“ABB Limited’s Q4-FY12 Earnings Conference Call”

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Moderator Good afternoon ladies and gentlemen, I am Inba, moderator for this conference. Welcome to the ABB Limited's Investor Relations Call to discuss the Q4 and full year results for 2012. For the duration of the presentation, all participants will be in the listen-only mode. I will stand by for the question and answer session. If you should need any assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note this conference is being recorded. I would now like to hand the conference over to Mr. Vikram Kanth. Thank you, and over to you sir.

Vikram Kanth Thanks Inba. Good evening ladies and gentlemen. Welcome to our quarterly results call. With me today I have Bazmi Husain – the CEO of ABB Limited, India and along with him we have Amlan Datta Majumdar – our CFO. I have N. Venu who heads our Power Systems Business and then we have also Mr. Narayanan who heads our Discrete Automation and Motion Business and with him also is Priteesh Mahajan who heads our Process Automation Business. I would now like to hand over the conference to Bazmi and Amlan to take you through our results. Thank you.

Bazmi Husain Good afternoon ladies and gentlemen and thank you for joining. My name is Bazmi Husain and I am going to cover the overall results for the quarter and for the year, talk about the market a little bit, talk about what has happened, what we see coming and then my colleague Amlan is going to go through with the results. And I would also then invite some of my colleagues to talk about specific business segments.

So, first of all let me begin that I think this has been a very challenging time for this whole segment and given that we have held our revenues even in this environment on an overall basis for the year. For the quarter we are slightly down in revenues. If you look at the profitability part of it, I think that is really a mixed bag. All the product businesses that we have had, have continued to perform – improvement in performance there – especially, I would like to highlight the low voltage products. If you recall, for the last several quarters I have been talking about it, we see that as a growth area and that is an area that is also more resilient to the economic situation in the country. The investments are more impacted on the bigger investments and the low voltage side. So, that is the good news part of it. I think when it came to the project businesses that are there, we have significant challenges. And if you see the results, especially on the project side, on the power side of that business we have had both significant reduction in the revenues, but most of that has been due to the fact that we have held back shipment when we had a very clear policy that I mentioned earlier, that we have a policy of cash over revenue.

So, wherever we are not fully certain of immediate payment we would rather **(Inaudible) 4:1** and the problem with the project being delayed and the customers not very willing to lift the equipment, we have held that shipment back. So that has been the major contributor on the revenue side. Of course that contribution does lead to an impact on the profitability and reduced revenue basis, but in addition to that, as you are well aware, almost all projects that

we have are delayed in that market. So, we see continuation of project delays and hesitancy on part of our customers to lift the equipment. And there are delays that we are seeing in some of the infrastructure projects which are going into 2 or 3 years. Because of our accounting policy we are taking a full cover for those delays, so it is not a cost overrun as such, but it is really factoring in the delays that we are seeing, into the project. To give you an example, and I am not going to name the customers here, but in one infrastructure project we are in an advanced stage of execution. Our current profitability in that project is actually better than when we logged the project, but we have taken probation because we do now see a delay in that project from our estimate, so therefore, we have accounted it. We have taken, in the last several quarters, a lot of efforts to improve ourself operationally and that has really helped us, especially in our product businesses, but if you look at the power product side, while our revenues have remained flat both for the quarter and the year, we have had a significant improvement in the profitability there and that is clearly a result of the operational excellence initiative that we have been driving and they are beginning to bear fruit. And I think, as the market recovers this will put us in an extremely good situation, so that is what we will continue to drive, the operational excellence part.

Service is another area where we have grown substantially with very good profitability, exports as well has been an area where I would say that we have focused now on exports for the last 2 years and we have grown well over 20% in that market. So, that has also helped us on the product side of the business. So, overall I would say it has been a very challenging time that we are in at the moment. But if you componentized the results and the performance then you have a situation where the product side of the business and the new initiative that we took on service, on exports, those have performed very well.

On the project side we see continuation of delays that we have now factored into our results, and that has really impacted the project performances. Going forward, I think we can really expect a challenging environment. I think that cannot be discounted – that short term challenges will be there, but we are hopeful that the actions that the government will be taking to boost investor sentiment especially in our segments both on the power and automation side and the industrial automation side will help revive and I think that is something. All the focus that we have on operational excellence is going to bear good fruit for us.

