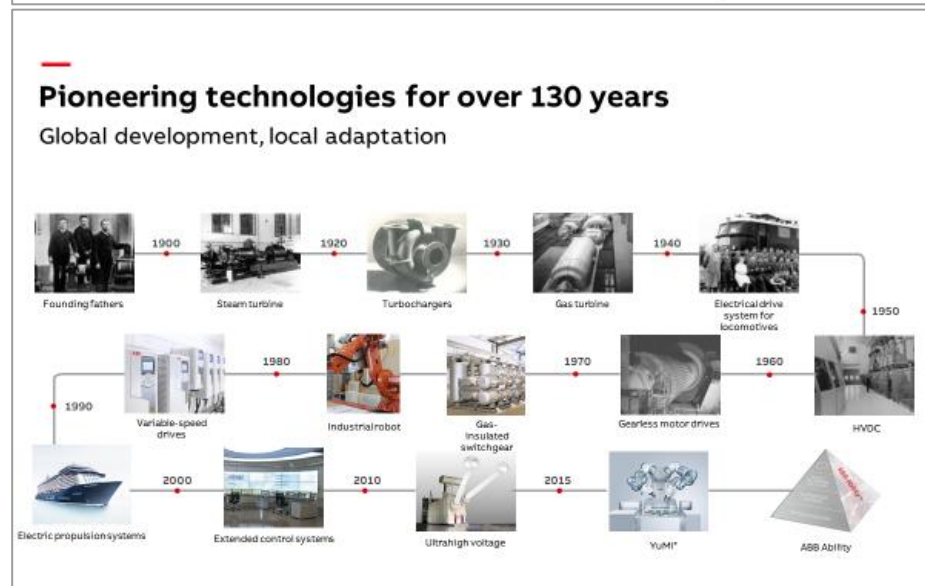
- Background
- Technology @ ABB: Leveraging a history of 130 years
- Collaboration as competitive advantage in a digital world
- Balancing shareholder value creation with global shared value
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## Background

- The recent stock exchange regulations in India need the listed companies to obtain approval from the “majority of minority” shareholders if the payment towards royalty and license fee exceed 2 per cent of consolidated revenue of the listed company
- The said proposal to be put up for vote for payouts from April 1, 2019 (recently the effective date extended to 1<sup>st</sup> June 2019)
- ABB's payment to Group has two major components comprising technology cost and trademark fees
- ABB's technology fees provide access to the group technology pool, on a subscription basis and enables the following:
  - Building on core technologies with fast emerging digital technologies
  - Needing agile technology development, promotion and deployment
  - For faster time to market of technology (concept to solution)
  - With global technology support beyond standard products and solutions
- ABB India is proposing approval on similar amount of 3.2 percent of technology fees including cess and 1 percent of trademark fees totaling to 4.2 percent
- At a time when delta of technology change is at an unprecedented stage and the energy and fourth industrial revolution is among us – mechanism like technology costs will support greater equitable access to technology for localization

## Technology @ ABB: Leveraging a history of 130 years

- ABB Group invests USD 1.5 billion every year on R&D i.e. 5% of its annual revenues
- ABB technologies form an integral part of 4th industrial revolution from electrification and industrial motion to industrial automation and robotics and ABB Ability digitalization
- 8500 scientists and technologists working on best in class global technology around the globe
- Continuing the legacy of leading 4 industrial revolutions with development of future technologies in major R&D centers across more than 10 countries
- Multiple Analytics Solutions Centers (ASCs) bring analytics-based solutions to our customers
- Mentoring, collaboration and investments in more than 20 active start-ups
- More than 10,000 patent families
- Seven research centers focus on the areas that match ABB's core technologies: communications, control, electromagnetics, materials, mechanics, power electronics, sensors, software and switching

