

ABB: Solid progress on profitability

Zurich, Switzerland, July 21, 2016: Second-quarter highlights

- Operational EBITA margin¹ up +100 basis points to 12.7%
- All divisions in target margin corridor
- White collar productivity program delivering results
- Operational earnings per share¹ up +18%²
- Net Income \$406 million impacted by \$367 million³ of restructuring and restructuring-related expenses
- Base orders steady^{1,4}, continued market headwinds reflected in total orders -5%
- Revenues -2% on lower short-cycle volumes and timing of order backlog execution
- Cash flow from operating activities up +80% at \$1,082 million

“We improved our operational margin for the seventh consecutive quarter and significantly increased cash flow through relentless execution amid continued strong market headwinds and economic uncertainties,” said CEO Ulrich Spiesshofer.

“We delivered double digit operational earnings per share growth for the quarter and year-to-date, as cost savings contributed to the bottom line,” he said.

“Our continued focus on high growth segments dampened the impact of challenging markets like the process industries,” Spiesshofer said. “We are improving our cost and capital structure, as well as our productivity, and shaping a leaner, more agile ABB in a disciplined way. We have strengthened our leadership team and are executing our Next Level strategy, focused on accelerating sustainable value creation.”

Key Figures

(\$ in millions, unless otherwise indicated)	Q2 2016	Q2 2015	Change		H1 2016	H1 2015	Change	
			US\$	Comparable ¹			US\$	Comparable ¹
Orders	8,316	8,996	-8%	-5%	17,569	19,400	-9%	-6%
Revenues	8,677	9,165	-5%	-2%	16,580	17,720	-6%	-2%
Operational EBITA ¹	1,106	1,058	+5%		2,049	2,007	+2%	
as % of operational revenues ¹	12.7%	11.7%	+1.0pts		12.3%	11.4%	+0.9pts	
Net income	406	588	-31% ⁵		906	1,152	-21%	
Basic EPS (\$)	0.19	0.26	-28% ²		0.42	0.51	-19% ²	
Operational EPS ¹ (\$)	0.35	0.30	+16% ²	+18% ²	0.63	0.58	+9% ²	+10% ²
Cash flow from operating activities	1,082	598	484		1,334	651	683	

¹ For a reconciliation of non-GAAP measures, see “Supplemental Reconciliations and Definitions” in the attached Q2 2016 Financial Information

² EPS growth rates are computed using unrounded amounts. Comparable operational earnings per share is in constant currency (2014 exchange rates and not adjusted for changes in the business portfolio)

³ Restructuring and restructuring-related expenses include the incremental implementation costs in relation to the white collar productivity program

⁴ Growth rates for orders, revenues and order backlog are on a comparable basis (local currency adjusted for acquisitions and divestitures), previously referred to as ‘like-for-like’. US\$ growth rates are presented in Key Figures table

⁵ Net Income excluding certain amounts and non-operational items, also known as operational net income¹, grew +12%

Short-term Outlook

Macroeconomic and geopolitical developments are signaling a mixed picture with continued uncertainty. Some macroeconomic signs in the US remain positive and growth in China is expected to continue, although at a slower pace than in 2015. The market remains impacted by modest growth and increased uncertainties, e.g., Brexit in Europe and geopolitical tensions in various parts of the world. Oil prices and foreign exchange translation effects are expected to continue to influence the company's results.

ABB will host its Capital Markets Day on October 4, 2016, in Zurich, Switzerland, and report on the progress of its Next Level strategy, including the strategic portfolio review of its Power Grids division.

Q2 2016 Group Results

Orders

Total orders were 5 percent lower (8 percent in US dollars) compared with the second quarter of 2015, reflecting timing of large order awards. Base orders (below \$15 million) were steady (down 3 percent in US dollars), while large orders (\$15 million and above) were 39 percent lower (41 percent in US dollars). Large orders were lower in all divisions and represented 8 percent of total orders compared with 12 percent a year earlier. Service orders increased 4 percent (1 percent in US dollars) and represented 19 percent of total orders compared with 18 percent a year ago. A stronger US dollar versus the prior year period resulted in a negative translation impact on reported orders of 3 percent.

