Despite a challenging market, real opportunities in service and sales that respond directly to customers’ everyday situation.

Though 2012 began with good momentum as a result of record sales from 2011, our yearly result was directly affected by the global economy, which remained tense through to the end of the year. Accordingly, the second half 2012 was strongly influenced by weak global markets.

The number of new orders in 2012 was particularly affected by the marine industry, which was extremely quiet in 2012. Despite record sales in turbochargers for low-speed engines during 2011, 2012 had the lowest ship contracting level since at least 2004. The decided lack of new orders in 2012 made it impossible to reach the targets that we originally defined in our budget. Overcapacity in tonnage, persisting low freight prices and high fuel costs in particular had a negative impact on new product orders and service business.

One exception in shipbuilding was a continuous boom in LNG carriers due to increasing demand for natural gas. Likewise in the energy sector, the market for vessels for the offshore oil and gas industry was active, creating high demand for drill ships, anchor handlers, support vessels and rigs.

Nevertheless, 2012 was also a year of considerable technological development that will enable us to provide customers with technology that speaks directly to their everyday situation and that will promote our future from now through the long term. High-efficiency, high-pressure single-stage turbochargers such as the A200-L and A100-L will enable engine builders to meet IMO Tier II emissions limits while consuming as little fuel as possible. On their own, our Power2 two-stage turbocharging solution and Valve Control Management (VCM) variable valve timing system each offer customers new options that are more fuel-efficient. In combination with one another, they have the ability to fully deploy the entire potential of the engine by managing the air actively and responsively and by ensuring more power overall. And it’s worth noting that all of these new products are every bit as reliable as past solutions developed by ABB Turbocharging.
I am convinced that all these new options will make a real difference to how our customers approach the challenges in today’s very challenging market. I am equally convinced that we will be able to further strengthen our market position as 2013 unfolds as a result.

Service business also continued to develop its offerings, based on close collaborations with our customers, our technical expertise, and the worldwide availability and dependability of our Original Parts and Original Service through our extensive network. New service projects were created to rejuvenate and prolong the lifetime of a turbocharger and save fuel. Of particular note in this respect were upgrades projects, which we piloted throughout 2012 in various locations worldwide. The reception around upgrades has been very positive, because customers can see the benefits immediately, amongst other things a rapid payback. We will officially launch upgrades onto the market in the first half of 2013.

So although the global market presents us with some clear challenges, we also know where the opportunities in our business are. We have positioned ourselves competitively to take full advantage of them in the foreseeable future by developing technology and service offerings that respond directly to our customers’ needs and by evolving sustainably in our sales, service and production networks.

To make the most of these opportunities, we will all have to work together to position ABB Turbocharging optimally in this difficult environment. I am confident that, together with our longstanding customers and trusted business partners and with the dedication and persistence of our employees, we as a company will do precisely that.

Oliver Riemenschneider
Highlights in 2012
We launched a new A200-L generation of turbochargers and put first-generation Power2 550-M two-stage turbocharging system on the market. Despite our quick internal measures to compensate poor long-term market forecasts, internal restructuring was nevertheless necessary.

Technological highlights: Using smarter solutions to enable fuel savings, less maintenance and more power.

The A100-M axial
Two A170-Ms were tested at one of our customers’ labs on two different types of engine, a gas and a diesel engine, respectively. The second size in this family of turbochargers, the A175-M, was shipped for engine testing to our customer’s site.

The A200-L
Development for the new A200-L generation for two-stroke diesel engines started during the first half of 2012. We unveiled this new generation at the 2012 SMM in Hamburg, Germany. With its more compact design, increased volume flow of 30% and higher pressure ratios of up to 5, the A200-L offers new options for saving on first, fuel and service costs, and at the same reliability levels of previous turbocharger generations. We are already conducting lab tests for this new generation and expect to make our first deliveries in the first half of 2013.

The customers’ response to the A200-L has been extremely positive. Given the slow market for two-stroke engines, the positive resonance for the A200-L is an excellent sign because it confirms that our cutting-edge technology responds to customers’ needs in concrete, meaningful ways.

Power2® and VCM®
We released our first-generation Power2 550-M two-stage turbocharging system for operation under HFO conditions, so the system is now on the market without any restrictions. Power2 reduces fuel consumption and improves power as well as lowering NOx. We are now refining this technology in a second generation for diesel and gas engine applications. We completed phase 2 of the development of our second-generation Power2 two-stage turbocharging system. During phase 2, we finished our detailed design concept, which confirmed that we are on track.

Developed with German partner Schaeffler Technologies, valve control management (VCM) has been designed to interact with Power2 to increase engine fuel savings and to further reduce emissions. This technology will help our engine builder customers to comply with the strict IMO Tier III NOx limits due in 2016. Our insights in further developing and refining these technologies are becoming particularly valuable as fuel prices continued to climb during 2012 and IMO Tier III looms ever closer on the horizon.

