

ABB

NEXT LEVEL STAGE 3, CAPITAL MARKETS DAY, OCTOBER 4, 2016

Committed to unlocking value

Ulrich Spiesshofer, CEO

ABB: the pioneering technology leader

What <i>(Offering)</i>	Pioneering technology		
	Products 59%	Systems 24%	Services & software 17%
For whom <i>(Customers)</i>	Utilities	Industry	Transport & Infrastructure
	~35% of revenue	~40% of revenue	~25% of revenue
Where <i>(Geographies)</i>	Globally		
	Asia, Middle East, Africa 37%	Americas 30%	Europe 33%
	~\$35 bn revenue	~100 countries	~135,000 employees

Attractive markets: Energy and Fourth Industrial Revolutions

The Energy Revolution



The Fourth Industrial Revolution



Utilities

Industry

Transport & Infrastructure

Attractive customer dynamics

Utilities	Industry	Transport & Infrastructure
<p>~\$7 trillion renewables investment next 25 years</p>	<p>26 bn things connected by 2020</p>	<p>>63% urban population by 2050</p>
<p>300 HVDC projects planned</p>	<p>18% p.a. growth machine-to-machine industry 2020</p>	<p>Smart home market to triple to ~\$36 bn in 2020</p>
<p>\$5 bn microgrid market 2025</p>	<p>2.6 mn industrial robots by 2019 from 1.2 mn today</p>	<p>Energy management market to more than double to \$44 bn by 2020</p>
<p>~50% CAGR stationary energy storage (GWh)</p>	<p>~30% CAGR cloud computing infrastructure and platforms</p>	<p>>50% of cars sold in 2030 will be electric</p>

ABB uniquely positioned to benefit from these dynamics

Our pioneering technology leadership places us
at the heart of the Energy and Fourth Industrial Revolutions

The opportunity is now – and we are ready

Agenda

Introduction

Next Level Stage 1 and 2 – delivered

Next Level Stage 3 – committed to unlocking value

Conclusion

Addressing our key challenges

Profitable Growth

2013

Lack of organic growth focus

Today

New growth mindset gaining traction (PIE¹ approach)