So that is an overall view, and now I would like my colleague Amlan to take you through the numbers and after that I will ask my colleague Venu and Preetish Mahajan and Narayanan to talk about the automation market and Venu will talk about the power market.

Amlan Datta Majumdar Thank you Bazmi. Good evening ladies and gentlemen. First of all an apology from my side, I have a bad throat. Bangalore weather is not doing good. So, in case you are not able to follow me somewhere, you please come back and ask me if you have any questions. I think Bazmi said it all in a nutshell but let me take you through the results and from our press release and SEBI results that we have published you can see a weak order growth in the quarter 4 and also lower than last year. This is ideally a reflection of the market situation, that is what we have

been telling. And we did not find it really appropriate to go against the direction of the market, because it has never been good for us in the past, nor for any other company. So, we stayed with the market. It has been a weak investment climate in terms of traditional power sector. Also very low investor confidence in the industry. We are all aware of that and in general the capital goods sector is impacted. If you see, the IIP today is hovering around 1%, GDP is anybody's guess, the growth is projected to be around 5%. This is not a good scenario we all agree and the capital goods sector is worst hit in that.

The second aspect which we have told in the earlier two quarters and it has only become worse, which we saw in this quarter, is the liquidity position in the market has become extremely tight, because many of the power generation projects are not able to move on, just because the clearances are not available and the money is expensive to borrow. In terms of industry, when you go to the core sectors at that rate of interest, nobody is willing to borrow from the market, so investments are at bare minimum. We have seen the recent reforms taken by the government. We would cautiously be optimistic that this will give results, but we must also share with you and would like to know from you when you come back with your question, we are yet to see real results of these reforms. Hopefully, it should come after some time, but not yet that we could see. The revenue growth has been pretty flat for the year and marginally lower for the quarter as compared to the same period last year. And as Bazmi said, here our focus is cash over revenue. We are not ready to risk our company's balance sheet just for doing revenues. We decided few quarters back that we are becoming stronger in our approach as time is passing by. In the segment-wise results, we will see the revenues have been flat or marginally lower for all the divisions and market segments, except low voltage product, where you would appreciate the credit risk is slightly lower, because it is largely a cash business. So, there we have been reasonably aggressive, but not in the others.

When it comes to profitability, I would give you a few data points for you to gather, something you can see, something I would like to share with you. If you look at our results, all our product divisions have done well in terms of bottom line, after a long time we have seen that there is an upside in all the product division. And I am sure you will agree with me that the market has not improved, neither in terms of price level, nor in terms of the volumes available, or the competition. So, what we have gained from is actually our internal efficiencies, which we have been working on for the last two years. When I talk about internal efficiencies, we talk about localization initiatives in our product businesses, we also talk about our cost takeout, we talk about our operational expense initiative and special focus on supply chain management. All these have started working well, but when it comes to projects, the situation is not so good. Power systems had a bad time. Actually, there has been a repositioning of power systems business globally, which you have seen. We have done the same thing here. Just to explain what happens in the quarter, for many of our infrastructure projects, what Bazmi also gave some examples of, many of the infrastructure projects are inordinately delayed. Actually, to be very honest, most of them are. Now our accounting policy tells us, you have seen it earlier, that when we see a delay coming, whether the cost has

arrived or not and we do not have a very clear agreement with the customer at that point of time that the customer is going to reimburse us, we take the provisions upfront, what we have done in power systems, while most of this cost has not yet arrived. Whether it will arrive, it is hard to say, of course we are going to negotiate with our customers, because these are the delays for which we have to keep our project sides open, for which our import material cost is going up, our FOREX rollover has to take place. For all this, our projects are getting delayed and the cost is anticipated. We have taken that cost. This is also in line with our group's policy of power system's business repositioning.

