



Capital Markets Day 2015

Supplemental financial information

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Supplemental Reconciliations and Definitions

Capital Markets Day – September 9, 2015

The following financial measures supplement the September 9, 2015, Press Release and the Capital Markets Day 2015 presentations. These supplemental financial measures are, or may be, considered non-GAAP financial measures as defined in the rules of the U.S. Securities and Exchange Commission (SEC).

While ABB's management believes that the non-GAAP financial measures herein are useful in evaluating ABB's operating results, this information should be considered as supplemental in nature and not as a substitute for the related financial information prepared in accordance with U.S. GAAP. Therefore these measures should not be viewed in isolation but considered together with the Interim Consolidated Financial Information (unaudited) prepared in accordance with U.S. GAAP as of and for the six and three months ended June 30, 2015, and with the Consolidated Financial Statements prepared in accordance with U.S. GAAP as of and for the years ended December 31, 2014, 2013 and 2012.

Like-for-like growth rates

Growth rates for certain key figures may be presented and discussed on a "like-for-like" basis. The like-for-like growth rate measures growth on a constant currency basis. Since we are a global company, the comparability of our operating results reported in U.S. dollars is affected by foreign currency exchange rate fluctuations. We calculate the impacts from foreign currency fluctuations by translating the current-year periods reported key figures into U.S. dollar amounts using the exchange rates in effect for the comparable periods in the previous year.

Like-for-like growth rates also adjust for changes in our business portfolio. The adjustment for portfolio changes is calculated as follows: where the results of any business acquired or divested have not been consolidated and reported for the entire duration of both the current and comparable periods, the reported key figures of such business are adjusted to exclude the relevant key figures of any corresponding quarters which are not comparable when computing the like-for-like growth rate. In addition, certain other portfolio changes which do not qualify as divestments are treated in a similar manner to divestments. We do not adjust for portfolio changes where the business acquired or divested has annual revenues of less than \$50 million.

The following tables provide reconciliations of reported growth of certain key figures to their respective like-for-like growth rate.

Growth rate reconciliations

	H1 2015 compared to H1 2014				FY 2014 to FY 2013			
	US\$ (as reported)	Foreign exchange impact	Acquisitions and divestments	Like- for-like	US\$ (as reported)	Foreign exchange impact	Acquisitions and divestments	Like- for-like
Revenues	-10%	10%	3%	3%	-5%	3%	0%	-2%

	June 30, 2015 compared to June 30, 2014				December 31, 2014 compared to December 31, 2013			
	US\$ (as reported)	Foreign exchange impact	Acquisitions and divestments	Like- for-like	US\$ (as reported)	Foreign exchange impact	Acquisitions and divestments	Like- for-like
Order backlog	-4%	12%	1%	9%	-4%	9%	1%	6%

Regional like-for-like growth rate reconciliation

Revenues by region	H1 2015 compared to H1 2014			
	US\$ (as reported)	Foreign exchange impact	Acquisitions and divestments	Like- for-like
Europe	-18%	18%	2%	2%
The Americas	-6%	6%	5%	5%
Asia, Middle East and Africa	-5%	6%	1%	2%
ABB Group	-10%	10%	3%	3%

Operational EBITA margin

In line with the updated financial targets of ABB's Next Level strategy, ABB changed its measure of segment profit from Operational EBITDA to Operational EBITA, effective January 1, 2015.

Definition

Operational EBITA margin

Operational EBITA margin is Operational EBITA as a percentage of Operational revenues.

Operational EBITA

Operational earnings before interest, taxes and acquisition-related amortization (Operational EBITA) represents Income from operations excluding acquisition-related amortization (as defined below), restructuring and restructuring-related expenses, gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items, as well as foreign exchange/commodity timing differences in income from operations consisting of: (i) unrealized gains and losses on derivatives (foreign exchange, commodities, embedded derivatives), (ii) realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized, and (iii) unrealized foreign exchange movements on receivables/payables (and related assets/liabilities).