Market Overview

Demand patterns in ABB's three regions:

- Strong demand in Europe was primarily driven by construction, integration of renewable energy, and energy efficient solutions for transport. Industrial demand was mixed. Total orders improved 2 percent (steady in US dollars) and base orders grew 7 percent (6 percent in US dollars). Base order demand was strong in Germany, Spain, Sweden and Denmark, and weak in the UK amid uncertainties around Brexit.
- The Americas was weaker due to lower investments in process industries. Construction and utility demand was mixed and consumer industries were strong. Total orders declined 5 percent (8 percent in US dollars) on weaker large orders; base orders were 1 percent lower (4 percent in US dollars). US base order demand showed some sequential improvement; base orders in Brazil were strong as a result of ABB's focused growth initiatives.
- Demand in Asia, Middle East and Africa (AMEA) was mixed. China continued to invest in large grid interconnections and construction which was reflected in its strong order development. Total orders for the region were down 10 percent (13 percent in US dollars) as strong order development in China and India could not offset declines in Saudi Arabia and South Korea. Base orders declined 6 percent (9 percent in US dollars).

Demand patterns in ABB's three major customer sectors show a mixed picture:

- Utilities remained cautious but continued to make selective investments to integrate renewable energy and enhance energy security. ABB won orders of more than \$300 million in China to deliver key equipment for a 1,100 kV ultra-high voltage direct current power link.
- Industry: Automotive and consumer industries continued to drive demand; ABB won an order to improve energy efficiency in the greenfield Renault-Nissan and Daimler car factory in Mexico. Demand from the process industries remained subdued due to reduced capital expenditure, although some productivity and energy efficiency investments continued. ABB won an order from South Korea's largest steelmaker to supply high efficiency motors and drives technology at POSCO's Pohang Works hot rolling mill.

- The transport & infrastructure market was mixed, with continued demand for energy efficient solutions, particularly in data centers, rail and electric mobility; ABB received an order to provide additional fast chargers for hybrid electric buses in the city of Luxembourg.

The book-to-bill¹ ratio in the second quarter decreased slightly to 0.96x from 0.98x in the same quarter a year earlier. For the first six months, book-to-bill¹ is 1.06x. The order backlog at the end of June 2016 amounted to \$25 billion, an increase of 2 percent (3 percent decline in US dollars) compared with the end of the second quarter in 2015.

Revenues

Revenues declined 2 percent (5 percent in US dollars) in the second quarter, primarily due to lower short-cycle volumes and timing of order backlog execution. Revenues increased in Power Grids but were lower in the other divisions. A stronger US dollar versus the same period a year ago resulted in a negative currency translation impact on revenues of 2 percent. Exiting certain businesses in Power Grids had a negative impact on revenues of around 1 percent. Total service revenues increased 1 percent (decreased 2 percent in US dollars) and remained unchanged at 17 percent of total revenues compared with a year ago.

Operational EBITA

Operational EBITA improved 7 percent in local currencies (5 percent in US dollars) to \$1,106 million mainly due to a positive net savings. Operational EBITA margin increased for the seventh consecutive quarter. In the second quarter, it improved 100 basis points to 12.7 percent, reflecting the turnaround in Power Grids, strong margin accretion in Electrification Products, and ongoing Group-wide productivity and cost savings measures, such as the white collar productivity program.

Operational EPS and Net Income

Operational EPS was \$0.35, an increase of 18 percent² in constant currency compared with the same period a year earlier. Higher operational EBITA and a lower effective tax rate as well as a reduction in the weighted-average number of shares outstanding, contributed to the strong increase. Net income decreased to \$406 million and was impacted by restructuring and restructuring-related expenses of \$367 million³. Consequently, basic earnings per share was \$0.19 compared with \$0.26 for the same quarter of 2015. Operational net income¹, which excludes the large restructuring and restructuring-related expense and certain other amounts, increased 12 percent.

Cash Flow from Operating Activities

Cash flow from operating activities was up 80 percent in US dollars, improving by approximately \$484 million to \$1,082 million, primarily due to strong working capital management and lower income tax payments.