Having said that, I would also like to give you one information at company level, if we look at our results, I want to give you one information which I am sure some of you would have planned to ask – for the whole year, our impact of foreign exchange due to rupee volatility has been very severe for the whole year. For the quarter actually it is not **bad, 15:34**. For the quarter we had a 7.5 crores gain in terms of foreign exchange and for the same period last year that is fourth quarter of last year we had a gain of 26 crores. So, while we had a gain during this quarter, but this gain when you compare it to the same period last year is nowhere adequate to show the results. So, we had a net impact of 18 crores, which we did not get that benefit in this quarter, which we had in the same quarter of the last year. On an annual basis, the figures look horrendous because in **2001** full year January to December we had a 25 crores gain in foreign exchange. Against that in the full year 2012 in foreign exchange we have loss of 47 crores. So, the net swing is 72 crores. If you add back the 72 crores to our results I think we are pretty okay as compared to last year, while we are certainly not happy. We want to go forward. So, the point I am trying to drive here is, while we have a lot of areas to improve, there are sectors which are impacting our results. We do not want to give excuses, but you have to understand – on rupee movement we have nothing that we can do. We have told you earlier and we wish to inform you once again and reiterate ABB India's policy, which is aligned with the Group, is to take foreign exchange covered, that is hedge all transactions, both on import and export at the point of commitment. We are not allowed to speculate. So our performance in terms of foreign exchange actually does not matter so much on what we do. We are compelled to take this cover and we believe on a long-term basis, this is a prudent and wise policy. So, without this foreign exchange we would have looked better and the power system repositioning has some impact, which we will talk about during our conversation.

Having said that, I think the product divisions which have improved are actually showing us the light at the end of the tunnel, and as the market improves, which we all expect the reform measures will push, because power sector and industry both are really struggling today, the results should look better as time goes by.

I would rather like to take more questions along with Bazmi and not take so much time to explain the situation any further. So, I would hand over to Venu to just say a few words about the power sector.

N Venu Good afternoon ladies and gentlemen. As you know, power sector in the last year was one of the worst hit sectors, very volatile due to the various issues, internal and external, and also policies from the government. As you know, the government has started working on that; they have accelerated various reforms to address this sector and the results of that is yet to be seen. As Amlan said during the call, we have also taken a decision to reposition this power sector business both globally, as well as locally, you may be also wanting to know what exactly this means. Basically, what we are talking about is that we are going to take this division towards refocus on higher value and higher ABB content project and services, what we offer and also towards the low average business. And this also means that going forward, we are looking at a higher margin target corridor in that. So, that is basically what we are talking about, by repositioning of the power division. But just coming back to the market side, while a lot of reforms which get sorted by the government once again in the last couple of months, in our view will definitely give results in the next couple of months, our experience has always been whenever the new 5-year plan started here, it is always given as a higher number of orders from both government as well as private sector. We really hope, that at least in the second half of this year, those results would really transform into a reality soon. So, I would just hand over to my colleagues on the automation side.

Priteesh Mahajan Good afternoon ladies and gentlemen. Just a quick update, I mean if we look at really the automation or the industry business, I think it is really two parts of the business and we are seeing different impact of the market on both. One would be on the system side, so I would say a few words on the larger projects that we handle and Narayanan would then add on the products side. So, clearly if we look at industry, we are all aware the capital investment in the Indian economy has been going down, so we are directly affected by the slowdown in the capital investment. So, this has had an impact on the new projects that we are seeing, which has been quite limited compared to the past, and also affected by the slowdown and completion of project. So, like on the power side, the projects we have been executing on automation have been affected by delays in approvals and delays in execution. So, both these together have made it quite a challenging last few quarters on the industry side. Regarding the outlook, I guess it still takes a couple of quarters, when we see the impact of the reforms which have been rolled out to come in, based on which we hope to see an improvement going forward, maybe a few quarters down the line. This is basically on the system side. So, challenging environment, I think pretty tough environment at this point in time, and we need to monitor how we take this forward. Narayanan will share a few words on the product side.

R. Narayanan Good evening everyone. In Discrete Automation and Motion we actually had a mixed year. The core sector, that is steel, cement and others, there were not much of CAPEX investments, but in the new sectors where we have got into, for example solar, it was a very good year. Similarly, railways – we have developed new products where there was a lot of investment. Those two sectors actually helped us sustain the order levels, as well as the profitability. We also expect growth in some of the discrete manufacturing sectors and in the automobile sector, last year we had a good year with our robotics business. That is all. Thanks.