Relentless Execution

Underperforming units

Fat and inefficient white collar organization

Inadequate cash culture

Static, lack of accountability

All four divisions in margin corridor

Well on track to \$1 bn White Collar Productivity savings

Significantly reduced net working capital

>70k people on new performance / compensation system

Business-led Collaboration

Complex organizational setup

Simpler, customer-focused organization

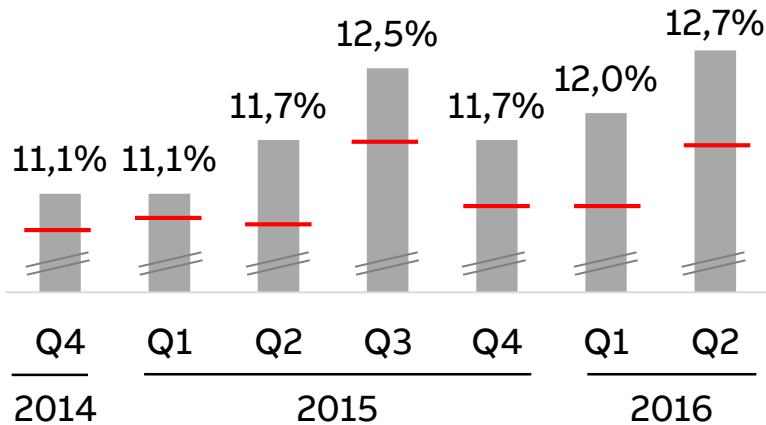
ABB ready to deliver on growth

Business transformation delivering

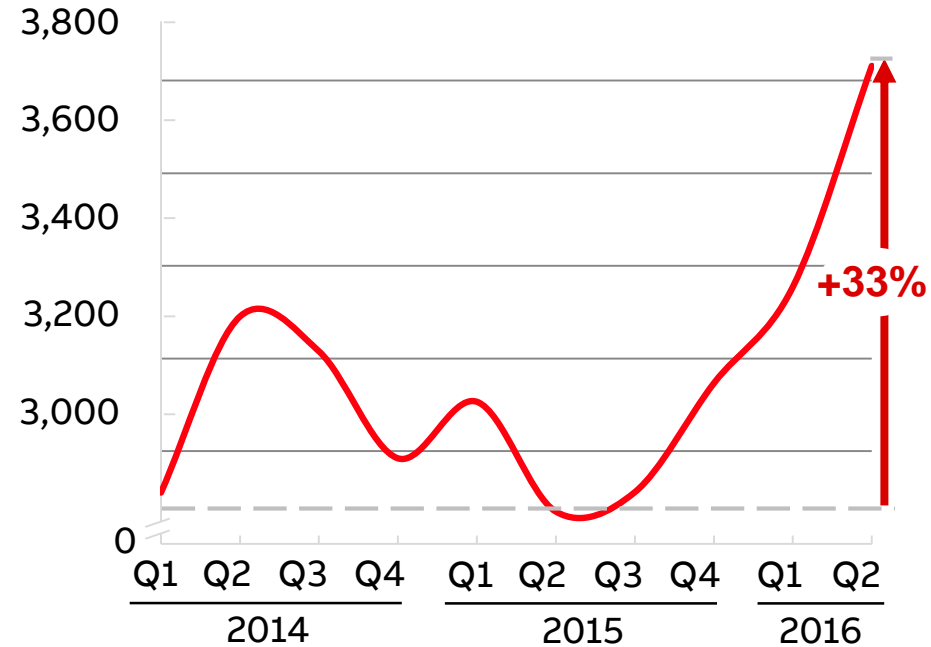
Building momentum

7 consecutive quarters of margin improvement

— Op. EBITA margin, year-on-year (in average 70 bps)



Improved free cash flow generation, 4Q rolling, in \$ mn

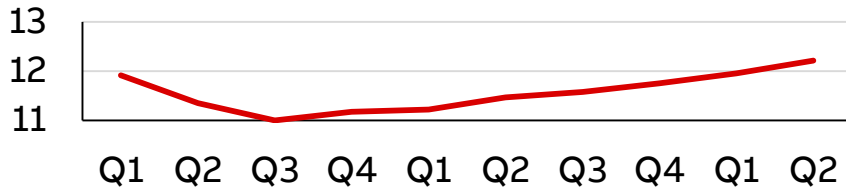


Returned \$8.7 bn¹ of cash to shareholders over the last three years

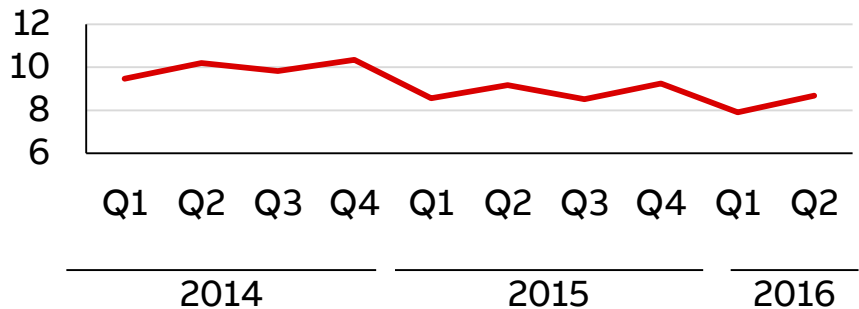
Our key challenge

Combine margin improvement with growth to drive EPS

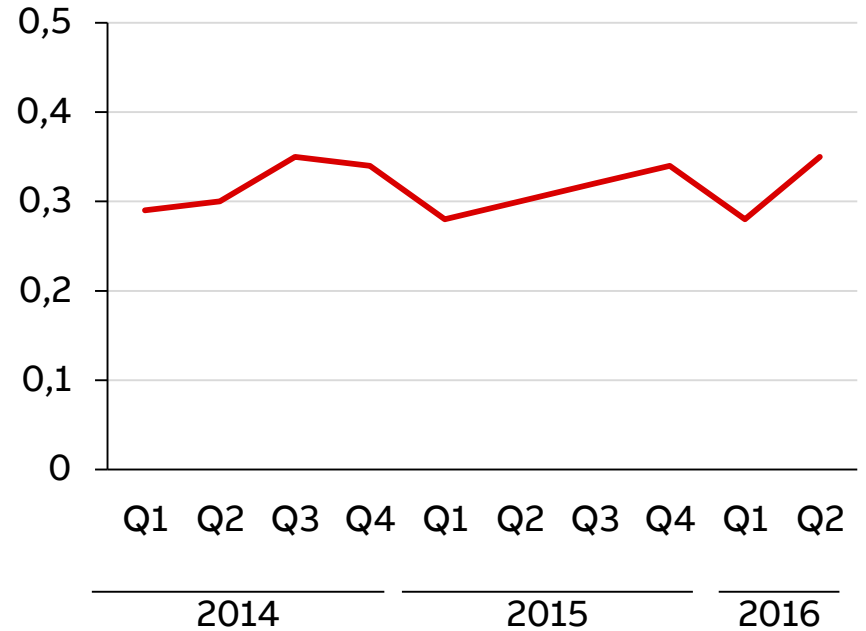
Operational EBITA margin, 4Q rolling, %



Revenue, quarterly, \$ bn



Operational earnings per share, quarterly, \$



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Next Level Stage 3 – committed to unlocking value

Four actions

**Profitable
Growth**

1 Driving growth in four market-leading entrepreneurial divisions

2 Quantum leap in digital

**Relentless
Execution**

3 Accelerating momentum in operational excellence

**Business-led
Collaboration**

4 Strengthening the global ABB brand

Delivering attractive shareholder returns

Next Level Stage 3 – committed to unlocking value

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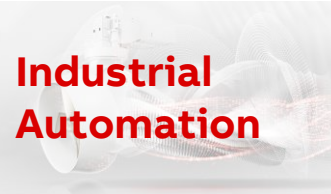