After having successfully tested the VCM system on our customer’s single-cylinder test rig in phase 1, the joint project Steering Committee, which has members from our customer’s company and ABB Turbocharging, approved testing for phase 2, which entails testing our VCM on a full engine as well as on engine units in the field. We will begin this second phase of testing in 2013.
A dynamic view of the new A200-L generation, which was launched in the fall of 2012.
HPT
Our latest step in refining our offering for high-power, high-efficiency turbochargers such as the new A200-L revolved around high-pressure tuning, or HPT, which is already vastly improving fuel efficiency at part and low load.

HPT is an engine tuning for part and low loads designed to fully leverage pressure ratio and turbocharger efficiency. HPT forces more air into a two-stroke engine by increasing the pressure 0.5 bar above what would normally be expected from the turbocharger. HPT eliminates the need for extra hardware such as an exhaust gas bypass (EGB) or variable turbine geometry by delaying the closing of the exhaust valve somewhat later than in an engine with conventional tuning. Thus HPT offers all the benefits of a more complicated engine tuning, but innovated according to a considerably more streamlined, reliable design that makes no compromises on fuel efficiency. Our business partners have already begun to offer HPT as a standard option in their ordering specifications.

Improving our productivity
Our responsibility to our customers includes ensuring that our internal processes are as effective and efficient as possible. Accordingly, we implemented an internal campaign to improve our productivity and in 2012, invested in cutting-edge technology to facilitate this initiative. Our goal is to deliver competitive products in a perfectly streamlined production. First, both the design and manufacture of each product are subject to careful scrutiny and optimized accordingly wherever possible. Best-country sourcing is also a key element of this initiative to provide high-quality materials and optimal cost-effectiveness. Within this context, we also work on making a product as cost-efficient as possible when it is used in an application.

Our approach was to activate our own talent to identify and execute the changes that are needed to make this global change project happen comprehensively. In 2012, we reorganized supply chain management globally and appointed supply chain managers with global responsibility for each category. They are looking for best cost as part of our intention to be the most productive turbocharger manufacturer in the world.

Internal restructuring in Switzerland
The poor long-term prospects in the market, particularly in the marine sector,
had great implications for us in 2012. Early in 2012, we reacted quickly to the weak market projections with several measures in Switzerland, including reducing overtime and vacation, transferring employees within ABB Switzerland, and once again producing certain components in-house. However, careful analysis revealed that these measures would not suffice to compensate the dip in new orders prognosticated for the medium term. We therefore decided to ensure our long-term competitiveness by consolidating our production operations.

Our decision affected 145 full-time jobs. Our production facility in Deitigen in the canton of Solothurn, Switzerland, was scheduled to close operation by the middle of 2014, the plan being to ultimately merge remaining resources and capacity with our facilities in Baden and Klingnau in Aargau, Switzerland. As a result of this difficult decision, we reserved certain resources for an employee entitlement and severance package in line with social standards and ABB’s own requirements. By the end of 2012 and in close collaboration with the local works council, we had already begun developing a socially responsible package based on good practice. Our primary goals in providing these resources were to give our employees as much time as possible to find a new job; to facilitate the rapid, sustainable transition of employees from ABB Turbocharging to a new tenure of employment; and to support their basic needs during the transition phase. This program will be implemented in stages and be completed by the middle of 2014.

Organizational development: Ensuring long-term competitiveness through cost-saving initiatives and internal restructuring.
What to expect in 2013
Cash is king and fuel is the focus as operating cost takes the lead over capital cost. Customers continue to work toward achieving compliance on IMO Tier III and beyond. Service Business will offer new options to save significantly on fuel.

Persisting challenges in the market relating to overcapacity and low orders
Persisting challenges in the market will challenge our entire customer base in 2013 and beyond. Shipyard business and the number of new contracts are on the decline and overcapacity in all merchant shipping sectors continues to rise. Low freight rates and high fuel prices are putting holds on spending. The market for engines in both power generation and gas compression remains slow. Business for non-operating owners continues to decline and to negatively impact the markets in which these customers operate. All these developments are taking place against the backdrop of a challenging economy and slower than originally expected to recover. We must do what we can to provide solutions to all the challenges that come with such a market environment. Leveraging every new opportunity for technological innovation and fuel efficiency will thus be more important than ever starting with 2013.
Innovative technology and service that give customers what they really need

Our portfolio must offer technology and service that respond directly to, and improves a customer’s situation. Our customers are struggling to offset the skyrocketing cost of operations that is driven mostly by fuel. Cash is now a major focus. We will leverage the fuel-saving and operating flexibility benefits of the A200-L and A100-M/H generations to grow faster than our competitors. We will offer our customers performance-enhancing technology such as VCM, Power2 and HPT, which bring new opportunities in performance and better benefits than ever before.

