

## ABB launches Next Level strategy

- Accelerated sustainable value creation of leading power and automation portfolio
- Shift in center of gravity driving profitable organic growth, strengthening competitiveness and lowering risk
- Improving performance through leading operating model
- Driving change through 1,000 day programs
- Future company and Executive Committee structure aligned with new strategy
- Undiluted global business lines as core of ABB
- Peter Terwiesch appointed to Executive Committee as head of Process Automation
- Market focused, streamlined regional structure
- From 8 to 3 regions, led by experienced EC members: Frank Duggan for Asia, Middle East and Africa; Greg Scheu for Americas; Veli-Matti Reinikkala for Europe
- David Constable, CEO of Sasol, nominated to Board of Directors
- New targets focused on attractive shareholder returns
- Shareholders participate in strong cash generation through \$4 billion share buyback

London/Zurich, September 9, 2014 – ABB today presented its Next Level strategy and financial targets for the 2015-2020 period aimed at accelerating sustainable value creation. The strategy is building on ABB's three focus areas of profitable growth, relentless execution and business-led collaboration. In the next period, the company will drive profitable growth by shifting its center of gravity toward high-growth end markets, enhancing competitiveness and lowering risk in business models.

The company expects to grow operational earnings per share (EPS) 10-15 percent CAGR and deliver attractive cash returns on investment (CROI) in the mid-teens over the period 2015-2020. It targets to grow revenues on a like-for-like basis on average 4-7 percent per year, faster than forecasted GDP and market growth. ABB plans to steadily increase over the same time period its profitability now measured in operational EBITA within a bandwidth of 11-16 percent while targeting an average conversion of the annual free cash flow above 90 percent. The new financial targets take effect on Jan. 1, 2015.

"Our Next Level strategy will focus on actions centered on accelerating ABB's organic growth momentum, margin accretion as well as enhanced capital efficiency to deliver greater shareholder value," ABB CEO Ulrich Spiesshofer said. "We are shifting our center of gravity towards higher growth segments while enhancing competitiveness and lowering risk particularly in our Power Systems division. We are increasing the customer focus of our organization by streamlining it for greater agility and speed. We will drive change with focused 1,000 day programs to ensure a successful implementation."

ABB will continue to build on its leading power and automation portfolio, which will be managed in its business units under the leadership of the five divisions. As of January 2015, its regional structure will be streamlined to three regions responsible for customer collaboration, shared services and the related countries. "These moves will improve customer focus as well as productivity, result in clear responsibility and accountability and drive market oriented collaboration," said Spiesshofer.

In line with its Next Level strategy, the company is aligning its Executive Committee (EC) structure. Peter Terwiesch, currently head of ABB in Central Europe and Germany, has been appointed EC member responsible for the Process Automation division. The three newly created regions will be led by experienced EC members – Frank Duggan (Asia, Middle East and Africa), Greg Scheu (Americas) and Veli-Matti Reinikkala (Europe). All changes are effective Jan. 1, 2015.

# Press Release



David Constable, the CEO of Sasol, has been nominated to the Board of Directors for election at the 2015 Annual General Meeting. He brings a wealth of experience to the Board in EPC businesses and process industries as well as strong links to Africa, an important growth region for ABB.

“Our share buyback program announced today allows shareholders to directly benefit from the continued solid cash generation of our businesses as well as our recent pruning of non-core businesses, and is a strong sign of our commitment to continuously delivering attractive shareholder returns,” Spiesshofer said. “In addition, it is a strong vote of confidence in the future growth potential of ABB.”

# Press Release



Shareholders will participate in ABB's strong cash generation through a share buyback program of up to \$4 billion expected to commence on Sept. 16, 2014. The company intends to allocate approximately three-quarters of the buyback program to a reduction of share capital and the remainder to support its employee share programs globally with a total of more than 22,000 participants.

## Next Level strategy

ABB's Next Level strategy is based on the company's three strategic focus areas of profitable growth, relentless execution and business-led collaboration.

