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ABB ANNUAL GENERAL MEETING, MAY 2, 2019

## **PETER VOSER**

# Chairman of the Board of Directors and CEO

### **Ladies and gentlemen,**

Today, I am officially here in two roles - as Chairman of the Board of Directors and as CEO.

But I'll be speaking to you as most of you know me: as Peter Voser.

Dear shareholders, the world we are living in is changing at an ever-increasing speed. Digital technologies have already revolutionized our everyday lives. And they are increasingly transforming industry and the way we power our societies, produce our goods and services, and work, live and move.

All of this is happening at an unprecedented pace. In ten years, our market will look fundamentally different than it does today:

- In industry, the number of installed and networked devices is expected to grow by 30 percent per year until 2030 due to increasing digitalization.
- Urbanization is progressing rapidly: by 2030 more than five billion people will be living in cities. That's one billion more than today.
- In ten years, electromobility will be an everyday technology. It is estimated that approximately 30 million electric vehicles will be sold in 2030. In 2017, this figure was just 1.1 million. This corresponds to a growth rate of 30 percent per year.
- Self-driving cars are no longer a novelty. Thanks to rapid progress in automation and robotics, in ten years' time, factories, buildings, mines and ships will increasingly be capable of autonomous operation.
- The energy sector estimates that in the next decade more than \$4 trillion will be invested in renewable energy worldwide in order to achieve global climate goals.

At ABB, we are already noticing the technological transformation through the changing needs of our customers in the infrastructure, power supply and industrial sectors.

The consequences of these changes also characterized an eventful year in 2018, which we want to look back on today. At our ABB, we introduced a comprehensive strategic realignment that is also accompanied by a cultural change. This requires a significant amount of commitment, open-mindedness and energy from everyone involved, which cannot be taken for granted.

If we want to change the culture of a company the size of ABB and with a history stretching back 130 years, we cannot and should not make the mistake of assuming that this can be achieved within three or six months. Instead, we must be thinking in terms of several years.

And the main drivers of that change need to remain on board for at least that long. This long-term approach is exactly what prompted us to make the change at the top of the company that we announced two weeks ago.

On behalf of the Board of Directors and the global ABB team, I'd like to take this opportunity to say thank you once again to Ulrich Spiesshofer.

During his 14 years at ABB, Uli worked tirelessly every day for customers and employees and we all know that ABB was much more to him than just an employer. In his time at ABB, he was a driver of the successful repositioning of our company, not only as CEO but also in his other leadership positions.

As CEO, Uli saw that times were changing and therefore, under his leadership, ABB was able to develop into a global technology leader with a clear focus on digital industries. We wish him all the best in his personal and professional future.

The Governance and Nomination Committee of the Board of Directors has already initiated a selection process to quickly find a suitable candidate – from inside or outside the company. The candidate doesn't necessarily have to come from our sector. Leadership experience is far more important.

We are seeking an individual who understands long-term transformation processes, who brings strategic and operational experience, and who can build new business models and promote and live a high-performance and highly integrated company culture. And, of course, a new CEO must reflect our values and objectives here at ABB.

We announced our new ABB strategy on December 17, 2018, and on February 28, 2019, and will press ahead with the rapid implementation of the following three actions.

Allow me once again to briefly outline the three pillars of our strategy:

First, we will focus our portfolio on digital industries through the divestment of the Power Grids business to Hitachi.

Second, we will simplify our business model and our organizational structure by introducing the new operating system ABB-OS™.

And third, we will match our four leading businesses with the needs of our customers and give them the freedom to operate as entrepreneurs.

#### 1. Focus on digital industries

Last year, we announced that we would divest our Power Grids division to Hitachi. The main factors behind this decision were significant changes in the customer landscape and financing requirements in this business. The power sector in particular is in the midst of a fundamental transformation process: the industry is consolidating, and we see a convergence of power generation and power supply. Projects in this industry are becoming ever larger. Our customers in the power sector increasingly expect suppliers like ourselves to secure access to project financing.

