Committed to unlocking value

Eric Elzvik, CFO
Agenda

Next Level Stage 1 and 2 – delivered

Current market environment

Next Level Stage 3 – committed to unlocking value
Next Level transformation

Strong operational momentum

Next Level Stage 1

- Productivity and cost savings programs delivering
- Shifting focus from EBITDA to earnings per share
- Improved capital efficiency; strong Free Cash Flow (FCF) conversion
- Managing an efficient balance sheet

Committed to unlocking value

Next Level Stage 2

Next Level Stage 3

Returned $8.7 bn\(^1\) to shareholders from 2014 to today

\(^1\)Includes cash returns to shareholders as dividends and under the share buyback program
Business transformation delivering

Driving margin accretion and mid-teens cash return on investment

7 consecutive quarters of margin improvement

Operating EBITA margin, %

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Margin</td>
<td>11.1%</td>
<td>11.7%</td>
<td>12.5%</td>
<td>11.7%</td>
<td>12.0%</td>
<td>12.7%</td>
<td></td>
</tr>
</tbody>
</table>

Cash return on invested capital (CROI)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>H1 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Margin</td>
<td>12.7%</td>
<td>13.4%</td>
<td>15.1%</td>
</tr>
</tbody>
</table>

Leading and consistent FCF generation

FCF, $ bn (4Q rolling)

- Competitor A: 12%
- Competitor B: 11%
- Competitor C: 7%

FCF, % revenue (4Q rolling)

- ABB: 11%
- Competitor A: 12%
- Competitor B: 11%
- Competitor C: 7%
- Competitor D: 5.1%
- Competitor E: 4.1%
- Competitor F: 4.0%

Leading cash return rate\(^1\) to shareholders

2013-2016YTD

Average annual cash return (dividend and share buyback, % of market cap)

- ABB: 5.6%
- Competitor A: 5.5%
- Competitor B: 5.4%
- Competitor C: 5.1%
- Competitor D: 4.1%
- Competitor E: 4.1%
- Competitor F: 4.0%

\(^1\)Calculation: sum of cash dividends paid and share buyback in respective year divided by the market capitalization at the beginning of the year
## Improving operational performance in a challenging market

**Status 2015 – 2020 financial targets**

**Group**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Target</th>
<th>Actual 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue growth</td>
<td>3 – 6%</td>
<td>0%</td>
</tr>
<tr>
<td>Operational EBITA % (H1 2016)</td>
<td>11 – 16%</td>
<td>12.3%</td>
</tr>
<tr>
<td>Operational EPS growth CAGR</td>
<td>10 – 15%</td>
<td>7%</td>
</tr>
<tr>
<td>FCF conversion to net income</td>
<td>&gt;90%</td>
<td>220%</td>
</tr>
<tr>
<td>CROI %</td>
<td>Mid-teens</td>
<td>15.1%</td>
</tr>
</tbody>
</table>

**Status as of June 2016 unless otherwise stated**

1. Average annual revenue growth on a like-for-like basis over 6 years, base year 2014; 2. Target is on a full-year basis; 3. CAGR = Compound annual growth rate, base year is 2014 and assuming constant exchange rates; 4. Temporary reduction possible in the event of larger acquisitions.
## Short term market conditions

### Pioneering technology

<table>
<thead>
<tr>
<th>Utilities</th>
<th>Industry</th>
<th>Transport &amp; Infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>T&amp;D:</strong> positive fundamental drivers, policy support intact</td>
<td><strong>Discrete &amp; hybrid industries</strong>: investment remains positive</td>
<td><strong>Transportation:</strong> rail growing, specialty ships strong, cargo challenged</td>
</tr>
<tr>
<td><strong>Solar and Wind:</strong> 5%+ growth</td>
<td><strong>Oil &amp; Gas:</strong> decline in upstream capex, downstream stable</td>
<td></td>
</tr>
<tr>
<td><strong>Conventional Power:</strong> fewer coal capacity additions, gas stable</td>
<td><strong>Mining &amp; metals:</strong> persistent overcapacity, bulk metal capacity clean-up</td>
<td><strong>Construction:</strong> solid, broad-based growth</td>
</tr>
</tbody>
</table>

### Globally

<table>
<thead>
<tr>
<th>Africa, Middle East and Asia</th>
<th>Americas</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>China:</strong> growth in T&amp;D, robotics and general industry, continued slowing in process</td>
<td><strong>US:</strong> considerable investment delay due to elections, consumer growing, industrials lagging</td>
<td><strong>Northern &amp; Central Europe:</strong> moderate growth overall, uncertainty in UK</td>
</tr>
<tr>
<td><strong>India:</strong> strong growth across multiple sectors</td>
<td><strong>Canada:</strong> infrastructure steady, mining and O&amp;G difficult</td>
<td><strong>Southern Europe:</strong> mixed, strong growth in Spain, Italy slow, Turkey affected by political events</td>
</tr>
<tr>
<td><strong>Middle East:</strong> persistent challenges, Saudi Arabia in particular</td>
<td><strong>Brazil:</strong> O&amp;G continues to decline, other industries bottoming</td>
<td></td>
</tr>
</tbody>
</table>