Vikram Kanth Thanks everyone. We will now take questions.

Moderator Thank you very much sir. We will begin the question and answer session for investors. Our first question is Renu Baid of B&K Securities, please go ahead.

Renu Baid The first question comes on the side of the power systems, as we highlighted both domestically as well as globally we are restructuring and repositioning the business, so with respect to this wanted some clarification first. What were the costs associated with this repositioning that we have decided to do and second, how different is this repositioning from what we were already doing, because as far as we understood, we were already focusing on higher content of ABB products in the existing projects, so how different is this strategy from what ABB was already doing for the last couple of years?

Bazmi Husain First of all, I would say it is a continuation of our focus, not a change of focus. Well, as you correctly said, we have been moving consistently in areas where we say we are looking for higher ABB content all along. Now as to how much was the impact of this thing, now we are not looking at this as an impact, which is just because it is not a restructuring as such, it is repositioning. So we are not restructuring it here, but as I mentioned earlier, because of the situation in the market and our accounting policy, we are taking the probations upfront and I also would like to emphasize that these are not cost overruns that we have incurred, but these are essentially costs associated with the delays which are now every quarter, I think you can read in the newspapers everyday that the infrastructure projects continue to get further and further delayed. And I gave you an indication as to how long the delays are, we are even looking at delays of 2 to 3 years which even let us say 4-5 months ago were not being, let us say, discussed. Now it is coming out that the delays are much larger than was originally being discussed. Coming back to the numbers overall, this year in Q4 alone we had totally about a 100 crores that was there in the project in terms of the probation that we had to take. There were also upsides in some of the projects. The upsides were of the range of around 40 crores, so we had a net impact of 60 crores this quarter because of our policy of seeing the delays and the policy of accounting for the delays that are there.

Renu Baid Sir how much was this amount for the calendar year 2012?

Bazmi Husain I will just get back to you on that. Can you ask the next question?

Renu Baid My second question is that we have seen that there have been headwinds with respect to order finalizations and inflows. And similar to last quarter I am sure the inflows were driven by short cycle orders. So as we start the New Year 2013 with lower inflows of approximately 15% and order book lower by 5% do you think next year we will be able to show positive growth in revenues?

Bazmi Husain Absolutely, I think that is a very good question. I want to cover that, but let me just get back to your other question about what is the total impact for the year. The total impact for the year is a little less than 80 crores.

Renu Baid Okay. This is a net impact.

Bazmi Husain Yes, this is a net impact. So, most of the impact really is the quarter 4. Now, coming back to your other question that we have been impacted by lower order decision making for the larger projects and how does it impact us looking into the beginning of the year. If you have a look at our backlog, our backlog remains very strong. As a matter of fact, in the coming year we will continue to focus more and more on shorter cycle, greater number of shorter cycle orders, because we do see that sometimes and that sometimes is hard for me to describe, whether it is one quarter, two quarters or four quarters or whatever it is – all the underlying needs, all the underlying drivers of the growth as a segment of the Indian market exist and continue to exist. None of those fundamentals have changed. What is unknown is what time does it take to forward that potential to start being realized. At that point in time, we want to make sure that we do not have backlog that has been taken in times where the orders were few. So, larger orders, I mentioned earlier that we have a cash over revenue policy, when it comes to the execution side, in terms of the order intake side, we certainly have a profit over volume policy.

Renu Baid But with respect to order book, the split between the projects and the product orders, how will it be, broadly be 50-50 or 60-40?

Bazmi Husain We can look at what is there. It will also depend on the market. If you look at our order intake, it is basically a reflection of the market. Market improves, we improve. What we are saying is basically we have enough backlogs to sustain the project businesses and we have enough market out there to grow the product business.

Renu Baid Sure, but broadly the split between the power and the automation in the order book…?

Bazmi Husain We have 55-45 power to automation. So, on a global basis we are pretty much even. In India it is really tilted and has been rightly so more towards power, because till you have power availability and delivery of power, etc., I think the rest of the industry will follow that, rather than lead that. So it will, I would say even for some time, be a little more tilted towards power.