**Business-led
Collaboration**

4 Strengthening the global ABB brand

Delivering attractive shareholder returns

Four market-leading entrepreneurial divisions

All businesses in #1 or 2 positions

	Partner of choice for...	Market size ¹ and growth	Position	Revenues ²	Top 3 competitors
 <p>Electrification Products</p>	...electrification of all consumption points	~\$140 bn 2 – 4%	#2 in electrification	\$10.2 bn	Schneider Legrand Eaton
 <p>Robotics and Motion</p>	...robotics and intelligent motion solutions	~\$110 bn 3 – 8% ³	#1 in motion #2 in robotics	\$8.3 bn	Siemens Fanuc Kuka
 <p>Industrial Automation</p>	...industrial automation	~\$120 bn 1 – 3%	#1 in process control	\$7.4 bn	Siemens Emerson Schneider
 <p>Power Grids</p>	...a stronger, smarter and greener grid	~\$110 bn ⁴ 3 – >10% ⁵	#1 in T&D	\$11.6 bn	Siemens GE Hyundai

Focusing four market-leading entrepreneurial divisions

Focusing four market-leading entrepreneurial divisions


Main changes



Electrification Products

Bringing together all electrification components within ABB
Investment in growth platforms (renewables, EV charging, power quality)

Solar inverters
EV chargers
Power Protection¹
(from DM)




Robotics and Motion

Simplify and focus portfolio
Aim to #1 position in fast growth robotics segment from current #2
Shape #1 position in industrial motors, drives



Industrial Automation

Drive digitalization across industry-sectors
Build on #1 position in process control



Power Grids

Focus on high growth, digitalization as part of “Power Up” program
Prune niche non-core, e.g. cables
Grow with de-risked business model: partnerships, e.g. in EPC

Next Stage of performance management and compensation

“Entrepreneurial spirit” as basis for operating model



Electrification Products



Robotics and Motion



Industrial Automation



Power Grids

Guiding spirit

- Division Presidents fully responsible and accountable entrepreneurs
- Live our values: “ownership and performance”

Performance management

- Market share, growth, earnings, CROI as key drivers
- Stronger emphasis on individual / business performance
- Simplified, streamlined management processes

Compensation

- Bonus of business units 100% tied to individual / division performance
- “One level up” – team component instead of group scorecard
- Group reward via existing equity elements

Power Grids – strategic portfolio review

Decision: continued transformation under ABB's ownership

Market attractiveness?

“Highly attractive”

Offering?

“Leading business with large potential for differentiation and digital”

Business model?

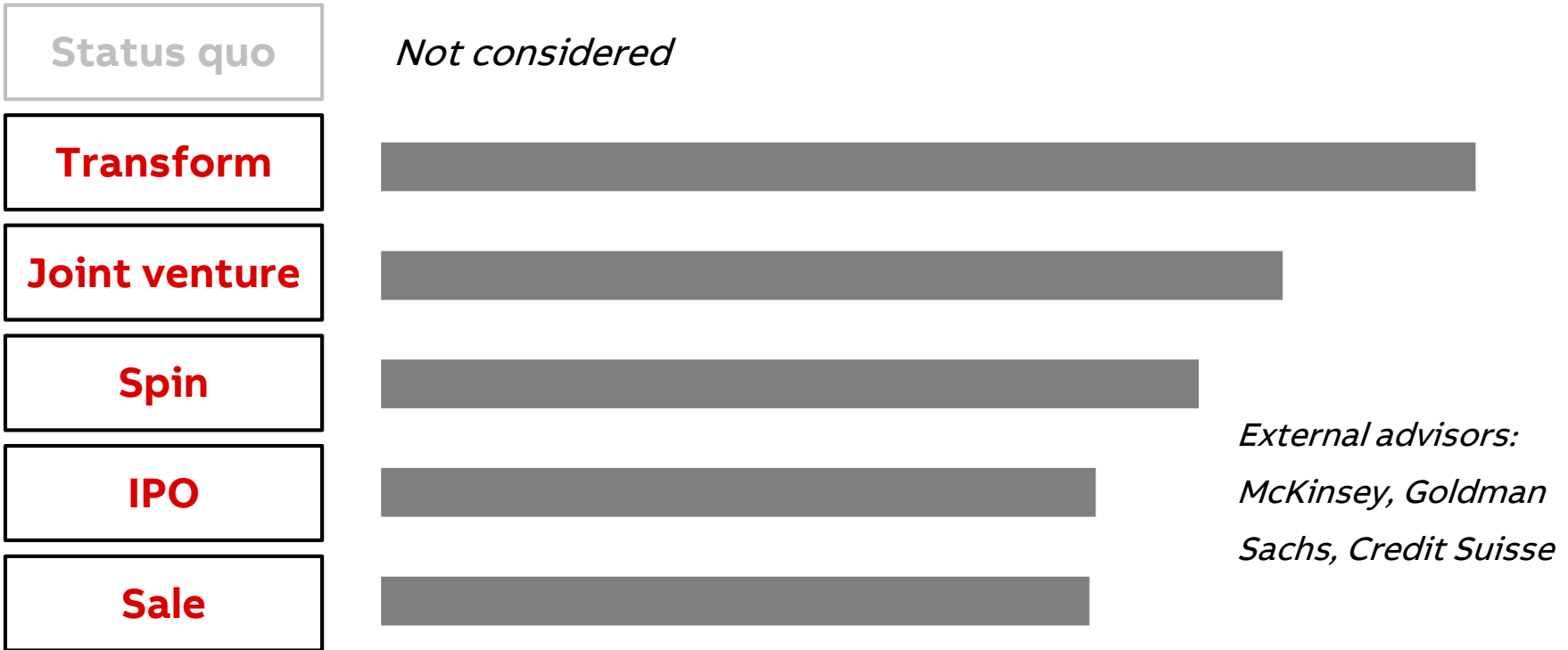
“Transformation to capture growth potential and reduce risk”