We will also underscore the cost-savings relating to a preventive, proactive service plan rather than ad-hoc quick-fixes. In service business, many companies are choosing, or are forced, to delay service expenses for as long as possible, despite the fact turbochargers delivered during the recent production boom are now beginning to require maintenance, repair and overhaul. Our goal will be to offer after-sales services that are closely tailored to customer needs, especially for servicing turbochargers and for providing upgrades that save fuel and that increase performance.

Upgrades to help turbochargers save fuel and live longer

After an overwhelmingly positive reception in pilot projects worldwide in 2012, upgrades will be officially launched. This new service option will play a key role in helping to increase the lifetime of a customer’s turbocharger in a cost-effective way. Going beyond and exchange of one like product for another as in a standard overhaul, an upgrade improves engine performance and fuel efficiency by matching the latest turbocharger technology with an engine in an iterative process that ensure an ideal fit. The modifications made in an upgrade also considerably reduce the thermal load on the engine, which is one of the major factors that affect the deterioration of the engine.

In a related vein, we will use our in-house service expertise and network to ensure that our customers always have access to and use high-quality, authentic ABB Turbocharging parts so they never have to use unauthorized copies that ultimately can cost them more. We have been the global leader in the on-time delivery of Original Parts and Original Service for over a decade and a half. Our customers can find us everywhere worldwide at any one of over 100 ABB Turbocharging Service Stations. We will continue to underscore the value of this network, our spare parts stock and our service offering and availability in 2013.

Quality as a cost-saving measure

Quality is a constant challenge, particularly in light of current market developments, in which cost-savings are a major focus. In 2012, we dedicated our efforts to perfecting absolutely every aspect of the fabrication of our products. We have been taking this improvement very seriously because the absence of imperfections is a compelling object lesson for customers as to why we are their very first choice. We also take it seriously because we are convinced that offering customers high-quality products that can last a lifetime and be serviced as long ultimately saves them money. Our experience has shown that the pursuit and assurance of quality saves customers comparatively more money, time, and resources.

Supporting customers in 2013

We will provide our customers with technology and service that responds immediately to their situation and supports them in compelling ways, i.e. saves on fuel and money, increases efficiency and power, and provides excellent global expertise and resources so that they can be en route when they want to be. Our focus will also be on further improving the environmental compatibility of combustion engines. Compliance with IMO Tier III emissions legislation will also be a focus, and we will promote technologies that lead to cleaner, more powerful engines, such as Power2 and VCM, particularly in combination with one another. High-pressure tuning (HPT) and the A200-L will also be promoted as an efficiency-oriented solution.
Our results achieved generally came in below the target originally budgeted for 2012, which can be explained through a number of key factors. Despite the wave of momentum from 2011 that carried us through a good portion of 2012, sales and service orders generally remained low. Fixed cost coverage was also negatively affected by the low number of new orders. We also had unique individual costs as a result of our restructuring process.

Our competitiveness was also affected by the strong Swiss franc. Many of our customers take their earnings in US dollars and euros, so exchange rates for the Swiss franc have meant in real terms that our prices have increased over 20% since January 2010, while most of our competitors’ prices have not. This trend worked for and against us in supply and new orders, respectively.

New Business
New Business declined most of all in 2012. New orders were down in all of the individual New Business segments, i.e. low-speed, medium-speed, high-speed, and rail. The drop in new orders was particularly pronounced in the low-speed segment. Orders for medium-speed, however, came in at a relatively constant stream throughout the year.

To position ourselves more competitively in the market, we began actively marketing our new generation of turbochargers, the A200-L, in the second half of 2012. The A200-L is comparatively much more competitive in terms of first cost and offers savings on fuel and service. The A200-L and high-pressure tuning will be presented in 2013 as a combination that facilitates the very best in power and performance in a turbocharger.

We are also continuing our efforts to find new opportunities in China, for example in our medium-speed diesel portfolio.

Service
At the end of March 2012, the number of orders also began to decline in Service Business, which is normally robust even during external crisis. Freight rates stayed at all-time lows, while increases in the price of oil further squeezed ship operators’ finances. Despite a slight easing in the end users’ financial situation, little cash was left for all but the most essential financing. In addition to these trends, customers were forced to stretch service intervals beyond what would have been good for their equipment, and ad-hoc service was an increasing trend. Revenues began to slip below expected figures during the second quarter of 2012.
An A170 is assembled on the production floor.
Among other things, we responded by stepping up our initiatives that reward and reinforce customer loyalty. We also made changes to our service concept to accommodate customers who need to make repairs during voyage because they cannot do so during port stays.