Acquisition-related amortization

Amortization expense on intangibles arising upon acquisitions.

Operational revenues

Operational revenues are total revenues adjusted for foreign exchange/commodity timing differences in total revenues of: (i) unrealized gains and losses on derivatives, (ii) realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized, and (iii) unrealized foreign exchange movements on receivables (and related assets).

Reconciliation

Six months ended June 30, 2015

(\$ in millions, unless otherwise indicated)	Six months ended June 30, 2015						Corporate and Other and Intersegment elimination	Consolidated
	Discrete Automation and Motion	Low Voltage Products	Process Automation	Power Products	Power Systems			
Total revenues	4,619	3,286	3,239	4,674	3,106	(1,204)	17,720	
<i>Foreign exchange/commodity timing differences in total revenues</i>								
Unrealized gains and losses on derivatives	(21)	(9)	(26)	(45)	(72)	(2)	(175)	
Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized	(29)	–	14	21	31	–	37	
Unrealized foreign exchange movements on receivables (and related assets)	13	4	(16)	(1)	1	–	1	
Operational revenues	4,582	3,281	3,211	4,649	3,066	(1,206)	17,583	
Income (loss) from operations	593	480	379	540	39	(211)	1,820	
Acquisition-related amortization	65	51	6	5	27	9	163	
Restructuring and restructuring-related expenses	28	7	21	20	8	–	84	
Gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items	–	1	11	2	31	5	50	
<i>Foreign exchange/commodity timing differences in income from operations:</i>								
Unrealized gains and losses on derivatives (foreign exchange, commodities, embedded derivatives)	(17)	(5)	(17)	(34)	(57)	(14)	(144)	
Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized	(29)	–	7	24	26	–	28	
Unrealized foreign exchange movements on receivables/payables (and related assets/liabilities)	17	(2)	(11)	(3)	1	4	6	
Operational EBITA	657	532	396	554	75	(207)	2,007	
Operational EBITA margin (%)	14.3%	16.2%	12.3%	11.9%	2.4%	n.a.	11.4%	

Year ended December 31, 2014

(\$ in millions, unless otherwise indicated)	Discrete					Corporate and	Consolidated
	Automation and Motion	Low Voltage Products	Process Automation	Power Products	Power Systems	Other and Intersegment elimination	
Total revenues	10,142	7,532	7,948	10,333	7,020	(3,145)	39,830
<i>Foreign exchange/commodity timing differences in total revenues</i>							
Unrealized gains and losses on derivatives	10	19	9	33	168	-	239
Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized	(2)	-	12	4	48	1	63
Unrealized foreign exchange movements on receivables (and related assets)	(13)	(5)	(11)	(13)	(47)	-	(89)
Operational revenues	10,137	7,546	7,958	10,357	7,189	(3,144)	40,043
Income (loss) from operations	1,422	1,475	1,003	1,204	(360)	(566)	4,178
Acquisition-related amortization	138	113	17	17	74	21	380
Restructuring and restructuring-related expenses	25	45	43	51	63	8	235
Gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items	-	(407)	(113)	16	12	10	(482)
<i>Foreign exchange/commodity timing differences in income from operations:</i>							
Unrealized gains and losses on derivatives (foreign exchange, commodities, embedded derivatives)	16	13	17	46	137	(6)	223
Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized	(2)	-	9	7	28	-	42
Unrealized foreign exchange movements on receivables/payables (and related assets/liabilities)	(10)	2	(18)	(22)	(50)	(3)	(101)
Operational EBITA	1,589	1,241	958	1,319	(96)	(536)	4,475
Operational EBITA margin (%)	15.7%	16.4%	12.0%	12.7%	-1.3%	n.a.	11.2%

Operational EPS

Definition

Operational EPS

Operational EPS is calculated as Operational net income divided by the weighted-average number of shares used in determining basic earnings per share.