Renu Baid Absolutely. And sir my last question, if you could elaborate a little more on the export side, we have grown by more than 20%, apart from the Middle East market – which have been the new geographies which have been added and how do you perceive the growth to pan out in the next couple of years?

Bazmi Husain I think first of all, our export focus is that there are certain product ranges for which we are the global factory. So, there are certain breakers for example, where we manufacture for the rest of the world. There are certain other products, where just one or two factories are manufacturing

for the rest of the world, and some of them are in India. So, it is a mixed bag, but in terms of where we have grown most, it is most in the Africa market that is the targeted area for us to grow and that is the way we are growing. Rest of the world I doubt, but our focus has been (export?) and I have mentioned that several quarters ago as well.

Renu Baid Sure, exports would be approximately what percentage of current year's revenue?

Bazmi Husain I think we can talk about that later.

Moderator Our next question is from Nirav Vasa of SBI Cap Securities. Please go ahead.

Nirav Vasa My first question pertains to the manpower cost. If you see for the second half of the calendar year, your manpower cost has decreased on YoY comparison? Is there any specific reason for the same sir?

Amlan Datta Majumdar It has decreased. There are multiple actions which have taken place. One is, actually we have been very much focusing on our talent management for the last two years. I mean, if you have attended our forum**33:00** you have heard about it. So, we have actually done a good optimization between cost and capability. That has helped us. Also, our overall people numbers are not increasing at all. It is actually declining. That is #1. I am sure you are not satisfied only with that answer. Let me go further - #2, we have been liberal in rewarding people who have been performing, while we have been a little conservative in evaluating the performance. That is, your performance is good, we are liberal, performance is not good we have not been very liberal. So, our overall increases in salaries have not been out of the loop. #3, during this year as you see at the end of the day, you see there is a marginal decline in the results from the last year. So, when we set our performance incentives, so, some of these performance incentives will not be earned by people, so we have actualized that. So, it is an impact of all the three. If you ask me what is the distribution amongst that, I do not have the figure right now, I would guess it is equal amongst all the great **factors (Unclear) 34:27.**

Nirav Vasa Continuing with the same question, what is the manpower on rolls as of now and the same number at the start of the calendar year?

Bazmi Husain Our total number of people at the end of last year was 6,926 and now it is 6,752. So, it is a reduction of 2.5%.

Nirav Vasa My second question pertains to the charges which have been paid by ABB India to its parent. I wanted to know the amount which ABB India has paid to its parent across all the charges, that would include charges for technology, charges for services everything, for calendar year and the corresponding number for the calendar year 2011?

Amlan Datta Majumdar Let me correct you a little bit here – from our perspective, there are basically two kinds of payments that we make. One is for the royalty and technology. These are very important

questions. Actually, it is good to explain this. When it comes to royalty and technology this is something, suppose we had been a local company, what we would have done,– because in this sector you need technology – we would have our own massive R&D setup. We would have spent money on that. Now instead of that, we are taking advantage of being a part of a global technology leader, where many of our R&D and technology initiatives are centrally done in another part of the world. So, if you equate that with other **fees**, say suppose you are paying all fees, there could be fees, suppose when we did 765 kV transformer first time in India we marketed it, we did not have capability locally to market that product. So, we got that capability from our European counterparts. They came here, they worked with us, they went to the customer and explained it, for that they charged you a fee. I mean, it is not free. So that is also a fee. Now if you say that is also a fee you are paying to your parent, I mean I am trying to understand your question from that aspect. Then I think we are not equating the same thing. So then suppose you are given market for export and then you do not want to deploy your own people there. Suppose you are given a market somewhere in Eastern Europe. I am taking a hypothetical example. So, we take people from our ABB countries there. Now we have to reimburse them. Now if somebody is going and picking up that figure from the accounts, you know it will be exhibited like that, then that is a different kind of payment that we are talking about. Now having said that, I want to give you the number which you will see in the published accounts. We have paid 191 crores as royalty and technology fees for the full year 2012 as against 168 crores which we have paid in 2011. In the current year, in terms of revenue that could be a simple measure for you to look at, though it is not calculated like that. In terms of revenue, it is 2.5% of the revenue of the current year and last year it was 2.25% of the revenue, because we have also brought in a few technologies, like when somebody talks about the product and localization of products. Few technologies we have brought in which have been given to us by our parents. So, from that perspective, there has not been a very massive increase in terms of percentage of revenues. We have other fees**,** actually I do not have that here, then have to add up within the parts of the accounts, maybe you can send these questions to Mr. Vikram Kanth later on. I will try to give, but do we pay fees like somewhere we have management support. I will tell you what is management support. To understand the technology, to understand the market, to understand globally what is the change, suppose we see in the US today, which will come to us in the next 3 months in India, so we need to have a management support, a marketing support for that. Suppose we are getting that from somewhere, we do pay money for that because if we want to get it from a consultant it will be a cost of 10 times more. So, these kinds of fees are there. For other fees you can write to Mr. Vikram Kanth – our Head of Communication who will give you the details.

