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JUNE, 2018

**Dear ABB Supplier,**

As we move to the new normal of our Next Level strategy, we will continue to work with our suppliers to develop solutions that leverage **innovation, digitalization and standardization** to enhance efficiency and unlock value. To make the most of these opportunities, we have adopted a Lean Six Sigma (L6S) set-up, and we have also changed our name from Supply Chain Management to Procurement & Logistics, which defines more clearly, internally and externally, what we stand for.

My letter today is the first in a series in which I will explain in detail how we plan to collaborate with you to bring our strategy to life. In each I will make a deep dive into a particular topic. The one you're reading now is concerned with the Six Sigma-driven principle of **standardization**, specifically with respect to our Procure to Pay (P2P) processes.

As part of our Next Level strategy, ABB has consolidated many of its transactional processes, including P2P, into five Global Business Service centers. We are aligning our processes inside these centers now, and we've found many opportunities to reduce variations in our interactions. While standardizing our routines we found inconsistencies in local and regional approaches that have resulted in advantages for certain local suppliers relative to their global competitors. We have also found that we still have a multitude of P2P processes that are not aligned with the reality of modern Lean practices. Now, we are acting to change this.

On the Lean side, to simplify our internal accounts payable set-up, ABB will shift to a single end-of month, or EOM, invoice payment routine. This means that all invoices will be accumulated during their posting month and then processed in one batch for payment at the end of it. Below you will find more information as needed.

With regard to standardization, ABB will continue to pursue the update of payment terms to either local market norms, or 90 days. Our supply base will be aligned to this standard. Both activities will be completed within the current calendar year.

### **How does EOM work?**

EOM payments – which are also called EOAP, or end-of-accumulation-period payments – are part of a P2P process in which accurate and compliant supplier invoices<sup>1</sup> are received during a defined “accumulation period” and grouped together. At ABB, this period will be a calendar month, and the end of the period will be the last day of that month. For the collected invoices, the agreed net days of payment (for example, 90 days) will reach payment maturity at the end of the period, i.e. on the last day of the month. Invoices will then be paid in the next “payment run.” These runs will typically take place on the fourth of every month (if this falls on a weekend or public holiday, the invoice will be paid on the next possible business day thereafter).

We fully expect this change not only to result in greater process efficiency, but also to improve the overall quality of the P2P process, resulting in more reliable payment performance.

Thank you for being an integral part of our global supply chain, helping us to delight our customers in everything we do.

Let's write the future. Together.

Sincerely,



Dan Bartel

ABB Group Head of Procurement & Logistics

The EU General Data Protection Regulation (GDPR) is a significant piece of data privacy legislation which has come into force on May 25, 2018. It builds on existing data protection laws, strengthening the rights that individuals have over their personal data, and creating a single data protection approach. ABB is committed to complying with GDPR and will be applying the necessary steps in all our stakeholder interactions.

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<sup>1</sup>As part of our lean focus, non-compliant or inaccurate invoices will be returned to our suppliers to provide needed feedback for change and allow re-work.