Today, Power Grids has a leading position worldwide in the energy infrastructure sector. Since 2014, we have significantly increased the value of the division, making it attractive to a world-class company like Hitachi. Once the transaction has been completed next year, Hitachi will help the business gain access to new growth markets and to new financing models. Hitachi is a global leader in energy infrastructure and will use its position and its comprehensive infrastructure portfolio to further strengthen Power Grids.

On top of that, Hitachi is committed to Switzerland and wants to retain both management and employees. This commitment was also very important in our decision to divest Power Grids to our long-standing Japanese partner. Completion of the transaction is expected in the first half of 2020.

Until then - and this is very important to me personally - our colleagues in the Power Grids business will remain part of the ABB family and continue to work with us.

With the sale, we are also creating value for you, dear shareholders. Following the completion of the transaction, in which we will divest an 80.1 percent shareholding in the business, we intend to return the net cash proceeds to you in an expeditious and efficient manner. The agreed purchase price corresponds to an enterprise value of 11 billion US dollars.

## 2. Simplification of business model

We will continue to drive the simplification of our business model and structure until mid-2020.

ABB's new organization will give each business full entrepreneurial ownership of operations, functions, research & development and territories. The corporate center will be further streamlined. At the same time, existing country and regional structures will be discontinued after the closing of the Power Grids transaction. Existing resources at country level will strengthen the new businesses. We are confident that the simplification of our business model will enable us to increase profit and accelerate our growth.

## 3. Four leading businesses

Since April 1, 2019, ABB consists of four leading businesses - Electrification, Industrial Automation, Motion, and Robotics & Discrete Automation – all of which are number 1 or 2 in their respective markets.

And they will be given complete entrepreneurial freedom to continue to expand their already strong market positions. As already mentioned, this new set-up also requires a change in our company culture, which is reflected in the change in company leadership. In concrete terms, this cultural change will mean more decision-making freedom for our businesses, less bureaucracy and fewer approval processes along with a greater degree of autonomy.

Now let's move to the individual businesses.

The **Electrification** business is writing the future of safe, smart and sustainable electrification. In the financial year 2018, the business generated revenues of approximately 13 billion US dollars. The Electrification business has 55,000 employees and is currently number 2 in the global market, offering one of the largest and most comprehensive portfolios. Products range from critical power and building products to electric-vehicle charging infrastructure.

Our second business, **Industrial Automation**, is writing the future of safe and smart production. In 2018, it achieved revenues of 6.5 billion US dollars and employed 21,000 people. In the new set-up, the Industrial Automation business is the number 2 in the global market. It is focused on providing integrated automation solutions in the process, electrical and motion industries, measurement and analytics, as well as marine and turbo chargers.

Third, we have created the **Motion** business, which is writing the future of smart motion. In 2018, it achieved revenues of 6.5 billion US dollars and employed 20,000 people. The newly created Motion business is the global number 1 in its industry and offers customers a comprehensive range of energy efficient, reliable and safe electrical motors, generators, drives and services.

Another newly created business is **Robotics and Discrete Automation**. It will write the future of flexible automation and intelligent machines. It generated revenues of 3.6 billion US dollars in 2018 and has 11,000 employees. The Robotics & Discrete Automation business combines our powerful robotics platform with B&R's machine and factory automation business. Globally, the business is the number two in terms of size and number one in terms of growth. The Robotics & Discrete Automation business offers an unmatched, integrated offering for the flexible automation of industry.

I would like to take this opportunity to extend my sincere thanks to ABB's Executive Committee for the consistent execution of our company strategy over the past few years. Their efforts have helped our businesses remain competitive and continue to grow profitably – especially in these times of rapidly changing digital industries. We will continue to press ahead on this path.

Ladies and gentlemen, naturally we also know that we are not yet where we want to be in every area. When we look at our financial performance in recent years, it is clear that there is still room for improvement. Nevertheless, there are encouraging signals. In the past year, for instance, we saw that ABB had returned to growth mode, as a glance at our results for the financial year 2018 clearly shows:

ABB delivered strong order and revenue performance. Revenues improved 4 percent and total orders were 8 percent higher, up in all divisions and regions, especially in the division Robotics and Motion. The order backlog at the end of the year was 6 percent higher compared with the previous year.

