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Strategy update: Shaping a leader focused in digital industries

Global software partnership with Dassault Systèmes and targets for New ABB's four leading businesses announced

- New ABB: focus, simplify, lead
- Focused portfolio: Divestment of Power Grids to Hitachi well on track
- Simplified structure: New operating model "ABB-OS™" for enhanced customer focus, agility and profitability; ~\$500 million annual savings
- Four new leading businesses, #1 or #2 in their respective markets, effective April 1, 2019 with new medium-term business operational EBITA margin target corridors of:
 - **Electrification:** 15-19 percent
 - **Industrial Automation:** 12-16 percent
 - **Motion:** 14-18 percent
 - **Robotics & Discrete Automation:** 13-17 percent
- Medium-term group targets confirmed:
 - 3-6 percent annual comparable revenue growth
 - Operational EBITA margin of 13-16 percent
 - Return on Capital Employed (ROCE) of 15-20 percent
 - Cash conversion to net income of approximately 100 percent
 - Basic EPS growth above revenue growth
- ABB and Dassault Systèmes enter global software partnership for digital industries

On December 17, 2018, ABB announced fundamental actions to focus, simplify and lead in digital industries for enhanced customer value and shareholder returns. These actions are: focusing the portfolio on digital industries through the divestment of the Power Grids division, the simplification of the business model through the discontinuation of the legacy matrix structure, as well as the shaping of four leading businesses aligned with customer patterns.

At its strategy update to media and investors today, ABB presents details on and a roadmap for the future of its four new businesses, their leadership and customer value proposition for digital industries. As part of this, ABB is publishing the profit margin target corridors of the businesses.

ABB is announcing a new global software partnership with Dassault Systèmes, a unique end-to-end digital value proposition in combination with its leading digital solutions offering ABB Ability™ to support the planning, building and operations of industrial customers' operations.

"The new ABB will be a pioneering technology leader in digital industries, operating in attractive markets, with a unique offering of innovative solutions in electrification, automation, robotization and digitalization. We are shaping four customer-focused, entrepreneurial businesses that are already the global #1 or #2 player in their respective markets today. With ABB Ability™, our digital solutions offering, we will continue to drive profitable growth, whilst managing the transformation of our ABB into a more agile, streamlined and customer-focused group. The partnership with Dassault Systèmes will further strengthen our position as leader in digital industries and provide our customers an end-to-end offering of advanced open digital solutions, enhancing their competitiveness and innovation patterns," said ABB CEO, Ulrich Spiesshofer.

“This path will position us well for the future and will materially enhance value for all stakeholders. I would like to thank our employees worldwide for their outstanding commitment shown during this period of change as we look forward to the next chapter in this company’s proud history spanning more than 130 years,” added Spiesshofer.

Timo Ihamuotila, CFO of ABB: “Our healthy improved order backlog at the end of the year makes us confident about our new set up. We expect solid operating cash generation of the new ABB, positioning us well to continue investing in R&D and sales in a disciplined way. At the same time, we will relentlessly look for efficiency improvement potential to lower our cost base. We expect to deliver \$500 million in net cost savings from our simplification program in the medium term.”

The new ABB: lower risk, less volatile, more growth

The new ABB will have in total \$29 billion in annualized revenues and around 110,000 employees. Its four customer-focused, entrepreneurial businesses are either the global #1 or #2 player in their respective markets, influencing the future of how we power, produce, work, live and move. ABB’s addressable market is expected to grow by 3.5-4 percent per annum, adding \$140 billion in size to reach \$550 billion by 2025. Driving this demand will be growing influence of electric mobility, data centers and robotics.

Transformational milestone: Global Partnership with Dassault Systèmes

Following on from its proven track record of digital partnerships with Microsoft, HPE and IBM, ABB has today announced a wide spanning global partnership with Dassault Systèmes to offer customers in digital industries a unique software solutions portfolio ranging from product life cycle management to asset health solutions. The two companies will provide customers an end-to-end offering of advanced open digital solutions, enhancing competitiveness of industrial companies, while increasing flexibility, speed and productivity of their products' lifecycles, manufacturing and operations.