ABB Next Level – 2020 targets <sup>1</sup>	
Revenue growth <sup>2</sup>	4-7%
Operational EBITA % <sup>3</sup>	11-16%
Operational EPS growth CAGR <sup>4</sup>	10-15%
Free cash flow (FCF) conversion to net income	>90%
CROI %	Mid-teens
Operational EBITA % 2015-2020 divisional targets	
Discrete Automation and Motion	14-19%
Low Voltage Products	15-19%
Process Automation	11-15%
Power Products	12-16%
Power Systems <sup>5</sup>	7-11%

## Profitable growth

ABB is well positioned in attractive customer segments. Its combined power and automation portfolio targeting greater customer value continues to be the core of the Next Level strategy. The market for power and automation in the utilities, industry, and transport and infrastructure sectors exceeds \$600 billion per year and is expected to grow faster than GDP from 2015 to 2020, adding roughly \$150 billion of incremental market opportunities.

<sup>1</sup> For definitions refer to "Supplemental Financial Information" under "Capital Markets Day 2014" – "More information" on our website at [www.abb.com/investorrelations](http://www.abb.com/investorrelations)

<sup>2</sup> Average annual revenue growth on a like-for-like basis, over six years, base year 2014.

<sup>3</sup> Target is on a full-year basis

<sup>4</sup> CAGR = compound annual growth rate. Base year is 2014 and assuming constant exchange rates.

<sup>5</sup> The margin target for Power Systems will be in effect as of Jan. 1, 2016, after concluding the "step change" program

Key drivers are the big shift in the electricity value chain, industrial productivity improvements as well as rapid urbanization and the need for energy efficiency in public transport. The company plans to grow ahead of the market by driving its PIE (penetration, innovation and expansion) initiatives on penetration of existing and expansion into additional high-growth market segments. Continued strong investments into R&D of at least \$1.5 billion annually will create innovations for customer value, addressing the big shift in the electricity value chain and the opportunities of the fourth industrial revolution.

ABB's global growth opportunities across its businesses have been identified using the "heat map" approach launched in 2013.

ABB expects about three quarters of its future incremental revenues to come from industry as well as transport and infrastructure with a significant emphasis on its strong service offering, supporting the strategic shift in the center of gravity of ABB's regions and end markets. Over the strategic period the company will shift its center of gravity towards strengthened competitiveness, higher organic growth momentum and lower risk.

ABB's strong competitive position will be further enhanced by expanding the customer value proposition into engineering/consulting, software and value added services. It will further accelerate its software-led differentiation, building on a well-established base as the majority of its offerings are already software related.

## **High growth segments and PIE**

ABB is well positioned to access high growth segments in its customer end markets. In utilities, the strong emergence of micro-grids and the transformation towards a digital grid; in process industries such as oil and gas and mining, the design of facilities of the future; and in transport and infrastructure, the rapid growth of data center electrification and public transport, are only a few of the examples for high growth opportunities.

ABB will build on its success in increasing customer satisfaction to realize the benefits of these opportunities. This is seen in an increase in the customer satisfaction measure Net Promoter Score (NPS) of 30 percentage points over the last four years to 46 percent in 2014 and the strong order momentum in the first half of the year. This momentum will be maintained and further enhanced by driving the application of the promising PIE approach to the next level.

Together with its strong focus on organic growth, the company will contribute to the shift in its center of gravity with targeted risk mitigation of the identified business and portfolio risk profile. It will achieve this by changing business models, improving planning and execution in operations, and strengthening the existing alignment between performance and compensation. This will result in lower volatility, as well as higher predictability and profitability.

ABB will complement its strong focus on organic growth by building on its proven track record of successful mergers & acquisitions to identify and execute incremental acquisitions in line with the new strategy. In addition, targeted partnerships with complementary partners that offer a good cultural fit for increased customer value will play a larger role in driving growth in the future. First joint breakthroughs in this area include the cooperation with the leading Chinese technology group BYD on energy storage and electric mobility as well as with Philips on building automation.

## **Relentless execution**

ABB will base the execution of its strategic priorities on a comprehensive operating model, broadening its successful programs for cost reduction and supply chain management. Progress on the strategy will be closely tracked through the recently enhanced robust operational excellence and performance management system. This includes key financial and operational metrics, focused on customers, costs and cash. Management compensation will be directly linked to these measures. To drive the execution of all strategic initiatives and to support the overall implementation of ABB's Next Level strategy, 1,000 day programs will be launched, overseen by a program office reporting to the CEO.

## **Business-led collaboration**

ABB will give each business line undiluted global business responsibility to increase agility and customer focus to drive the Next Level strategy. A streamlined, market-focused regional organization and a new Executive Committee structure will take effect on Jan. 1, 2015.