Nirav Vasa

My last question pertains to the competitive intensity and your strategy. Sir, you have stated that you prefer cash, but what my understanding is that majority of your business comes from public sector units, especially in the power business. Now they would never speed up their payment just because some of their vendors are in need of cash. So how do you think this strategy of yours will work out in this competitive scenario and the second part of the question

is that because of the lower orders which are there on board, are you seeing competitive intensity to be such that the players are bidding at your irrational margins?

Bazmi Husain I think regarding the first one, yes we have a mix of customers. We have public sector and private sector both. But if you look at a large number of projects that are underway right now on the power side also, they are on the private sector side. The large power plants that are coming up etc., they are also in the private sector. It is no longer the case that only the public sector is building in the power sector. So what I said applies where we see a problem like that. When it comes to even public sector, however, I think enforcing the contractual terms even at the expense of things – that we will not proceed with this unless you honor the full contract terms, I think also helps. But you are right in that, the public sector is a different situation than private sector, where I would like to just highlight to you that a large number of infrastructure projects that are underway today, are actually in the private sector too. And regarding your other question about the fewer projects in the market, what would be the price levels, I certainly do not want to comment on the strategy that our competitors would apply or whatever, but we have a very clear policy of this debt **(Unclear) 42:16**, not this cash or revenue, but on the **(Unclear)** side profit over volume. So, if either the terms or we bid, we bid to win and to make money both. Now I do not want to comment on somebody else's strategy, but I do believe that is the only sustainable thing in the long run.

Nirav Vasa Sir, but now commenting on the private sector orders I am sure there must be some **there** or in several negotiated orders specially in the industrial section, so are you finding the intensities to be bit higher because those products have the power to go for the lowest one and squeeze out the vendor?

Bazmi Husain It is a competitive market out there. And at the same time I think our customers also recognize that infrastructure equipment is meant to last multiple decades. So, of course we have to be competitive and we continue to take all actions to be competitive regarding the market going up and down, this is not the first time it has happened, it is not the last time it will happen. We have survived these ups and downs. So these are, what you are asking is normal in any market, when the number of orders are low there is increased competitiveness, increased pressure on prices but that does drive increased efforts towards improving competitiveness and that is what we have been talking about – the operational excellence part of it. So, we are bringing our cost down itself to match it. Now at the same time, our focus is that we go all for profitable growth.

Moderator We will take our next question from Madan Gopal of Sundaram Mutual Fund. Please go ahead.

Madan Gopal My question is bit of a medium-term outlook, if we assess the market right now over the next two years, we see investments probably happening, given that other issues are there. Still we expect investments probably happening in railways, fertilizers, hydrocarbons, to an extent in private sector and even public sector. We keep on hearing a lot of things every day of some new L&G terminal getting announced and then pending investment in T&D in SEBs. Given

this kind of a scenario over the next two years, how **has** the localization by ABB India to address this market… probably power may not be doing as well as what these industries might do over the next two years. So, how is ABB management trying to address this issue in terms of localization to be competitive in the market, because there are other competitors as well who are in the market who are competing with you. So, my understanding is more the localization would be able to compete with them much better. So what is the strategy of the management in this aspect?

