

# Glossary

## Comparable growth rates

Growth rates for certain key figures may be presented and discussed on a “comparable” basis. The comparable 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.

Comparable growth rates are also adjusted for changes in our business portfolio. Adjustments to our business portfolio occur due to acquisitions, divestments, or by exiting specific business activities or customer markets. 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 comparable growth rate. Certain portfolio changes which do not qualify as divestments under U.S. GAAP have been treated in a similar manner to divestments. Changes in our portfolio where we have exited certain business activities or customer markets are adjusted as if the relevant business was divested in the period when the decision to cease business activities was taken. We do not adjust for portfolio changes where the relevant business has annualized revenues of less than \$50 million.

## 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, related and implementation costs (as defined below),
- changes in the amount recorded for obligations related to divested businesses occurring after the divestment date (changes in obligations related to divested businesses),
- changes in estimates relating to opening balance sheets of acquired businesses (changes in pre-acquisition estimates),
- gains and losses from sale of businesses,
- acquisition- and divestment-related expenses and integration costs,
- certain other non-operational items, as well as
- 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).

Certain other non-operational items generally includes: certain regulatory, compliance and legal costs, certain asset write downs/impairments as well as other items which are determined by management on a case-by-case basis.

Operational EBITA is our measure of segment profit but is also used by management to evaluate the profitability of the Company as a whole.

## **Acquisition-related amortization**

Amortization expense on intangibles arising upon acquisitions.

## **Restructuring, related and implementation costs**

Restructuring, related and implementation costs consists of restructuring and other related expenses, as well as internal and external costs relating to the implementation of group-wide restructuring programs.

## **Operational revenues**

The Company presents Operational revenues solely for the purpose of allowing the computation of Operational EBITA margin. 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). Operational revenues are not intended to be an alternative measure to Total Revenues, which represent our revenues measured in accordance with U.S. GAAP.

## **Operational EPS**

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

## **Operational net income**

Operational net income is calculated as Net income attributable to ABB adjusted for the following:

- (i) acquisition-related amortization (as defined above),
- (ii) restructuring, related and implementation costs (as defined above),
- (iii) non-operational pension cost (credit),
- (iv) changes in obligations related to divested businesses,
- (v) changes in pre-acquisition estimates,
- (vi) gains and losses from sale of businesses,
- (vii) acquisition- and divestment-related expenses and integration costs,
- (viii) certain other non-operational items,
- (ix) 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
- (x) The amount of income tax on operational adjustments either estimated using the Adjusted Group effective tax rate or in certain specific cases, computed using the actual income tax effects of the relevant item in (i) to (viii) above.

## **Adjusted Group effective tax rate**

The Adjusted Group effective tax rate is computed by dividing an adjusted provision for taxes by an adjusted income from continuing operations before taxes. Certain amounts recorded in income from continuing operations before taxes and the related provision for taxes (primarily gains and losses from sale of businesses) are excluded from the computation.

## **Constant currency Operational EPS adjustment and Operational EPS growth rate (constant currency)**

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 difference in computed Operational net income is divided by the relevant weighted-average number of shares outstanding to identify the constant currency Operational EPS adjustment.

## **Net debt**

Net debt 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.

## **Net working capital as a percentage of revenues**

Net working capital as a percentage of revenues is calculated as Net working capital divided by Adjusted revenues for the trailing twelve months.

## **Net working capital**

Net working capital is the sum of (i) receivables, net, (ii) contract assets, (iii) inventories, net, and (iv) prepaid expenses; less (v) accounts payable, trade, (v) contract liabilities, and (vi) other current liabilities (excluding primarily: (a) income taxes payable, (b) current derivative liabilities, and (c) pension and other employee benefits); and including the amounts related to these accounts which have been presented as either assets or liabilities held for sale but excluding any amounts included in discontinued operations.

## **Adjusted revenues for the trailing twelve months**

Adjusted revenues for the trailing twelve months includes total revenues recorded by ABB in the twelve months preceding the relevant balance sheet date adjusted to eliminate revenues of divested businesses and the estimated impact of annualizing revenues of certain acquisitions which were completed in the same trailing twelve-month period.

## **Free cash flow conversion to net income**

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

## **Adjusted free cash flow**

Adjusted 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 adjusted 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.

## **Finance net**

Finance net is calculated as Interest and dividend income less Interest and other finance expense.

## **Book-to-bill ratio**

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

## **Return on capital employed (ROCE)**

Return on capital employed is calculated as post-tax operational EBITA divided by average capital employed.

## **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 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.

### **Capital invested**

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