1 Including automotive, food & beverage, machinery
Mid-long term drivers remain intact
Driving investment into high growth markets

Utilities | Industry | Transport & Infrastructure
--- | --- | ---
Conventional power generation | O&G up-/mid-stream | Buildings
Renewables | O&G downstream, chemicals | Data centers
Transmission & distribution grid | Mining | Marine

Aligning with market outlook

Growth
Driving PIE¹ and growth initiatives
1,000 day programs, e.g. F&B (Re-) allocation of resources
Expansion in digital

Decline
Expansion of strongholds
Adjustment of capacity
Aligning footprint

¹PIE: Penetration, Innovation, Expansion; Note: 2016 – 2020 forecast; Source: Bloomberg, Rystad, IMS, AME and others
Building momentum to achieve double digit operational earnings per share growth

<table>
<thead>
<tr>
<th>Program</th>
<th>Outcome</th>
<th>On track</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proven cost-out programs (OpEx, SCM)</td>
<td>Safeguard profitability</td>
<td>✔️</td>
</tr>
<tr>
<td>White Collar Productivity program</td>
<td>Drive margin accretion</td>
<td>✔️</td>
</tr>
<tr>
<td>Net Working Capital program</td>
<td>Enhance capital efficiency</td>
<td>✔️</td>
</tr>
<tr>
<td>Active portfolio management</td>
<td>Transform business portfolio</td>
<td>✔️</td>
</tr>
</tbody>
</table>

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2016 White Collar Productivity savings ahead of plan

2016 WCP program savings\(^1\)

<table>
<thead>
<tr>
<th>2016 target</th>
<th>2016 new estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$400 mn</td>
<td>$550 mn +</td>
</tr>
</tbody>
</table>

- Lean business functions
- GBS & support functions
- Market-oriented complexity reduction

Major achievements, examples

- Sales: process simplification in 16 countries
- GBS already servicing 24 countries
- Simplified organization: 30% reduction of managerial layers
- White collar employees reduced by 8%\(^2\)
  (White Collar Productivity & capacity adjustments)

Greater than 50% bottom-line impact

\(^1\)Gross cost savings; \(^2\)Since 2014
White Collar Productivity commitment increased by 30% to $1.3 bn
Targeting more for the same cost\(^1\) over the same period

White Collar Productivity target gross cost savings

\[\begin{align*}
\text{Initial target} & \quad 2014 – 17 \\
\text{New target} & \quad 2014 – 17 \\
\end{align*}\]

- $1 bn
- $1.3 bn

\text{Timeline unchanged}
\text{Total costs unchanged}

\(^1\) Combined total restructuring and White Collar Productivity implementation costs
Solid execution of Net Working Capital management

Accelerated Net Working Capital reduction as a % of revenues

<table>
<thead>
<tr>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>19</td>
<td>18</td>
<td>17</td>
<td>16</td>
</tr>
<tr>
<td>15</td>
<td>14</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>10</td>
<td>11</td>
<td>12</td>
<td>13</td>
</tr>
</tbody>
</table>

Major achievements to date

- ~200 bps reduction in net working capital as % of revenues
- ~$800 mn cash generation from working capital improvement since Q2 2015\(^1\) with highest reduction in inventories and unbilled receivables
- Sustainable value chain optimization
- Improvement in all divisions\(^2\)

\(^1\)Q2 2015 to Q2 2016; \(^2\)NWC as percentage of revenues improved for all divisions between Q2 2014 and Q2 2016
Confirming Net Working Capital target of $2 bn reduction by 2017

ABB moving swiftly towards top-quartile performance

**Net Working Capital, % of revenue at December 31**

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABB</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Min.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Max.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Range of comparable peer group</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Further potential**

- Improve front-end sales and service inventory
- Enhance sales and operations planning
- Optimize receivables and payables management
- Applying advanced applications and analytics

1 Peer group of 9 companies
Continuing to drive active portfolio management

**Portfolio relevance**
- Market attractiveness
- Competitive position
- Offering
- Portfolio relevance
- Center of gravity
- Gap in current portfolio

**Financial performance**
- Revenue growth
- Op. EBITA margin
- CROI

**Outcome**
- Strengthen
- Fix / restructure
- Refocus / divest
- Partner / acquire

Target: higher growth, better margins, lower risk, better cash returns
Delivery set to continue
Concrete plan in place

Accelerating growth → Position business to move into target range

Proven cost-out programs 3 – 5%

White Collar Productivity program → Drive 40 – 60 bps of op. EBITA margin accretion p.a.