Operational net income

Operational net income is calculated as Net income attributable to ABB adjusted for the net-of-tax impact of:

- (i) restructuring and restructuring-related expenses,
- (ii) gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items,
- (iii) foreign exchange/commodity timing differences in income from operations consisting of: (a) unrealized gains and losses on derivatives (foreign exchange, commodities, embedded derivatives), (b) realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized, and (c) unrealized foreign exchange movements on receivables/payables (and related assets/liabilities), and
- (iv) acquisition-related amortization.

Acquisition-related amortization

Amortization expense on intangibles arising upon acquisitions.

Adjusted Group effective tax rate

The Adjusted Group effective tax rate is computed by dividing the provision for income taxes by income from continuing operations before taxes. The calculation excludes the amount of gains and losses from sale of businesses and the related provision for income taxes.

Constant currency Operational EPS adjustment

In connection with ABB's 2015-2020 targets, Operational EPS growth is measured assuming 2014 as the base year and uses constant exchange rates. We compute the constant currency operational net income for all periods using the relevant monthly exchange rates which were in effect during 2014 and any income difference is divided by the relevant weighted-average number of shares outstanding to identify the constant currency Operational EPS adjustment.

Reconciliation

(\$ in millions, except per share data in \$)	Six months ended June 30,				Change ⁽⁴⁾
	2015		2014		
		EPS ⁽¹⁾		EPS ⁽¹⁾	
Net income (attributable to ABB)	1,152	0.51	1,180	0.51	
Restructuring and restructuring-related expenses ⁽²⁾	61	0.03	62	0.03	
Gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items ⁽³⁾	46	0.02	(42)	(0.02)	
FX/commodity timing differences in income from operations ⁽²⁾	(78)	(0.03)	32	0.01	
Acquisition-related amortization ⁽²⁾	116	0.05	140	0.06	
Operational net income	1,297	0.58	1,372	0.60	
Constant currency Operational EPS adjustment		0.06		–	
Operational EPS (constant currency basis)		0.64		0.60	8%

(\$ in millions, except per share data in \$)	Year ended December 31, 2014	
		EPS ⁽¹⁾
Net income (attributable to ABB)	2,594	1.13
Restructuring and restructuring-related expenses ⁽²⁾	171	0.07
Gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items ⁽³⁾	(221)	(0.10)
FX/commodity timing differences in income from operations ⁽²⁾	120	0.05
Acquisition-related amortization ⁽²⁾	275	0.12
Operational net income	2,939	1.28

⁽¹⁾ EPS amounts are computed individually, therefore the sum of the per share amounts shown may not equal to the total.

⁽²⁾ Net of tax at the Adjusted Group effective tax rate.

⁽³⁾ Net of tax at the Adjusted Group effective tax rate, except for gains and losses from sale of businesses which are net of the actual related provision for taxes.

⁽⁴⁾ Calculated on Operational EPS before rounding.

Net debt / (Net cash)

Definition

Net debt / (Net cash)

Net debt / (Net cash) is defined as Total debt less Cash and marketable securities.

Total debt

Total debt is the sum of Short-term debt and current maturities of long-term debt, and Long-term debt.

Cash and marketable securities

Cash and marketable securities is the sum of Cash and equivalents, and Marketable securities and short-term investments.

Reconciliation

(\$ in millions)	December 31,				
	2014	2013	2012	2011	2010
Short-term debt and current maturities of long-term debt	353	453	2,537	765	1,043
Long-term debt	7,312	7,538	7,497	3,215	1,139
Total debt	7,665	7,991	10,034	3,980	2,182
Cash and equivalents	5,443	6,021	6,875	4,819	5,897
Marketable securities and short-term investments	1,325	464	1,606	948	2,713
Cash and marketable securities	6,768	6,485	8,481	5,767	8,610
Net debt / (Net cash)	897	1,506	1,553	(1,787)	(6,428)

Cash return on invested capital (CROI)

Definition

Cash return on invested capital (CROI)

Cash return on invested capital is calculated as Adjusted cash return divided by Capital invested.