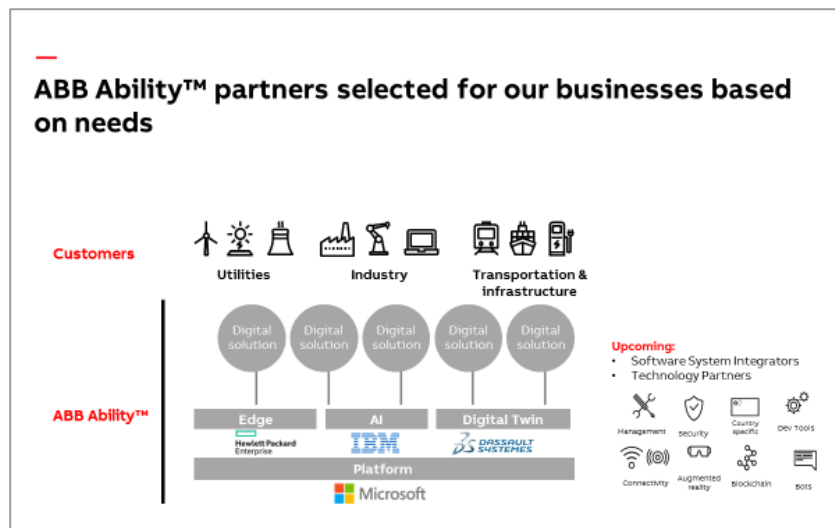


## Collaboration as a competitive advantage in a digital world

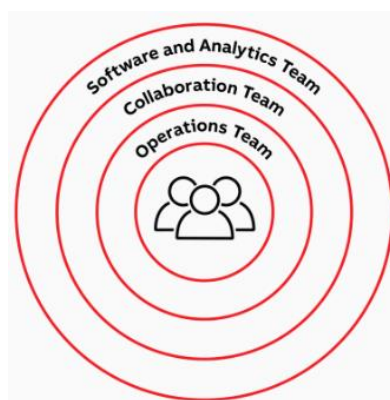
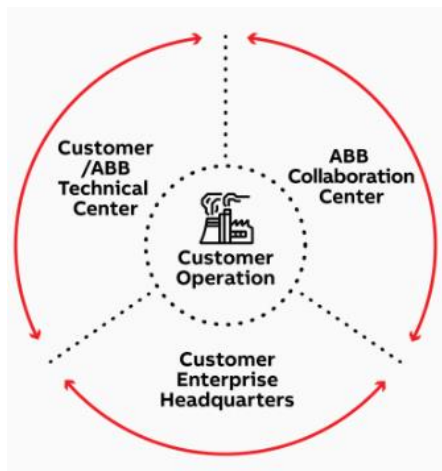
- The delta of technology change has been the fastest in the last 10 years
- 90% of the world's data has been generated in the last 2 years
- Accessing global platforms key in an age of addressing new topics, such as autonomous systems, 5G, sustainability, and resource efficiency
- For the next level development of operational indicators, standardization, cybersecurity, best practices, and shared test centers will show the way for inter-geographies collaboration
- ABB's design, R&D and engineering is also based on a collaborative model between geographies and functions to optimize innovation and develop customized solution
- ABB also launched ABB Ability™, industry-leading, first open digital-industrial platform with more than 210 solutions for customers, partners, suppliers and developers leveraging Microsoft Azure
- Collaboration with global is a way of work and access to technology/solutions for local development

### Collaborations @ ABB globally for innovation and technology access

#### Platform Collaboration



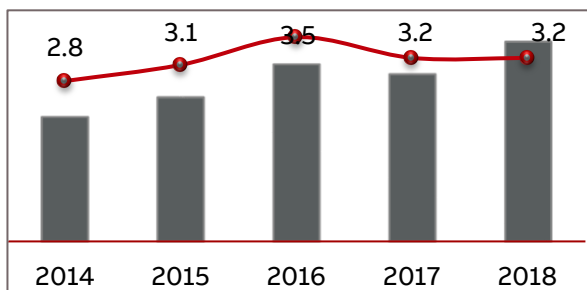
#### Customer and employee operational collaboration



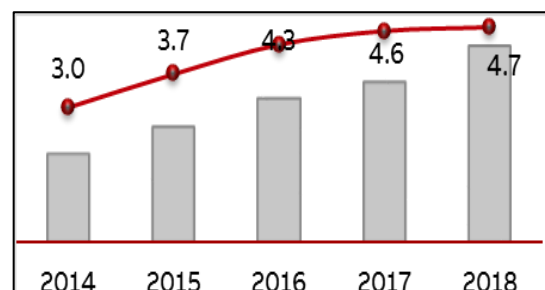
## Balancing shareholder value creation with global shared value

- Royalty fees charged to ABB India for a given product, solution, and platform access technology is the same amount charged to any other country for the same offerings by the global parent – therefore at arm's length
- The royalty amount is periodically reviewed internally and reviewed by the audit committee and is presented to the board members at every quarterly meeting for financial results;
- The royalty for ABB India is determined on a subscription basis as per the solutions needed to serve the customers and markets
- The royalty / technology costs below include payments made by ABB India Ltd to all ABB Group Companies
- A few growth numbers to demonstrate the growth and validity of royalty payments in relation to the growth trajectory of profitability and shareholder value creation