Peter Terwiesch, who has been head of ABB in Central Europe and Germany since 2011, is appointed to the ABB Group Executive Committee as head of the Process Automation (PA) division succeeding Veli-Matti Reinikkala. Terwiesch joined ABB in 1994 and was Chief Technology Officer from 2005 to 2011, when he assumed his current role. A new country manager for Germany will be announced in due course.

The number of regions will be reduced from eight to three and will be under direct EC responsibility, removing one level of hierarchy:

- Asia, Middle East and Africa, led by Frank Duggan, who will also be responsible for Account Management across the ABB Group.
- Americas, led by Greg Scheu, who will also continue to lead Integration and Service across the ABB Group.
- Europe, led by Veli-Matti Reinikkala, who will also be responsible for the regional implementation and execution of our newly introduced shared services concept.

EC members responsible for divisions will assume the following additional leadership responsibilities for business functions across ABB: Supply Chain Management will report to Bernhard Jucker, head of the Power Products division; Quality and Operational Excellence will report to Tarak Mehta, head of the Low Voltage Products division; and Marketing and Sales will report to Pekka Tiitinen, head of the Discrete Automation and Motion division.

## **Capital allocation and balance sheet priorities**

ABB is committed to an efficient balance sheet and is strengthening its focus on capital efficiency. This goal is supported by a targeted net working capital program and the adoption of Operational EBITA as a key performance management metric.

"ABB intends to maintain a solid balance sheet to support the Next Level strategy. This will continue to position us as a reliable, long-term bankable partner for our customers," said CFO Eric Elzvik. "The share buyback of \$4 billion announced today shows our commitment to deliver attractive returns to our shareholder base."

The principles of capital allocation remain unchanged and reflect a solid balance between investing in profitable growth and providing returns to shareholders. Funding organic growth, providing a steadily rising sustainable dividend, making value-creating incremental acquisitions and returning additional cash to shareholders remain the priorities.

# Press Release



Under the share buyback of up to \$4 billion, the company intends to allocate approximately three-quarters of the program for a reduction of share capital and the remainder to support its employee share plans globally.

## **Outlook 2014**

Management confirms the outlook provided at the end of the second quarter.

# Press Release



## More information

The Capital Markets Day press release and presentation slides are available on the ABB News Center at [www.abb.com/news](http://www.abb.com/news) and on the Investor Relations homepage at [www.abb.com/investorrelations](http://www.abb.com/investorrelations).

ABB will host a press conference and an investor meeting in London, UK, starting at 8:30 a.m. and 11 a.m. British Summer Time (BST), respectively. The events will be webcast live at [www.abb.com/cmd](http://www.abb.com/cmd). The recorded sessions will be available for 12 months on our website.

## Investor calendar

Third-quarter 2014 results	October 22, 2014
Fourth-quarter and full-year 2014 results	February 5, 2015
First-quarter 2015 results	April 29, 2015
Annual General Meeting 2015	April 30, 2015

ABB ([www.abb.com](http://www.abb.com)) is a leader in power and automation technologies that enable utility, industry, and transport and infrastructure customers to improve performance while lowering environmental impact. The ABB Group of companies operates in roughly 100 countries and employs about 145,000 people.

## Important notice about forward-looking information

This press release includes forward-looking information and statements as well as other statements concerning the outlook for our business. These statements are based on current expectations, estimates and projections about the factors that may affect our future performance, including global economic conditions, the economic conditions of the regions and industries that are major markets for ABB Ltd. These expectations, estimates and projections are generally identifiable by statements containing words such as "expects," "believes," "estimates," "targets," "plans," "outlook," or similar expressions. However, there are numerous risks and uncertainties, many of which are beyond our control, that could cause our actual results to differ materially from the forward-looking information and statements made in this press release and which could affect our ability to achieve any or all of our stated targets. The important factors that could cause such differences include, among others, business risks associated with the volatile global economic environment and political conditions, costs associated with compliance activities, our ability to keep pace with competitors and technological developments, market acceptance of new products and services, changes in governmental regulations and currency exchange rates, and such other factors as may be discussed from time to time in ABB Ltd's filings with the U.S. Securities and Exchange Commission, including its Annual Reports on Form 20-F. Although ABB Ltd believes that its expectations reflected in any such forward-looking statement are based upon reasonable assumptions, it can give no assurance that those expectations will be achieved.

London/Zurich, Sept. 9, 2014  
Ulrich Spiesshofer, CEO

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