

# This is ABB

## Shaping a global leader in power and automation

As a global leader in power and automation, we serve utility, industry, and transport and infrastructure customers in a combined market worth more than \$600 billion per year. In all three customer segments, our combined offering of power and automation provides a unique value proposition for customers as we provide solutions for secure, energy-efficient generation, transmission and distribution of electricity, and for increasing productivity in industrial, commercial and utility operations.

To enable us to deliver value for our customers and to provide sustainable, profitable growth for our shareholders, ABB interacts with a wide range of business partners along our value chain. We aim to build long-lasting partnerships to create shared value - with suppliers, customers, business partners, employees and the communities in which we operate.

Sustainability principles are embedded in our business values and ABB's Code of Conduct, which guide how we conduct our relationships with all stakeholders.

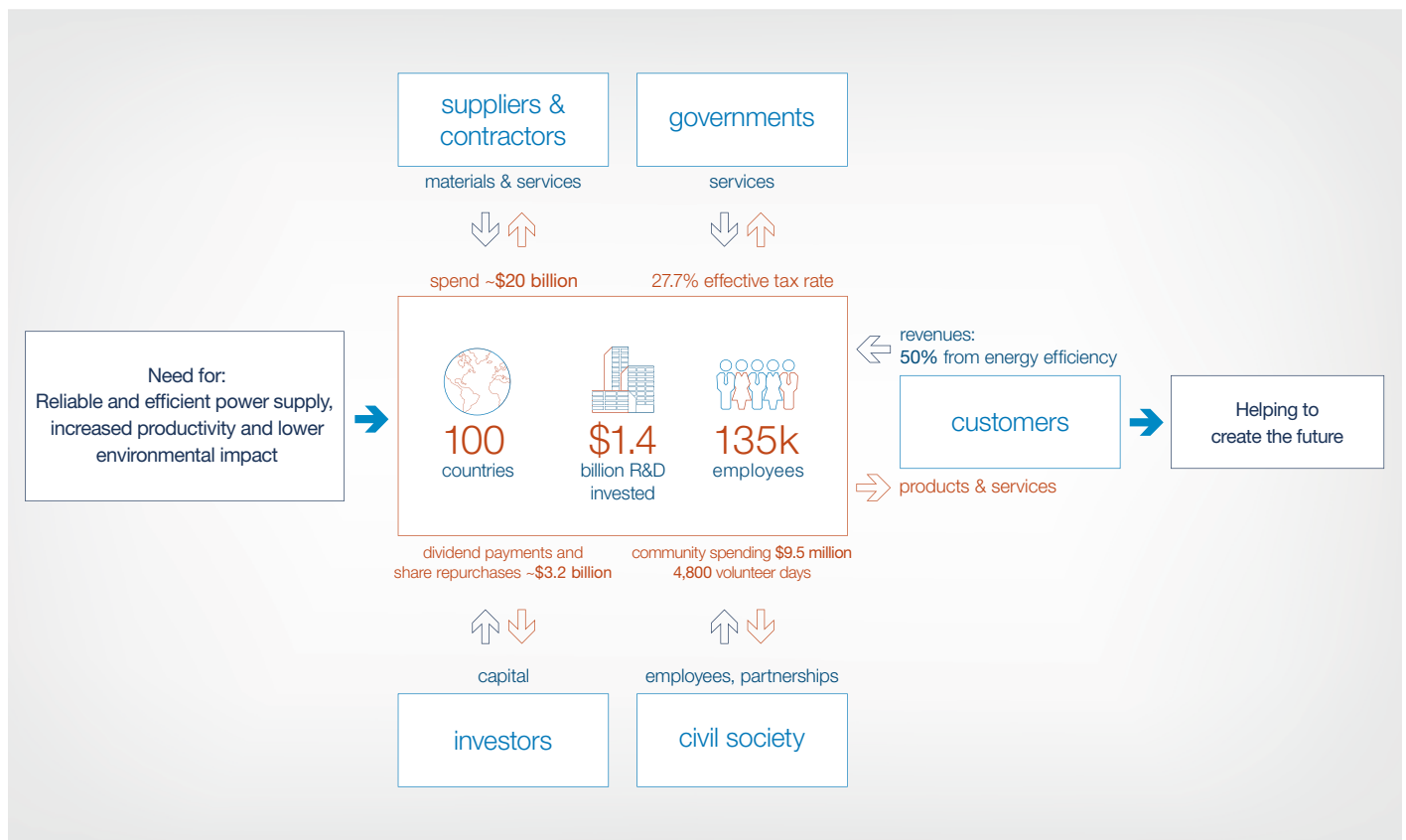
When we source the raw materials, components and services for our operations, our [strategy](#) is to partner with best-in-class suppliers who adhere to similar standards of quality, operational excellence, business ethics, and social and envi-

ronmental responsibility. ABB's Supplier Sustainability Development Program further supports performance improvement for selected suppliers, creating value for the suppliers, their employees and their local community.