With our new set-up of four businesses and the change in our business model, we will build on our progress and continue to forge ahead. When we look at the figures from the first quarter of this year, we see continuing stable growth. On a comparable basis, ABB was once again able to increase revenues by four percent, while the operational EBITA margin reached 11.2 percent. Fortunately, total orders rose three percent year-on-year and base orders – which are orders that amount to up to 15 million US dollars – rose by six percent. Sales were up in all divisions and regions. Operational earnings per share also increased by five percent.

Despite the difficult economic conditions, particularly in Europe, we expect improvements in revenue growth and margins in 2019 and want to achieve a target corridor of 13 to 16 percent in the medium term.

ABB is on its way to becoming a technology leader in digital industries. This mission fits our company because innovation has always been a part of our DNA, which is why Forbes magazine listed us as one of the ten companies that are changing the world. We invest around 1.4 billion US dollars annually in research and development, including in the Power Grids business. That corresponds to about four percent of our revenues.

An example for this is the factory of the future: By combining robots and our discrete automation solutions, we enable our customers to meet the challenges of mass customization, faster cycles and constant change. The animation in the background shows how our customer, thanks to our solutions, can provide bottles in mass production with individual labels. In addition, our digital offering ABB Ability™ allows centralized performance monitoring of the robots and increases customer productivity by ensuring proactive maintenance, faster response and recovery time.

We also work with a number of universities and research institutes in the US, Europe and Asia to build research networks and promote new technologies.

Dear shareholders, as you can see, we have already achieved a great deal – and we aim to achieve much more in the future. To do so, we need a strong team. And our ABB has exactly that: the best minds in the industry.

ABB is a global company with roots in Switzerland and Sweden, and this is precisely where its strengths lie. We have 147,000 colleagues from over 100 countries. Over 45 different nationalities are represented on our 200-person management team alone. At the same time, we are proud to be Switzerland's number one employer in the field of engineering. And we are among the top ten in Sweden.

By providing hundreds of training places and through partnerships with leading academic institutions in our sector, we also have an outstanding pipeline of fresh talent to position ourselves for the future. With nearly a million applications for jobs at ABB in 2018 and 10,000 newly filled vacancies, we have significantly boosted our attractiveness as an employer.

At ABB, we have an important premise: we see our employees as the foundation of our success. For this reason, we invest continuously in their personal and professional development to secure their long-term employment. But for us sustainability is not only important when it comes to personnel.

ABB's also contributes to greater sustainability in industry with its products and services. More than half of ABB's global revenues come from technologies that combat the causes of climate change. Our objective is to increase this contribution from 57 percent in 2018 to 60 percent by 2020.

We don't only help our customers in the fight against climate change, we are also taking on the challenge ourselves. We strive to minimize the environmental impact of our own business. Our declared goal is to reduce ABB's greenhouse gas emissions by 40 percent by 2020 compared with the base year 2013. By 2018, we had already reduced our emissions by 36 percent.

Dear shareholders, sustainability is a key pillar of our company – both in terms of our offering and also with respect to our business model.

And it is essential that you, as part owners, are able to share in our company's success:

For the tenth consecutive year, the Board of Directors is proposing to increase the dividend to 0.80 Swiss francs per share. In addition, we have announced that we intend to return the net cash proceeds from the sale of our Power Grids business to you in an expeditious and efficient manner.

Dear shareholders, the journey to our new ABB has only been possible with the support of all of our stakeholders. That includes you, ladies and gentlemen. We'd like to take this opportunity to extend our heartfelt thanks to you. And that also includes our employees, whose engagement has made our company what it is today.

We will remain focused on our three core competencies that will continue to convince our customers in the future, maintain our technology leadership and differentiate us from the competition, namely:

1. Our leading portfolio, which allows us to offer comprehensive solutions to our customers;
2. Our simplified, solution-oriented business model;
3. Our innovative strength, which has helped us to write the future for more than 130 years of technological change.

Ladies and gentlemen, thank you for your attention – and for staying with us.