Ownership?

“Significant value upside for ABB shareholders”

Power Grids – ownership review

All options evaluated to determine maximum value creation potential for ABB shareholders

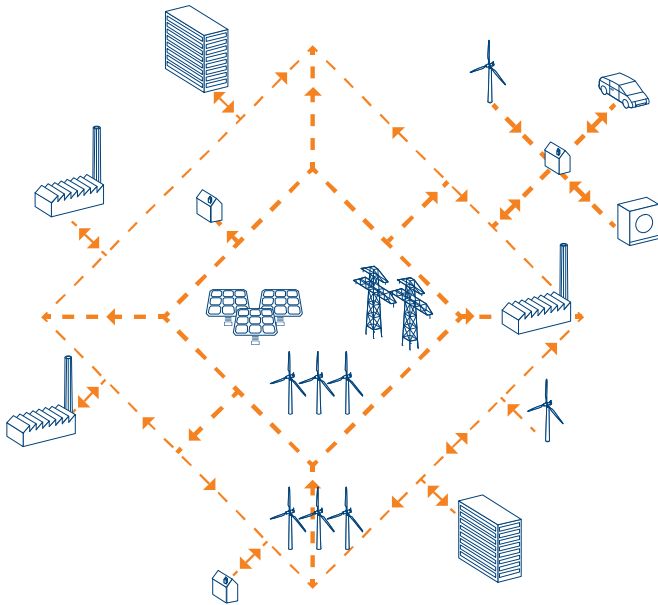


Transformation highest value creation potential

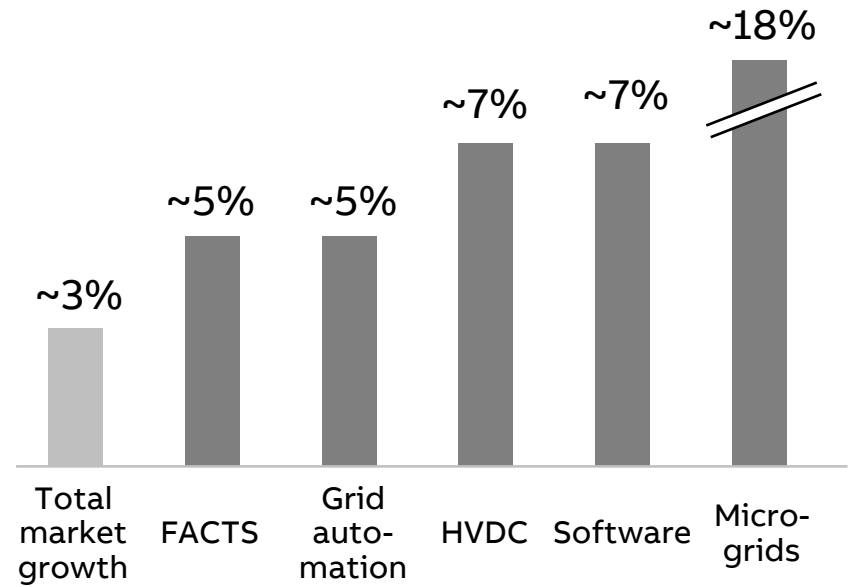
Power Grids – market attractiveness

30% of market is in high growth segments

Big shift towards the digital grid



Attractive market of \$110 bn¹

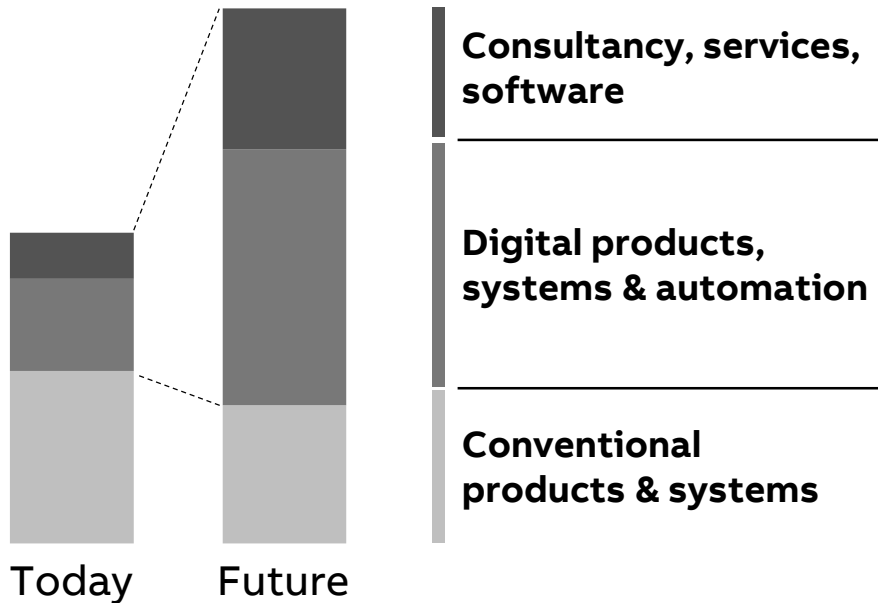


Building on market leadership

Power Grids – transformation

Offering mix change

Illustrative



Double % of revenues from software and services to >30%

Fully digitalized product portfolio

#1 in grid planning

#1 in grid automation & software

#1 in renewables & storage integration