Adjusted cash return

Adjusted cash return is calculated as the sum of (i) net cash provided by operating activities, (ii) interest paid and (iii) estimate to annualize/eliminate the net cash provided by operating activities of certain acquisitions / (divestments).

Adjusted cash return for the trailing twelve months

Adjusted cash return for the trailing twelve months includes adjusted cash return as defined above recorded by ABB in the twelve months preceding the relevant balance sheet date.

Adjusted total fixed assets

Adjusted total fixed assets is the sum of (i) property, plant and equipment, net, (ii) goodwill, (iii) other intangible assets, net, and (iv) investments in equity-accounted companies less (v) deferred tax liabilities recognized in certain acquisitions.

Net working capital

Net working capital is the sum of (i) receivables, net, (ii) inventories, net, and (iii) prepaid expenses; less (iv) accounts payable, trade, (v) billings in excess of sales, (vi) advances from customers, and (vii) other current liabilities (excluding primarily: (a) income taxes payable, (b) current derivative liabilities, (c) pension and other employee benefits, and (d) payables under the share buyback program); and including the amounts related to these accounts which have been presented as either assets or liabilities held for sale.

Capital invested

Capital invested is the sum of (i) Adjusted total fixed assets, (ii) Net working capital and (iii) Accumulated depreciation and amortization.

Reconciliation

(\$ in millions, unless otherwise indicated)	Net cash	Interest paid
	provided by operating activities	
Q3 2014	1,169	25
Q4 2014	1,833	84
Q1 2015	53	53
Q2 2015	598	77
Adjusted for the trailing twelve months	3,653	239

(\$ in millions, unless otherwise indicated)	Trailing twelve months ended June 30, 2015	Year ended December 31,		
		2014	2013	2012
Adjusted cash return:				
Net cash provided by operating activities	3,653	3,845	3,653	3,779
Interest paid	239	259	287	189
Estimate to annualize/eliminate the net cash provided by operating activities of certain acquisitions / (divestments) ⁽¹⁾	4	(58)	86	(8)
Adjusted cash return	3,896	4,046	4,026	3,960

(\$ in millions, unless otherwise indicated)	June 30, 2015	December 31,		
		2014	2013	2012
Adjusted total fixed assets:				
Property, plant and equipment, net	5,327	5,652	6,254	5,947
Goodwill	9,870	10,053	10,670	10,226
Other intangible assets, net	2,519	2,702	3,297	3,501
Investments in equity-accounted companies	163	177	197	213
Fixed assets held for sale	66	–	–	–
Total fixed assets	17,945	18,584	20,418	19,887
Less: deferred taxes recognized in certain acquisitions ⁽²⁾	(1,928)	(1,928)	(1,959)	(1,773)
Adjusted total fixed assets	16,017	16,656	18,459	18,114
Net working capital:				
Receivables, net ⁽³⁾	11,071	11,078	12,146	11,575
Inventories, net	5,458	5,376	6,004	6,182
Prepaid expenses	304	218	252	311
Accounts payable, trade	(4,564)	(4,765)	(5,112)	(4,992)
Billings in excess of sales	(1,505)	(1,455)	(1,714)	(2,035)
Advances from customers	(1,512)	(1,624)	(1,726)	(1,937)
Other current liabilities ⁽⁴⁾	(3,030)	(3,286)	(3,541)	(3,544)
Net working capital in assets and liabilities held for sale	1	–	–	–
Net working capital	6,223	5,542	6,309	5,560
Accumulated depreciation and amortization:				
Accumulated depreciation of property, plant and equipment	6,963	6,905	7,127	6,599
Accumulated amortization of intangible assets including goodwill ⁽⁵⁾	2,921	2,767	2,793	2,321
Accumulated depreciation and amortization of assets held for sale	47	–	–	–
Accumulated depreciation and amortization	9,931	9,672	9,920	8,920
Capital invested	32,171	31,870	34,688	32,594
Cash return on invested capital (CROI)	12.1%	12.7%	11.6%	12.1%

⁽¹⁾ Divestments: In 2014 HVAC, Power Solutions, Steel Structures and Full Service. Acquisitions: In 2013 Power-One and in 2012 Thomas & Betts

⁽²⁾ Power-One acquired in 2013, Thomas & Betts acquired in 2012 and Baldor acquired in 2011.