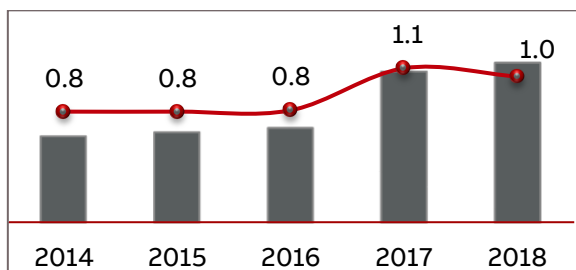
### Royalty / Technology costs



### PAT Development (CAGR 17%)



### Trademark Fees

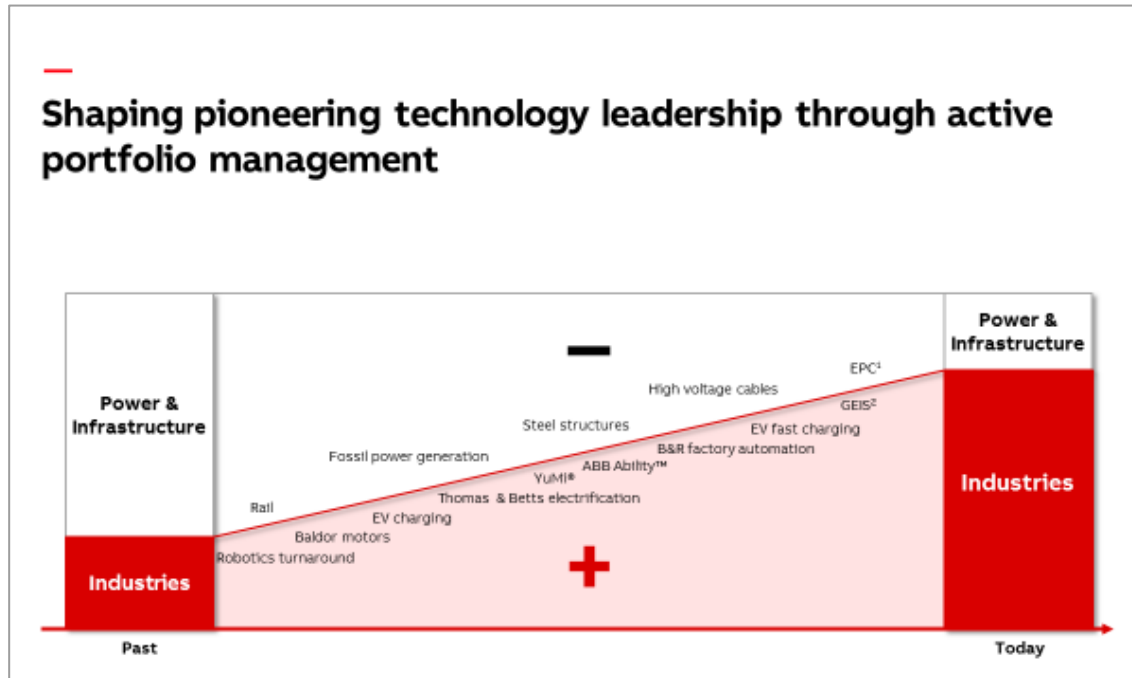


- For any technology services rendered from ABB India Ltd, there are also recoveries from the Group, which come in the form of billing of R&D services provided by various businesses, which are adjusted against total amount

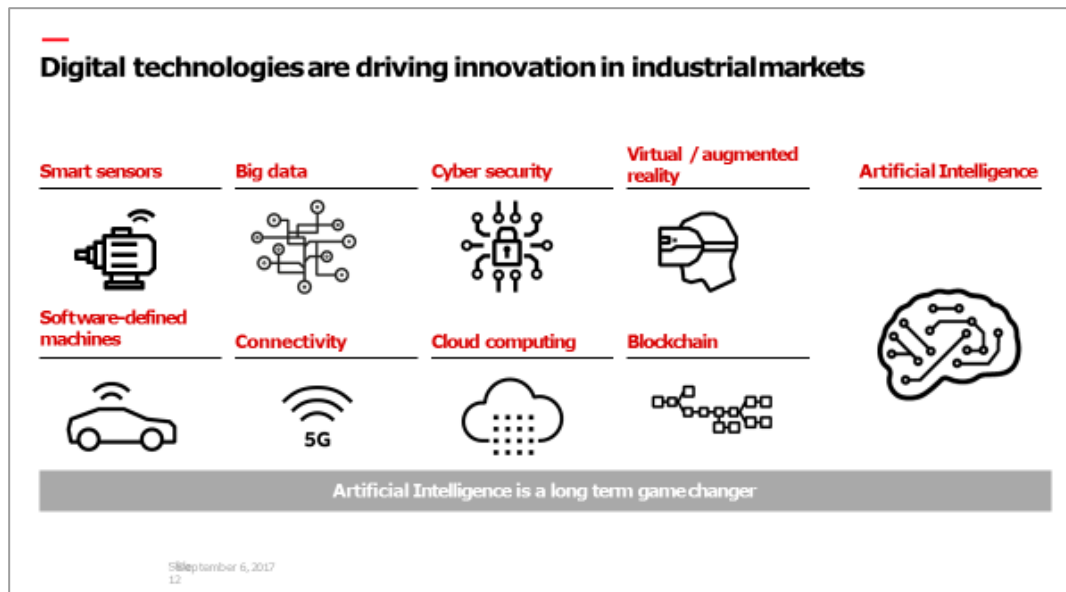
## Access to global technology: An imperative for ABB's growth in India