#1 for quality, delivery, operations, NWC

Capture growth potential, reduce risk

Power Grids – shaping the business model

Partnering to grow & de-risk

EPC¹ large substation global partnership with Fluor



Offshore Wind Grid Connections partnership with Aibel



Portfolio pruning

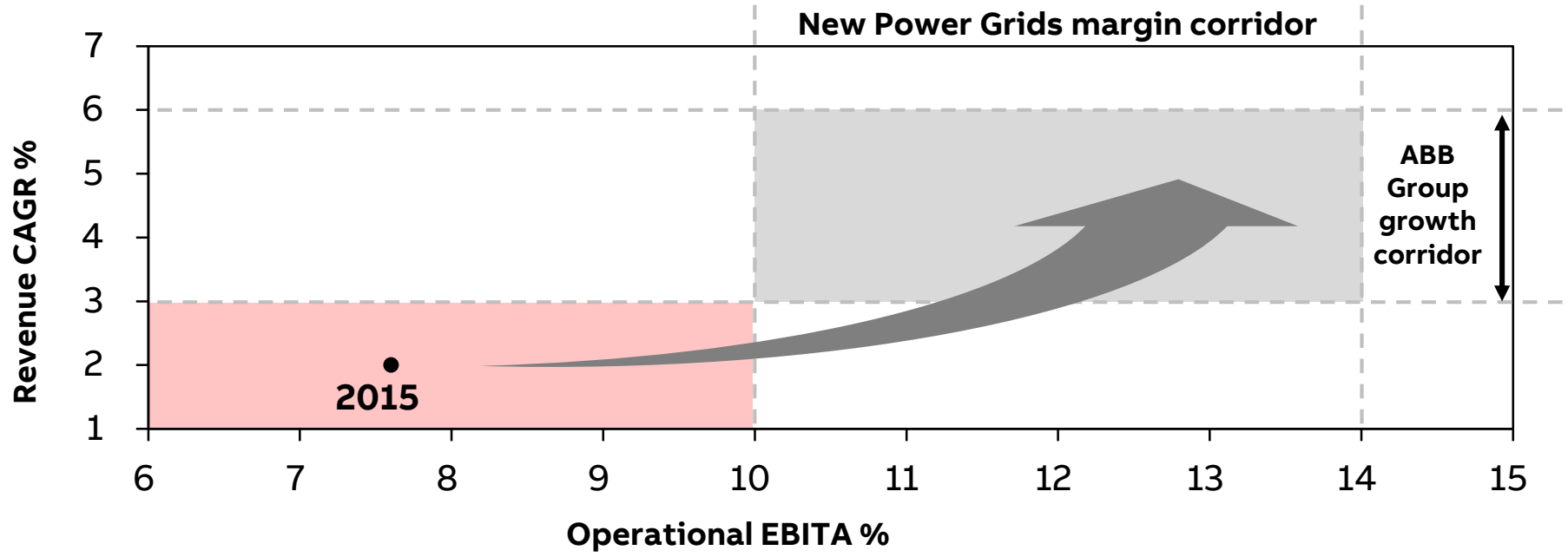
HV Cable divestment to NKT Cables²



Long term strategic partnership

Power Grids – “Power Up” transformation program launched

Our commitment to significant value creation



Increasing operational EBITA target margin corridor to 10 – 14% effective 2018

Next Level Stage 3 – committed to unlocking value

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2 **Quantum leap in digital**

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What does it take to win in digital?