Active portfolio management

Net Working Capital program → Enhance business efficiencies

Improve cash returns

Double-digit earnings growth
**Confirming Group targets 2015 – 2020**

Increased operational EBITA margin corridor for Power Grids

<table>
<thead>
<tr>
<th>Group</th>
<th>Divisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue growth&lt;sup&gt;1&lt;/sup&gt;</td>
<td>Electrification Products</td>
</tr>
<tr>
<td>Operational EBITA %&lt;sup&gt;2&lt;/sup&gt;</td>
<td>Robotics and Motion</td>
</tr>
<tr>
<td>Operational EPS CAGR&lt;sup&gt;3&lt;/sup&gt;</td>
<td>Industrial Automation</td>
</tr>
<tr>
<td>FCF conversion to net income</td>
<td>Power Grids</td>
</tr>
<tr>
<td>CROI %&lt;sup&gt;4&lt;/sup&gt;</td>
<td></td>
</tr>
</tbody>
</table>

<sup>1</sup>Average annual revenue growth on a comparable basis over 6 years, base year 2014; <sup>2</sup>Target is on a full-year basis; <sup>3</sup>CAGR = Compound annual growth rate, base year is 2014 and assuming constant exchange rates; <sup>4</sup>Temporary reduction possible in the event of larger acquisitions; <sup>5</sup>Margin target of Power Grids will be in effect as of January 1, 2018; previous target 8 – 12%
Strong cash generation allows for significant deployment

Capital allocation priorities unchanged

**ABB’s strong cash generation, Free Cash Flow, $bn**

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Flow $bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>2.6</td>
</tr>
<tr>
<td>2014</td>
<td>2.9</td>
</tr>
<tr>
<td>2015</td>
<td>3</td>
</tr>
<tr>
<td>2020E</td>
<td></td>
</tr>
</tbody>
</table>

**Capital allocation priorities**

- Fund organic growth, R&D, capex at attractive CROI
- Steadily rising sustainable dividend
- Value-creating acquisitions
- Returning additional cash to shareholders
Capturing additional opportunities through acquisitions
Disciplined, clear strategic direction, proven criteria

**Logic**

<table>
<thead>
<tr>
<th>Products</th>
<th>Software &amp; Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Backward integration of strategic components</td>
<td>Backward integration of strategic components</td>
</tr>
<tr>
<td>Product gaps</td>
<td>Product gaps</td>
</tr>
<tr>
<td>Design / engineering</td>
<td>Design / engineering</td>
</tr>
<tr>
<td>Analytics / optimization</td>
<td>Analytics / optimization</td>
</tr>
<tr>
<td>Engineering / consulting</td>
<td>Engineering / consulting</td>
</tr>
<tr>
<td>Regional coverage</td>
<td>Regional coverage</td>
</tr>
</tbody>
</table>

**Criteria**

- Accelerating profitable growth
- Impactful and value creating
- Complementary strengths
- Cultural fit
- Integration capabilities available
- Financial criteria
  - Return > WACC by end of year 3
  - IRR > WACC plus specific hurdles
  - Retain “A” credit rating
  - EPS-accretive

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Continued commitment to deliver shareholder returns

$3 bn share buyback program planned 2017 – 2019

Second buyback program

Solid future performance and cash generation

In line with capital allocation priorities and cash flow generation

Managing ABB with an efficient balance sheet and retain “A” credit rating

Shareholders participate in strong cash generation, $bn

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Share buyback</td>
<td>3.5</td>
<td>5.2</td>
<td>3.0</td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share buyback¹</td>
<td></td>
<td></td>
<td>3.0</td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>10.2</td>
</tr>
</tbody>
</table>

¹Planned
Next Level stage 3 – committed to unlocking value

Accelerate growth including digital
Margin accretion through cost savings
Actively manage portfolio
Performance management in line with entrepreneurship

10 – 15% p.a. operational EPS growth
Mid-teens cash return on invested capital
Maintain strong free cash flow conversion
Deliver on working capital program

Attractive shareholder returns
Why own ABB

Strong positions in attractive markets

Pioneering technology leader

Clear transformation agenda driving operational EPS and CROI

Efficient balance sheet; generating attractive returns for shareholders

Committed to unlocking value
### 2015 key figures for the new divisions

Pro-forma

<table>
<thead>
<tr>
<th></th>
<th>Electrification Products</th>
<th>Robotics and Motion</th>
<th>Industrial Automation</th>
<th>Power Grids</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orders ($bn)</td>
<td>10.5</td>
<td>8.3</td>
<td>7.5</td>
<td>12.2</td>
</tr>
<tr>
<td>Revenues ($bn)</td>
<td>10.2</td>
<td>8.3</td>
<td>7.4</td>
<td>11.6</td>
</tr>
<tr>
<td>Operational EBITA ($bn)</td>
<td>1.5</td>
<td>1.3</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Operational EBITA margin (%)</td>
<td>14.7</td>
<td>15.7</td>
<td>12.0</td>
<td>7.5</td>
</tr>
</tbody>
</table>
1’000 day program White Collar Productivity

Financial impacts of program

<table>
<thead>
<tr>
<th>$ mn unless otherwise stated</th>
<th>Run-rate at the end of 2017</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross savings (run rate)</td>
<td>~1,300</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross savings (incremental y-o-y)</td>
<td>~25</td>
<td>&gt;550</td>
<td>450</td>
<td>300</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>$ mn unless otherwise stated</th>
<th>Total</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>1,200-1,250</td>
<td>420</td>
<td>450-490</td>
<td>290-330</td>
</tr>
</tbody>
</table>

1Non-operational; 2Restructuring and implementation