⁽³⁾ At December 31, 2014, Receivables, net, included \$2,941 million of unbilled receivables.

⁽⁴⁾ Amounts exclude \$1,201 million at June 30, 2015, and excluded \$971 million, \$701 million and \$793 million at December 31, 2014, 2013 and 2012, respectively, related primarily to (a) income taxes payable, (b) current derivative liabilities, (c) pension and other employee benefits, and (d) payables under the share buyback program.

⁽⁵⁾ Includes accumulated goodwill amortization up to December 31, 2001. Thereafter goodwill is not amortized (under U.S. GAAP) but subject to annual testing for impairment.

Free cash flow conversion to net income

Definition

Free cash flow conversion to net income

Free cash flow conversion to net income is calculated as Free cash flow divided by Net income attributable to ABB.

Free cash flow (FCF)

Free cash flow is calculated as net cash provided by operating activities adjusted for: (i) purchases of property, plant and equipment and intangible assets, (ii) proceeds from sales of property, plant and equipment, and (iii) changes in financing and other non-current receivables, net (included in other investing activities).

Free cash flow for the trailing twelve months

Free cash flow for the trailing twelve months includes free cash flow recorded by ABB in the twelve months preceding the relevant balance sheet date.

Net income for the trailing twelve months

Net income for the trailing twelve months includes net income recorded by ABB in the twelve months preceding the relevant balance sheet date.

Reconciliation

Free cash flow conversion to net income for the trailing twelve months to June 30, 2015

(\$ in millions, unless otherwise indicated)	Net cash provided by operating activities	Purchase of property, plant and equipment and intangible assets	Proceeds from sale of property, plant and equipment	Changes in financing receivables and other non-current receivables	Net income attributable to ABB
Q3 2014	1,169	(222)	4	6	734
Q4 2014	1,833	(384)	7	1	680
Q1 2015	53	(176)	6	–	564
Q2 2015	598	(182)	18	11	588
Total for the trailing twelve months	3,653	(964)	35	18	2,566

Free cash flow conversion to net income

(\$ in millions, unless otherwise indicated)	Six months ended June 30, 2015	Year ended December 31,		
		2014	2013	2012
Net cash provided by operating activities	3,653	3,845	3,653	3,779
<i>Adjusted for the effects of:</i>				
Purchases of property, plant and equipment and intangible assets	(964)	(1,026)	(1,106)	(1,293)
Proceeds from sale of property, plant and equipment	35	33	80	40
Changes in financing receivables and other non-current receivables	18	5	5	29
Free cash flow	2,742	2,857	2,632	2,555
Net income attributable to ABB	2,566	2,594	2,787	2,704
Free cash flow conversion to net income	107%	110%	94%	94%

Book-to-bill ratio

Definition

Book-to-bill ratio is calculated as Orders received divided by Total revenues.

Reconciliation

(\$ in millions, unless otherwise indicated)	Six months ended June 30, 2015	Year ended December 31, 2014	Six months ended	
			December 31, 2014	June 30, 2014
Orders received	19,400	41,515	20,590	20,925
Total revenues	17,720	39,830	20,169	19,661
Book-to-bill ratio	1.09	1.04	1.02	1.06

Capex-to-D&A ratio

Definition

Capex-to-D&A ratio is calculated as Capital expenditure divided by Depreciation and amortization excluding acquisition-related amortization.

Reconciliation

(\$ in millions, unless otherwise indicated)	Year ended December 31,	
	2014	2013
Capital expenditure	1,026	1,106
Depreciation and amortization	1,305	1,318
Acquisition-related amortization	(380)	(390)
Depreciation and amortization excluding acquisition-related amortization	925	928
Capex-to-D&A ratio	111%	119%

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