Mastering the control room



From physical to digital differentiation

Today: ABB – a “hidden” digital champion

Large, global software and digital offering



>55% of ABB’s sales from software and digitally enabled devices

ABB AbilityTM

For our customers

Uptime, speed and yield

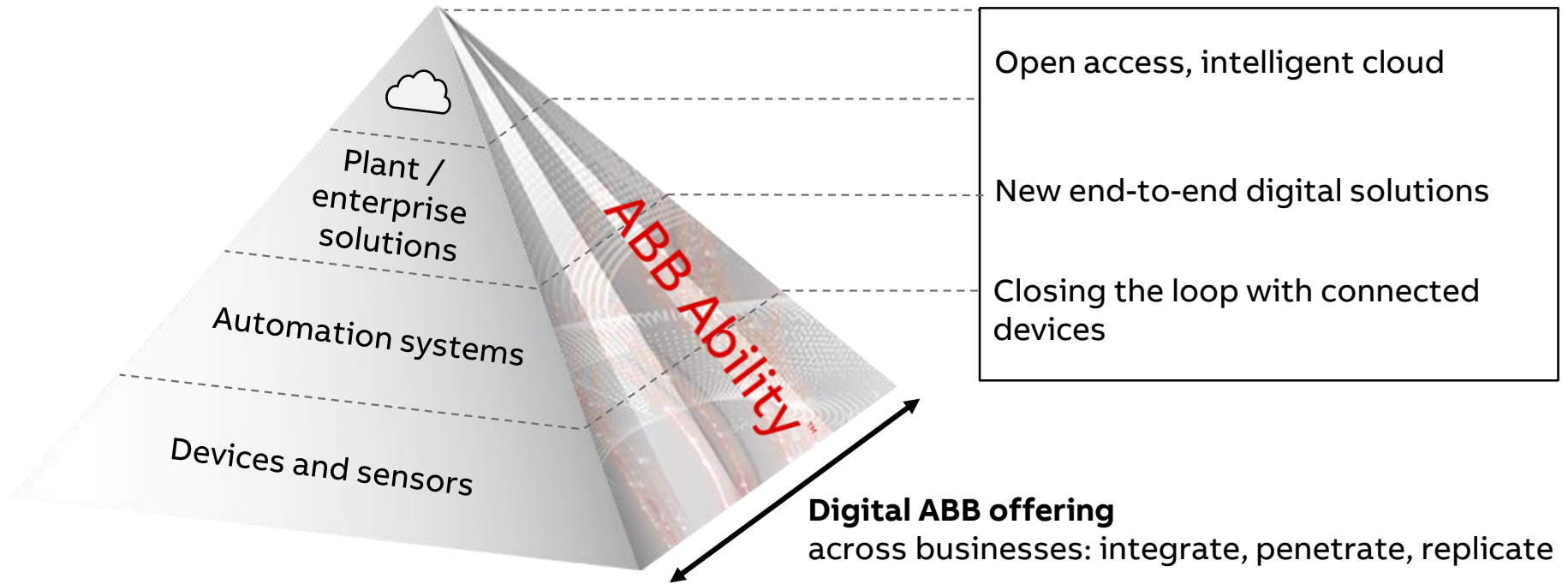
For our four divisions

Time-to-market, scale

Quantum leap in digital: ABB Ability™

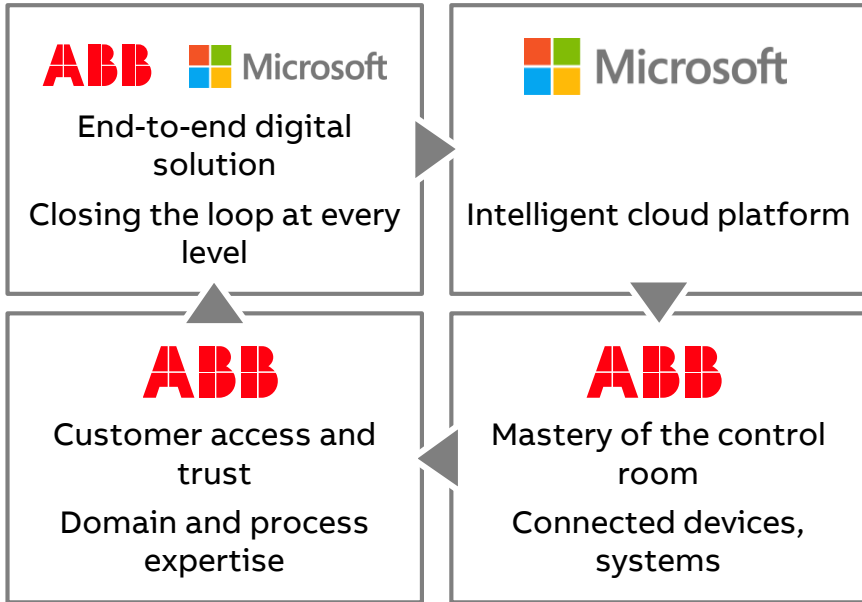
Creating one common offering for digital end-to-end solutions