The partnership will combine the strengths of ABB Ability™ digital solutions and Dassault Systèmes' 3DEXPERIENCE platform, and build on both companies' strong installed base, deep domain expertise and global customer access. ABB has already adopted the 3DEXPERIENCE platform to model and simulate its solutions before delivering them to its customers. With this partnership, ABB will develop and provide customers with advanced digital twins, enabling customers to run ABB's solutions and their operations with improved overall efficiency, flexibility and sustainability.

The companies will, in a staged approach, focus on smart factories and robotics, process industry automation, as well as electrification solutions for smart buildings. The first joint solutions will be showcased at the upcoming industrial Hannover Messe trade fair in Germany, April 1-5, 2019.

Launched two years ago, ABB Ability™ represents the globally leading digital offering in Industry 4.0, from device to edge to cloud. Some 45 percent of ABB's new orders are generated from digital solutions, while the order pipeline for ABB Ability™ has increased by more than 20 percent since October 2018.

The platform of ABB Ability™ runs as an open architecture and cloud infrastructure, which allows customers to use other software from partners, suppliers and developers. ABB offers approximately 180 digital solutions, which enable enterprises to increase productivity, efficiency and safety at lower costs.

Simplification of business model and structure

During the first quarter of 2019, ABB is preparing for the new business structure and a new operating system – “ABB-OS™” – to be implemented in stages by mid-2020. ABB will discontinue the legacy matrix structure, thereby empowering its four leading businesses to serve customers even better, while further sharpening responsibilities and increasing efficiency.

ABB’s new organization will provide each business with full entrepreneurial ownership of operations, functions, R&D and territories. The businesses will be the single interface to customers, maximizing

proximity and speed. The corporate center will be further streamlined, while existing country and regional structures including regional Executive Committee roles will be discontinued after the closing of the Power Grids transaction. Existing resources from country level will strengthen the new businesses.

ABB expects a total of ~\$500 million annual run-rate cost reductions across the group with \$150-200 million run-rate targeted during 2019 and the full run-rate targeted during 2021. Clear actions to deliver the ~\$500 million have been identified, with approximately \$300 million of savings to be realized from the businesses, for example through fewer P&Ls and management layers and optimizing ABB's manufacturing footprint. Approximately \$200 million savings are planned to come from Group functions and a leaner corporate center.

Four new leading businesses

The four new businesses are: Electrification, Industrial Automation, Motion and Robotics & Discrete Automation. ABB will report according to the new business structure as of April 1, 2019.

Electrification – writing the future of safe, smart and sustainable electrification

- FY 2018 ~\$13 billion revenues
- FY 2018 ~13% operational EBITA margin¹
- Medium-term operational EBITA margin target corridor of 15-19%
- \$160 billion addressable market, forecast to grow at 3% p.a.
- Above market revenue growth and significant margin growth potential

The Electrification business is the Global #2 providing one of the largest and most comprehensive portfolios with a complete offering from source to socket. The business delivers clear customer benefits including speed and uptime, contributing to significant investment payback.

It provides a complete portfolio of innovative products, digital solutions and services with some 1.7 million products shipped every day. Products range from critical power and building products to electric vehicle charging infrastructure. The business has 55,000 employees and will be led by Tarak Mehta.

The business expects to deliver above market growth through a combination of geographic growth in the US and China, focus on higher growth segments such as data centers, smart buildings and services for e-Mobility, along with portfolio benefits with modular, scalable, pre-configured solutions. Margin improvement will be delivered through volume leverage, focus on higher margin segments, the turnaround of GEIS and operational improvements.

ABB successfully launched in the USA last year its Terra HP 350kW electric vehicle charger, which recharges a vehicle for 200 kilometers in just eight minutes.