- The recent announcement of divestment of the Power Grids business to Hitachi will entail a greater focus on electrification, robotics, automation, where access to global ABB technology platforms will be an imperative to sustain and expand the 17% CAGR of profit growth
- Shaping a leader focused on digital industries will also require access to ABB Ability™, the industry leading and open digital platform with more than 210 digital solutions for energy, industry, infrastructure and transportation

**Portfolio shift aligned with market transformation**



- The macro environment and policy indicators in the country have also moved in the following direction, envisaging a greater role of latest service and efficiency related offerings with digital platforms
  - Market shift to brownfield and from capex to opex led growth
  - Looking at automation not as islands on the shop-floor but from processes to deployment across value chain
  - India is becoming the AI hub of the world with one of the fastest adoption of digital technologies in the industrial space
  - Over half (58%) of the companies using AI in the country work at scale, beyond pilot and test projects
  - Govt push for advanced technologies like Artificial intelligence, Machine Learning, Cloud capabilities, Blockchain, electric mobility and digital enterprise network for transportation systems
  - Digital technologies have reduced barriers between global and local facilitating easier access to global technology



### Imperative for ABB for India (an example of 2018)

- The smart factories opened in 2018 in Nashik and Bengaluru connect to ABB Ability™ and ABB's smart factory platform
- Launch of industry leading first of its kind products/solutions for the Indian market with best in class global technology –
  - IE 4 motors
  - ABB Ability Smart Sensors for remote monitoring of motors,
  - Emax 2 – the first of its kind low voltage circuit breaker, a plug n play, all in one digitally enabled box with direct communication to the new energy management cloud-computing platform ABB Ability™ Electrical Distribution Control System
  - Ultra-low harmonic drives from ABB ensure pollution-free electricity supplies for multiple industrial applications
  - Access to ABB Ability™ solutions for the first time for one of the largest Indian cement manufacturers
  - Use access to global expertise and solutions for emerging areas of business in India like F&B, datacenters, water management, pharma contract manufacturing, etc.
  - Take customer solutions to the next level with digital twin and AI – e.g. virtual commissioning for discrete manufacturing, digital twin modelling on existing machinery in pharma for ABB MES, digital twin of electromagnetic flowmeters for monitoring of water and other liquids in a virtual environment for performance predictions, etc.
  - HVDC systems used in execution of the prestigious project of RP 800 project for PGCIL

## Conclusion

- ABB India has over the decades and especially over the past few years has been able to bring from the ABB Global Technology pool new technologies to the local market, which helped to grow the business in India amidst challenging market environment. Also, this has supported to transform some of the local units as Global / Regional Feeder Factories thereby increasing the exports to nearly 15% of revenues. In other words, ABB technology remains a key differentiator
- Two clear elements of related party elements – royalty / technology costs and trademark fees. ABB's royalty / technology costs are commensurate with the growth in profitability over the last 5 years. **PAT grew by a CAGR of 17%, whilst ABB's royalty payment on the technology costs increased by 0.4% and trademark by 0.2% last 5 years. This proposal is not in perpetuity as the Company intends to take it to Board from time to time for review**
- Technology cost of 3.2% includes payout to all ABB Group companies in form of royalty / technology costs
- ABB India Ltd has just about started on the digital journey, pushed by a combination of rapidly changing factors – macro environment, global trade, focus on sustainability, commodity cycles, lowering cost of quantum computing, sensors, etc. and increasing capacity of cyber security, and technology disruptions of traditional business models
- Digital technology is the way that India can leapfrog the others and close the productivity gap e.g. – data costs in India have gone down by 95% since 2013, India among top 2 countries globally for most parameters of digital adoption as per the McKinsey index, 95% of Indian small and medium companies use digital payment mode, India, coming off a low base, is the second-fastest digital adopter among 17 major digital economies.
- Rational and reasonable royalty payouts ensuring access to several decades of technology development is an imperative for the nation and the companies to stay on-course and ahead of the technology disruption in the light of the delta of change