When we design and manufacture products, our processes are designed to ensure appropriate consideration of legal, strategic, customer, environmental, and health and safety requirements. Dialogue with our customers, external experts in universities and other organizations, our suppliers and government authorities helps us to respond to our changing environment and to retain our innovative edge, helping to create value for our customers and society.

Governments provide the regulatory frameworks for our business, including the determination of corporate income and other taxes. These taxes are a significant source of funding for public services by government institutions worldwide. The planning of ABB's tax position reflects our corporate strategy and is consistent with applicable tax laws and international best practice guidelines such as the OECD Guidelines for Multinational Enterprises.

### ABB value chain



Central to our ability to maintain technology leadership and create value is our need to attract, develop and retain the right people in the right jobs. Our interaction with different parts of society helps us to attract the best employees and secure our standing in the communities where we operate.

It is these relationships that help us to create mutual value and to contribute to a better world.

### Next Level strategy

In 2014, we launched the Next Level strategy, designed to accelerate sustainable value creation. The strategy is built on the three focus areas of profitable growth, relentless execution and business-led collaboration.

We have been increasing profitable growth by strengthening our competitiveness, driving organic growth and lowering our risk profile, as well as launching new partnerships in different markets, such as data centers with Ericsson.

We promote relentless execution by continuing to deliver on our ongoing cost savings program and the Power Systems 'step-change' program. To increase operational performance, we have rolled out a new compensation model to better incentivize management performance, using both company and individual key performance indicators.

In the business-led collaboration focus area, we are increasing operational efficiency by improving processes and organizational structures. We have simplified the organization and set clear roles and responsibilities throughout the Group.

Our Next Level Stage 1 actions have laid a solid foundation for our future development amid a tough market environment.

In 2015 we announced Stage 2 of the Next Level strategy to accelerate the shift towards higher organic growth, greater competitiveness and lower risk, while accelerating existing improvement projects.

### Profitable growth

Profitable growth continues to be a key focus area to accelerate sustainable value creation and is driven through the framework of penetration, innovation and expansion (PIE).

We continued to promote growth in 2015 through increased market penetration in targeted geographic and industry segments. For example, we have a pioneering track record in supporting the development of India's power infrastructure. We are also supporting the rapid urbanization in India through a range of initiatives including solar plants, microgrids and metro rail projects in fast growing cities.

Technology innovation remains a cornerstone of our competitive position and a key driver of profitable growth; we introduced several [ground-breaking offerings](#) in 2015. We also continue to focus on the opportunities brought by the Industrial Internet, the so-called "Internet of Things, Services and People" (IoTSP). More than 50 percent of our current portfolio is software-related.

Profitable growth is also being driven by expansion into new high-growth markets, such as microgrids and electric vehicle charging. We also plan to focus on value-creating acquisitions and partnerships to accelerate growth in attractive segments.

To better address customer needs and deliver operational efficiency, we realigned our organizational structure from the start of 2016. Our new streamlined structure is comprised of four operating divisions: Power Grids, Electrification Products, Discrete Automation and Motion, and Process Automation. More details can be found in the [ABB Group Annual Report 2015](#).

### Relentless execution and business-led collaboration

In Stage 2 of the Next Level strategy, we aim to close the gap in our operating performance compared with our best-in-class peers. The goal is to further transform our company towards a leading operating model with business processes more focused on customer needs, and an enhanced performance management system, including compensation tied more closely to performance, as well as the development of a world class people and true performance culture.

Our white collar productivity program is aimed at making us leaner, faster and more customer-focused. Business functions, support functions and organizational complexity are in the scope of this program. Productivity improvements include the rapid expansion of regional shared services and the streamlining of global operations and head office functions, with business units moving closer to key markets.

The long-term demand outlook in our three major customer sectors - utilities, industry and transport and infrastructure - remains positive. Key drivers are the big shift in the electricity value chain, industrial productivity improvements through the IoTSP, as well as rapid urbanization and the need for energy efficiency in transport and infrastructure.

We believe we are well positioned to tap these opportunities for long-term profitable growth with our strong market presence, broad geographic and business scope, technology leadership and financial strength.