“There are good opportunities for Electrification as urban populations grow and the world forges ahead to create a lower-carbon future. We are expanding our operations in rapidly digitalizing markets, offering modular, scalable, preconfigured solutions with ABB Ability™-enabled products and services to ensure our customers realize safer, smarter and sustainable operations,” said Tarak Mehta, President of the Electrification business.

¹ Electrification result adjusted to include GEIS on an annualized basis, based on H2 2018 contribution

Industrial Automation – writing the future of safe and smart operations

- FY 2018 ~\$6.5 billion revenues
- FY 2018 ~14% operational EBITA margin
- Medium-term operational EBITA margin target corridor of 12-16%
- \$90 billion addressable market, forecast to grow at 3% p.a.
- Above market growth and good margin profitability with low capital requirement

The newly-shaped Industrial Automation business, without B&R, is the Global #2 focused on writing the future of safe and smart operations. Industrial Automation will address customer needs with a unique portfolio of integrated solutions based on its leading technologies, including its #1 DCS (distributed control systems), its deep industry expertise, the largest installed base with over 35 million connected devices and vast global footprint.

It is focused on providing integrated automation solutions across process, electrical and motion, measurement and analytics, as well as marine and turbo charging solutions for customers in the Oil & Gas, Chemicals, Utilities, Mining & Minerals, Pulp & Paper, and Marine & Ports industries. The business has 21,000 employees and will be led by Peter Terwiesch.

The business expects to drive above market growth through industry-specific, differentiated automation solutions across process, electrical and motion that build on its leading DCS and comprehensive ABB offering, as well as tailored growth initiatives for key verticals. It expects to accelerate revenues from ABB Ability™ solutions and new service business models leveraging its unique installed base and unrivalled service footprint to support customer during their assets' lifecycle.

“With our deep industry knowledge and automation expertise, we understand the needs of our customers and enable them to lead through safer, more productive and energy efficient operations. Moreover, with our portfolio of integrated automation solutions, combined with our offering of ABB Ability™ digital applications, lifecycle services and artificial intelligence, we are driving the evolution towards more autonomous operations,” said Peter Terwiesch, President of the Industrial Automation business.

Motion – writing the future of smart motion

- FY 2018 ~\$6.5 billion revenues
- FY 2018 ~16% operational EBITA margin
- Medium-term operational EBITA margin target corridor of 14-18%
- \$80 billion addressable market, forecast to grow at 3% p.a.
- Above market growth and continued strong profitability

ABB's newly created Motion business is the Global #1 in motion industries is set to capture the benefits of the world going electric. Motion will build on its pioneering technology leadership, its domain expertise and its global scale and coverage. Already today, a third of the world's electricity is converted by electrical motors into motion, driven by a growing population, urbanization and digitalization. ABB expects the number of electric motors to double by 2040, which is the equivalent of the energy consumed by the whole of China annually.

Motion provides customers with a comprehensive range-energy efficient, reliable and safe electrical motors, generators, drives and services. Its ABB Ability™ Digital Powertrain solution sets the standards for digitalization in motion industries. The business has 20,000 employees and will be led by Morten Wierod, who will also become a member of the Executive Committee, effective April 1, 2019.

The business expects to deliver above market growth by building on its leading local market positions in motors and drives. It will grow by dedicated geographic initiatives, its segment specific portfolio and using ABB Ability™ services to deliver the future of smart motion. Motion's ability to sustain and improve its EBITA margin, against a backdrop of cost inflationary and pricing pressure, will come from being able to scale benefits, from ABB Ability™, from its innovation along with the simplified operating system.

“As the world goes electric, Motion has an excellent growth outlook. We will bring even more value to our customers and partners with ABB Ability™-based offering and services,” said Morten Wierod, President of the Motion business.

Robotics & Discrete Automation – writing the future of flexible manufacturing and smart machines

- FY 2018 ~\$3.6 billion revenues
- FY 2018 ~15% operational EBITA margin
- Medium-term operational EBITA margin target corridor of 13-17%
- \$80 billion addressable market, forecast to grow at 6% p.a.
- Strong top-line and margin growth potential

The Robotics & Discrete Automation business will combine ABB’s machine and factory automation Business (mainly B&R) with the Group’s superior robotics platform. It will be uniquely positioned to capture the opportunities associated with the “Factory of the Future” by writing the future of flexible manufacturing and smart machinery.