Bazmi Husain

First of all, this whole thing about new projects being announced is clear indication of the underlying demand that is there in this market. I mentioned that at the beginning of the discussion as well that all the fundamentals are in place. The current scenario that is there is clearly not something that is going to last forever. How long it is going to last is where the question marks are. So yes, new projects will come up for sure, not just in power but also in automation. Now when it comes to localization part, I think we have to look at localization, broadly speaking in the power and automation, a little bit differently. First of all, many of the items, if you take, let us say our motor business, we are the leaders of motor business there. We have been producing that, everything is localized. Everything is produced here. In fact, I would say in some of those areas we were much further ahead of the curve. So, I think that is one aspect of it. The second aspect of that is, that it is in that sense also far more engineering driven. And engineering is something that, not just for us, but I guess you just have to look at the newspaper and see that one of India's strengths is engineering, so there I would say the question is not how much do we localize, but how much of it is that we are doing for global opportunities across the ABB world also. So, that is also already very high. So, I think there I would say the issue is really more market opportunities beginning to come up as they come up in oil and gas, so cement and steel and in these markets we are the leading players, as the market develops I think we are clearly well placed. Have we reached complete limit of localization? Not at all, but what I am trying to say is that in the power side, India started going from 400 kV to 765 kV pretty much overnight. Right now there is already a discussion of going to 1200 kV. Now these are step changes. These are not step changes that are in automation part of the business. I think this is not measured in the same way. So, these are two different things. So, the localization impact is much more relevant for the power than it is for automation, #1. #2, we are already far ahead in the localization part. #3 it is more engineering driven and if you look at how much do we invest here in India, because when you are talking of localization, in the power side you see that is what you see in our results as a CAPEX, putting up a new factory, putting up other things. And this year we put up over 200 crores or something of that. But on an investment basis, from an ABB perspective, what we are investing in this country for the future, that is on an average, let us say if I take the last 5-6 years average, it is about a $100 million which is what – more like 500 crores every year. The rest of it goes into engineering, R&D, new algorithms, new automation solutions that we deliver here and across the world.

Madan Gopal Just on railways, what kind of opportunities you see in railways? Is it more to do with the signaling and electrification that we have products to offer for and can it be significant, say given in a metro project the size of what we win is relatively smaller even compared to the equipment that is coming up. So, are there many products that can come up, or is this the maximum that we can offer and then we have to focus more on localization only to improve our margins there?

Bazmi Husain Let us take railways, for example. First of all, we are not in signaling. But look at where we are in the railways. We do the electrification, if it is metros. If it is Indian Railways, there also we do the substations part of it, but also on-board the railways, on the train, in metros, we provide the transformers part of it. A lot of the transformers that are running on a metro in India are from ABB. If you are in Bangalore and you get onto Bangalore Metro, all the DC rail that is there that entire rectifier, transformer set which is there, which is making sure it is going to be running properly all the time, it is from ABB. If you look at Indian railways, (Inaudiable) which are there for the long distance trains of course turbo charger, any diesel locomotives that you see, think ABB because it is quite likely the turbo charger on that board is from ABB. You see electrical trains; we provide the power electronics part of it. Power electronics basically drives the **train,** motors part of it, the power electronics part of it. That is all the transformers part of it. These are all provided by ABB. So, we have a huge range of offerings in the railway segment, where we see metro is one part, but do not forget that Indian railways is the big brother that exists in that market.

Madan Gopal You have opportunities in dedicated freight corridor as well, do we see that or is it going to be -

Bazmi Husain As the dedicated freight corridor comes up, yes absolutely. All that I have described to you is needed there because as a train goes at more and more high speed, all these things become more critical. Let me give you an example. When you see a train, a train is a big thing, when it stops, what happens to all the energy of the train? Via power electronics it can actually get the energy back from the stopping train and feed it back to the grid. So, roughly speaking you can look at it like that, that up to about 20% to 25% of the energy can be recovered when a train stops, otherwise it will just go away as heat. So, as trains get faster and faster, this will become more and more relevant. So these are, I would say, technologies that we are pretty much the global leaders for.

Moderator Our next question is from H R Gala of Quest Investments. Please go ahead.