Build on customer trust, domain expertise, deep process knowledge



Far-reaching partnership with Microsoft

Developing next-generation digital solutions



Customer benefits

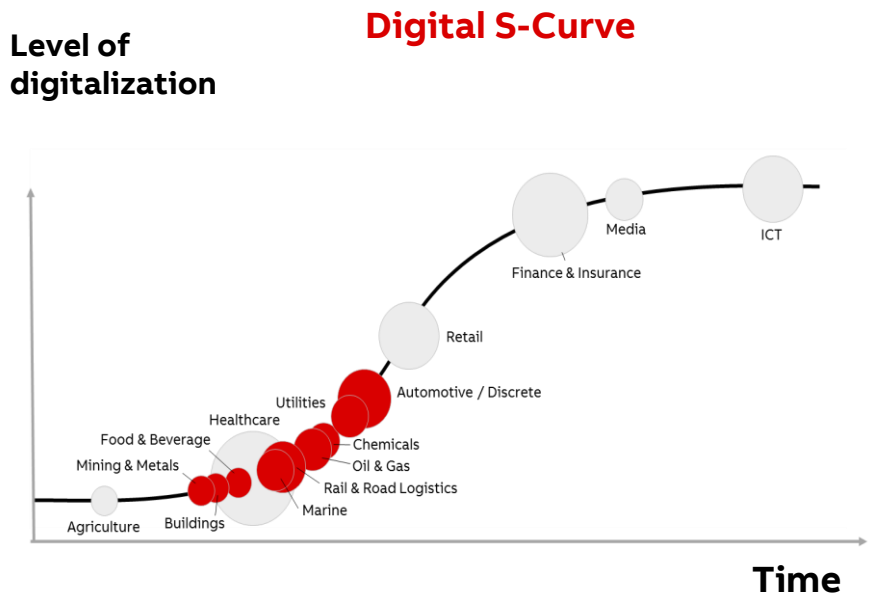
Integrated digital platform –
from device to system to cloud

Combined strength –
each partner leading in its respective area

Together building the world's largest industrial cloud platform

Significant digital opportunities for ABB

ABB's end-markets are at the beginning of digitalization



> \$20 bn

annual business opportunity to be captured

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Delivering attractive shareholder returns

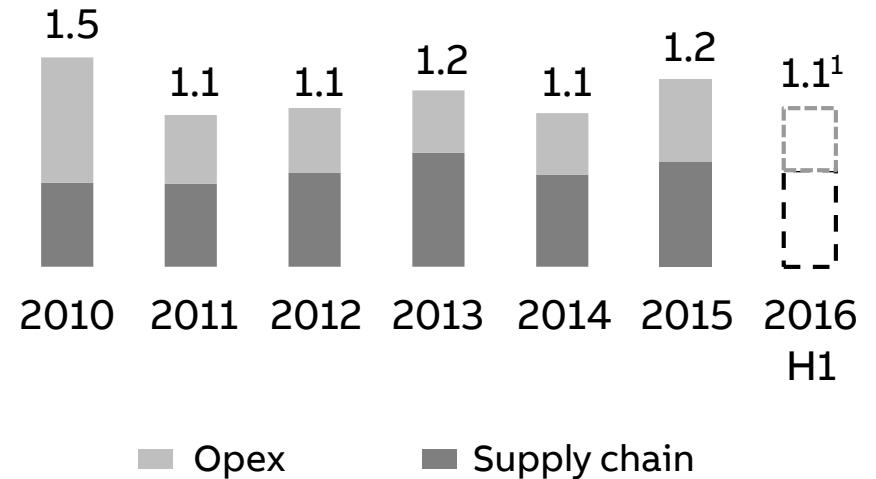
Accelerating momentum in operational excellence

SCM: leveraging scale

Example: Share of SCM spend categories by division

	EP	RM	IA	PG
Logistics	30%	27%	9%	35%
Indirect Spend	27%	24%	16%	34%
Copper and Aluminum	25%	34%	1%	40%
Carbon Steel	20%	24%	3%	53%
Electronics	34%	29%	14%	23%

Opex and SCM savings, \$ bn p.a.