It provides a unique offering for flexible automation, combining control, motion, robotics, software and services – providing integrated solutions from machine to factory level. The business, which is already number two globally by size and number one by growth, has 11,000 employees and will be led by Sami Atiya.

The business expects to deliver above market growth driven through the portfolio and geographical expansion, driving synergies from unique portfolio and expansion in factory automation, including a greater role for ABB Ability™, artificial intelligence and partnering with Dassault Systèmes. Margin benefits will come from continued growth, scale benefits and performance initiatives whilst continuing to fund investments for future growth.

“In combining B&R’s machine and factory automation business with our superior Robotics solutions, we are driving an unmatched, comprehensive offering to help our customers create the flexible Factory of the Future,” said Sami Atiya, President of the Robotics & Discrete Automation business. “Our unique product portfolio, deep application expertise and advanced engineering and simulation tools, including ABB Ability™, ensure we help our customers improve quality and increase productivity and manufacturing flexibility, while maximizing uptime – all in a faster time-to-market solution.”

Value Creation in the new ABB

ABB will demonstrate improved commercial quality of business, enhanced exposure to faster growing markets, with a greater emphasis on high value-add solutions, less risk and large order volatility and more recurrent revenues through digital solutions, software and services.

ABB’s investment proposition is reflected in a new medium-term group target framework for the Group:

- 3-6 percent annual comparable revenue growth
- Operational EBITA margin of 13-16 percent
- Return on Capital Employed (ROCE) of 15-20 percent
- Cash conversion to net income of approximately 100 percent
- Basic EPS growth above revenue growth

ABB’s sustained capital allocation priorities are unchanged:

- Fund organic growth in R&D and digital
- Rising sustainable dividend
- Value-creating acquisitions
- Returning additional cash to shareholders

The divestment of an 80.1% shareholding in Power Grids to Hitachi for an enterprise value of \$11 billion is well on track. Following completion of the transaction in the first half of 2020, ABB intends to return 100 percent of the net cash proceeds of \$7.6-7.8 billion to shareholders in an expeditious and efficient manner and execute a policy of a rising sustainable dividend. ABB intends to maintain the level of dividend per share post close and aims to maintain its “single A” credit rating long term.

More information

The strategy update results press release and financial information documents are available on the ABB News Center at www.abb.com/news and on the Investor Relations homepage at www.abb.com/investorrelations.

ABB will host a press conference today starting at 09:00 a.m. Central European Time (CET) (08:00 a.m. BST, 03:00 a.m. EST). The event will be accessible by webcast on <https://new.abb.com/media/media-event---strategy-update-2019>.

ABB will host an analyst and investor conference today starting at 12:00 p.m. CET (11:00 a.m. GMT, 6:00 a.m. EST). The event will be webcast for approximately 90 minutes, covering Q4 and FY18 results and the group’s Strategy update presentation. The webcast and related materials will be accessible from 11:00 a.m. CET at: <https://new.abb.com/investorrelations/strategy/strategy-update-2019>

A recorded session will be available as a webcast following the end of the conference call.

ABB (ABBN: SIX Swiss Ex) is a pioneering technology leader in power grids, electrification products, industrial automation and robotics and motion, serving customers in utilities, industry and transport & infrastructure globally. Continuing a history of innovation spanning more than 130 years, ABB today is writing the future of industrial digitalization with two clear value propositions: bringing electricity from any power plant to any plug and automating industries from natural resources to finished products. As title partner in ABB Formula E, the fully electric international FIA motorsport class, ABB is pushing the boundaries of e-mobility to contribute to a sustainable future. ABB operates in more than 100 countries with about 147,000 employees. www.abb.com

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,” “intends”, “aims” or similar expressions. However, there are many 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, 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.

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