We also did several things to make sure that our customers know that they can depend on us to be there for them wherever they are and whenever they may need us. In 2012 we opened four full-size ABB Turbocharging Service Stations in Barranquilla/Columbia, Arbil/Iraq, Dhaka/Bangladesh and Suape/Brazil and Service Support Points in Walvis Bay/Namibia, Mombassa/Kenya, Mauritius, Bahrain and Batam/Indonesia. We also opened a Service Support Point on-site inside the Dubai DryDocks and in three Chinese shipyards.

Supply and production
2012 was a successful year in supply management. We were able to achieve our savings on a global level thanks to negotiations with our current supplier base and opportunities in best-value countries. The strong Swiss franc worked in our favor in supply and procurement, particularly with respect to sourcing in European countries.

We had new manufacturing systems installed for compressor wheel milling and for casings late in 2012. After commissioning this equipment, we began ramping up our production with these two new elements. Productivity in manufacturing time could improve significantly as a result, which will in turn help us to achieve our improvement targets for all our global plants.

We will provide our customers with technology and service that responds immediately to their situation and supports them in compelling ways.

Our clear successes are moving us to raise the bar once again for 2013. Our goal is to increase the added value time, reduce batch sizes and ensure better production flow, thereby improving the value of our stock, increasing our flexibility and ultimately helping us to focus on the added value to the customer.
When we talk about innovation at ABB Turbocharging, we really mean the ability to incorporate new elements into a situation so that our customers will have meaningful new ways to do what they do more efficiently and effectively. So we help customers to get the most out of their engines by giving them solutions that are more versatile than ever before.

Oliver Riemenschneider, Group Senior Vice-President, Head of ABB Turbocharging

Innovation is our focus because finding new ways to approach and solve a task is what makes the greatest positive difference to our customers. And innovation means more than designing a world-class product. Innovation means looking at every aspect of what we do, from design and sourcing to delivery and post-sales maintenance, and devising effective ways to optimize and leverage that so that it translates into sound, sustainable, cost-competitive solutions for our customers.

Urs Gribi, Managing Director ABB Turbo Systems, Ltd.

Our customers’ business model has become completely turned on its head. They’re now more focused than ever on operating cost rather than capital cost because fuel has become so very expensive. We’re providing solutions that speak directly to these urgent needs because our focus is on really helping.

Axel Kettmann, Senior Vice President, Head of Sales, Marketing and Service

The global economy continues to grow slowly. Overcapacity in shipping will therefore remain a major concern. Our service offerings will ensure a quick return on spending for our end users.

Darko Fux, Vice President, Head of Finance and Controlling

Productivity and agility are key, and we are committed to being leader in this area now and in the future. Our strategic initiative to improve our productivity is one of the most important actions that we are executing from a business perspective. We are investing strongly ahead of the market curve, and we are optimizing how we deploy our capital from here on in.

Maurizio Boschetti, Vice President, Head of Supply and Production Network

The difference between an invention and innovation is that an innovation adds real value and makes a positive difference to the world. That’s the driving force for us. Our people in R&D really focus on how an idea is going to add value to a customer in the future, because ultimately that’s how we help our customers make the most of their situation.

Christian Roduner, Vice President, Head of Technology and Engineering
In the current difficult market situation, it is more than ever important to understand customers’ needs and to create real value. We need the right offerings for our domestic customers in China. And we have to continue to meet our global customers’ expectations for quality and service.

Roland Schwarz, Head of ABB LBU Turbocharging China

In addition to technical skills and expertise, leadership skills, personal initiative, innovation and collaboration are especially important for us. Particularly here at ABB Turbocharging, it’s crucial that our employees be open for new experiences in the world and deploy multicultural finesse when cooperating with colleagues, partners or customers from other countries. That’s why developing and promoting our employees systematically and conscientiously is one of our team leaders’ core tasks.

Hendrik Schauermann, Vice President, Head of Human Resources

We’re developing turbocharging in ways that will take performance, both of the turbocharger and the engine, to well beyond the level known in the current state of the art, and often while saving significantly on fuel at the same time. That is going to have a major impact on how customers invest in their capital. I believe that we could well begin seeing the effects of that impact in the greater market by the end of 2013.

Christoph Rofka, Senior General Manager of New Turbocharger Sales

We will continue to support our customers in operating and maintaining their equipment in this harsh business environment by tailoring our service offerings to their needs.

Rolf Schweizer, Senior General Manager, Head of Service

In these challenging times when growth is slow, Supply Management strongly supports the vital increase of productivity in order to stay on top in our business. Our entire effort is grounded in facilitating our new products and serial production with high quality and cost-effective material on time.

Markus Mühlethaler, Senior General Manager, Head of Supply Management
### Management Committee

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