H R Gala Sir, reasonably good performance I would say if we were to adjust for the extra provisions and the FOREX impact. There were two observations. You said that you are holding back a lot of shipments that is why the revenue has been impacted. But in the results we do not see that your changes in inventory or finished goods and work in progress having increased substantially YoY.

Management 54.28 Actually when we do the planning also, we look at what the customer profile is and how he has the credit lines open for us. Accordingly, we have a meticulous planning of the inventory by which we manage inventory capital also.

H R Gala No, but what my question was that I do not see increase in inventory, although you said that you are holding back onto the shipments because cash is not forthcoming.

Amlan Datta Majumdar We will not see that because when we are supplying, suppose in a power project **(Inaudible) 54.49** of plants, or in a substation or even in an industry project, in a cement plant. Suppose my customer says I will open the LC on such and such date and he does not. So, on that **(Inaudible) 55:05** if he does not open, we do not pass some imported materials, we do not order. We do not tell our suppliers to deliver because we have suffered heavily at one point. If you had seen our results two years back our inventories were piling up **like hell** because we had ordered the material, we could not stop the supplier, we did not have that arrangement. But now we have arrangement.

Bazmi Husain Let me put it the other way round. If we had revenue there, you would have seen much improvement in our inventory. So, all the activities that we have done do not reflect on the inventory remaining flat, because we were not able to ship out some of the materials, and as Amlan said, some of the material is really – also given this wide nature of the contract – is not our own equipment, but we basically had third party supplies.

H R Gala So that third party supplies do not come into your books.

Amlan Datta Majumdar It will come depending on what we have done. If I have not asked him to ship it will not come in my books, **(Inaudible) 56:30** an arrangement we have arrived.

H R Gala Sir, overall how do you see 2013 from way of the revenue growth perspective and the margins? I do not want any numbers, but if you can give your thought process?

Bazmi Husain First of all, as I said, our guiding philosophy for 2013 is profit over volume and cash over revenue. That is our guiding philosophy. Second thing, focus on growth areas – service, exports, new areas such as solar. In 2012 we shipped over 225 megawatt of solar inverters in the market. That pushed us pretty much neck to neck as #1 inverter supplier in the market. So, in 2010 if you recall, we had just started. 2010-end we were just like, maybe a few megawatts. So, we have grown rapidly in that. Data center is another area. We are executing, right now we see a lot of activity coming up in India for data centers. You are aware that in many of the markets now India is a growth market for data centers. I think that will continue to grow. A data center, current data center, is being built in India. Each data center would be in the range of about 20 MW to 30 MW of power consumption. Large data centers which are under discussion are 100 MW of power. So these are like small cities or small industries. So, each data center is, from that perspective, a huge opportunity for us. So, I think focus on growth markets, focus on growth areas like service, new areas – solar, data centers, energy efficiency.

We see increased activity coming up. In the large capital thing, I think 2013 is going to be challenging. I think it all depends on what actions the government takes, what actions there will be, I think are pretty much well-known, and the government is probably the best to decide that. But, we are hopeful that they will take the action because that is going to be needed to spur the growth. Regarding our own situation, as I said our backlog is good. In my opinion, I think to tell you the truth, it is good that we are in a situation that we take out all the backlogs, because clearly we are betting on the fact that the markets will turn around. When, we do not know, but when that happens we need to have the capacity to quickly deliver in a good market.

H R Gala How much CAPEX are we planning to incur in 2013?

Bazmi Husain We have averaged a $100 million of investment in this country every year. We do not see that going down at all.

Moderator Ladies and gentlemen due to time constraints that was our last question. I would now like to hand the floor back to Mr. Vikram Kanth for final remarks.

Vikram Kanth Thank you ladies and gentlemen to take the time to attend this conference call. Should you have any questions, please feel free to email them to me and we will get back to you with all the answers. The transcript of this call will be put up in the Investor Relation section on our website the following week. Thank you and have a good evening.

Moderator Thank you very much. Ladies and gentlemen thank you for choosing Chorus Call's Conferencing Service. This concludes the conference call for analysts. For further updates on ABB in India you can follow ABB India on Twitter. The account name is @ABBIndia. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.