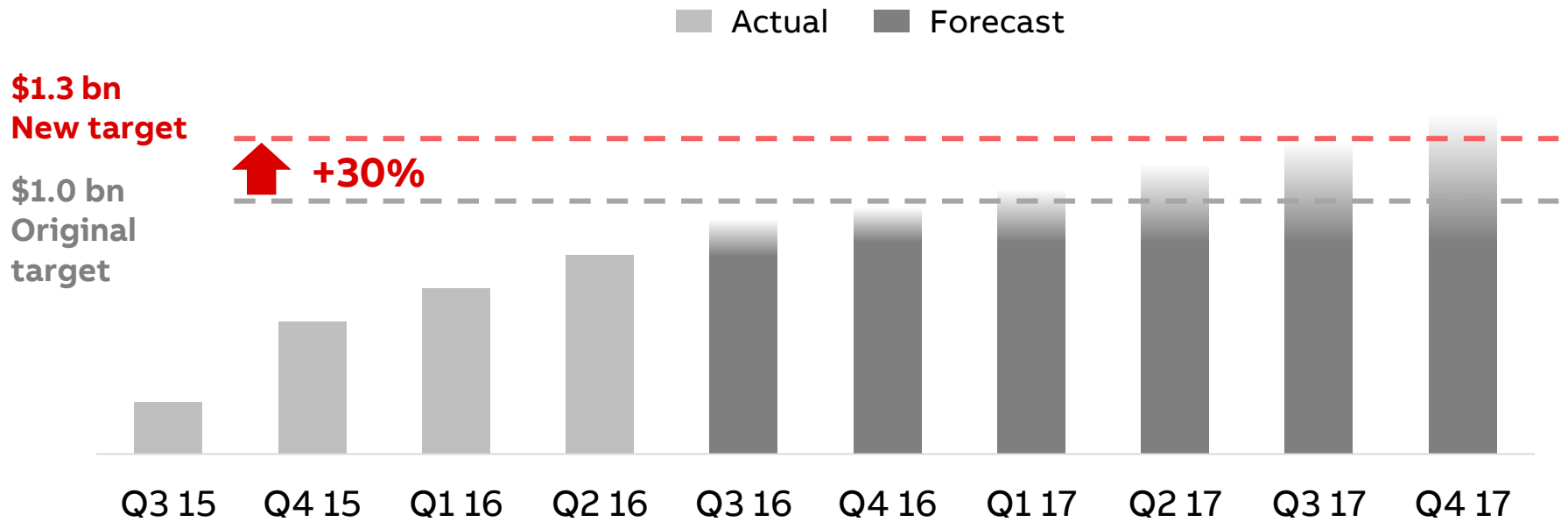


All cost programs on or ahead of plan

Accelerating momentum in operational excellence

White Collar Productivity raising target to \$1.3 bn

Run rate savings in \$ mn – illustrative



Target raised to \$1.3 bn – timeline and costs unchanged

Operational momentum increasing

Operational targets of existing programs

Opex and supply chain management savings programs – 3 – 5% of COS¹ per year

White Collar Productivity target increased by 30% to \$1.3 bn² – timeline and costs unchanged

Net Working Capital program confirmed – \$2 bn reduction by 2017

From initiative-driven optimization to Leading Operating Model

Contributing to 10 – 15% operational earnings per share growth target

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Strengthening the global ABB brand

Delivering attractive shareholder returns

Strengthening global ABB brand

Consolidation of 1,000+ brands under one roof

Selection

BALDOR
A MEMBER OF THE ABB GROUP

 **BUSCH-JAEGER**

 **Van Lien**

[L G R]
Los Gatos Research
A MEMBER OF THE ABB GROUP

Thomas&Betts
A Member of the ABB Group

STRIEBEL & JOHN
EIN UNTERNEHMEN DER ABB GRUPPE

ELBI
A MEMBER OF THE ABB GROUP

 **JENNINGS**
TECHNOLOGY.

 **GRESIN**

 **KPM**
A MEMBER OF THE ABB GROUP

TRASFOR

 **Dynamotive**

MANROSE
For proven reliable ventilation solutions

 **ELMEK**
ABB Grubu üyesidir

Bob White
Electrix

KAUFEL
Stromversorgungssysteme

Spirit 
A MEMBER OF THE ABB GROUP

ABB

Prerequisite for value creation of digital offering

—

Let's write the future. Together.

Profitable Growth

**Relentless
Execution**

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Confirming Group targets 2015 – 2020

Group		Divisions	
Revenue growth ¹	3 - 6%	Electrification Products	15 – 19%
Operational EBITA % ²	11 – 16%	Robotics and Motion	14 – 19%
Operational EPS CAGR ³	10 – 15%	Industrial Automation	11 – 15%
FCF conversion to net income	>90%	Power Grids	New: 10 – 14% ⁵
CROI % ⁴	Mid-teens		

Committed to attractive shareholder returns

Second share buyback program of \$3 bn planned for 2017 – 2019

Capital allocation priorities remain unchanged

Fund organic growth, R&D, capex at attractive CROI

Stronger portfolio perspective in investment and capital allocation

Steadily rising sustainable dividend

Core of our value proposition to shareholders in difficult times

Value-creating acquisitions

Balance attractiveness, availability and internal readiness

Returning additional cash to shareholders

Initiate \$3 bn three-year share buyback

ABB at the heart of the Energy and Fourth Industrial Revolutions

Our four market-leading businesses,
led by empowered entrepreneurs,
drive sustainable value creation...

...supported by regions and Group 'oxygen'

—

ABB