Shareholder Returns

As part of its \$4 billion share buyback program, ABB purchased 37.6 million shares, with a buyback value of approximately \$780 million, during the second quarter of 2016. Since the program was announced, the company has purchased a total of approximately 170 million shares with a buyback value of approximately \$3.5 billion.

In July 2016, based on the shareholders' vote at the company's annual general meeting on April 21, 2016, ABB paid a dividend of 0.74 Swiss francs per share in a tax efficient way and cancelled 100 million of the repurchased shares.

Next Level strategy

ABB is executing its Next Level strategy along its three focus areas of profitable growth, relentless execution and business-led collaboration. In stage 2 of the Next Level Strategy, ABB is accelerating its transformation to improve customer focus, and become leaner and more agile to deliver on its 2015-2020 targets and unlock further value.

Profitable Growth

With its new structure of four market focused global divisions, ABB is better positioned to drive organic growth by serving its customers in a way that meets their needs and delivers additional value. ABB drives profitable growth through its approach of Penetration, Innovation and Expansion (PIE).

- Penetration: Focused growth initiatives in mature markets like Europe delivered improved base order growth. In the tough market environment, the BRIC countries (Brazil, Russia, India and China) grew total orders. Three grew base orders, while China was stable.
- Innovation: New offerings and value propositions continued to strengthen ABB's competitiveness and demand for its innovative solutions. ABB's collaborative robot, YuMi, won the industry's most prestigious innovation award in Q2. Two new robotics offerings: "Connected Services" and "SafeMove2" will strengthen ABB's position in software solutions for improving robot uptime and performance optimization, as well as safety certified robot monitoring.
- Expansion: ABB gained access to the Japanese market for high voltage direct current (HVDC), winning its first orders through its joint venture with Hitachi. This success paves the way for a new business model for the Power Grids division.

Relentless Execution

Stage 2 of the Next Level strategy aims to close the gap in operating performance between ABB and its best-in-class peers.

ABB's white collar productivity (WCP) program, aimed at optimizing business functions, shared services and reducing organizational complexity, achieved a key milestone in the quarter with the consolidation of the Group headquarters resulting in a significant reduction of its size. The two global shared service centers went into operation in Bangalore, India, and Krakow, Poland, an important step forward in the consolidation of functions like finance and HR. With these and other initiatives, ABB is well on track to achieve the 2016 targeted white collar productivity savings of \$400 million.

The program to reduce working capital is well on track to meet its target of freeing up at least \$2 billion in cash by the end of 2017. In the last twelve months, net working capital as a percentage of revenues fell 150 basis points. The ambition is to drive best-in-class capital performance throughout the value chain in inventory and unbilled receivables.

Business-led Collaboration

ABB strengthened its leadership with the appointment of Sami Atiya to its Executive Committee as President of the Discrete Automation and Motion (DM) division, effective June 13, 2016. With his extensive experience in leading industrial portfolios across a wide range of markets and geographies, Atiya is well positioned to steer DM through the next phase of transforming ABB into a leaner, more agile and customer-focused technology company. With his background in robotics, software and artificial intelligence, Atiya will play a key role in helping ABB's customers take advantage of the opportunities created by the digital revolution in industry.

Outlook

Macroeconomic and geopolitical developments are signaling a mixed picture with continued uncertainty. Some macroeconomic signs in the US remain positive and growth in China is expected to continue, although at a slower pace than in 2015. The market remains impacted by modest growth and increased uncertainties relating to Brexit in Europe, and geopolitical tensions in various parts of the world. Oil prices and foreign exchange translation effects are expected to continue to influence the company's results.

The long-term demand outlook in ABB's three major customer sectors — utilities, industry and transport & infrastructure — remains positive. Key drivers are the big shift in the electricity value chain, industrial productivity improvements through the Internet of Things, Services and People (IoTSP), as well as rapid urbanization and the need for energy efficiency in transport & infrastructure.

ABB is well positioned to tap these opportunities for long-term profitable growth with its strong market presence, broad geographic and business scope, technology leadership and financial strength.

Q2 Divisional Performance

(\$ in millions, unless otherwise indicated)	Orders	Change		Revenues	Change		Operational EBITA %	Change
		US\$	Comparable		US\$	Comparable		
Electrification Products	2,451	-5%	-2%	2,397	-4%	-1%	17.3%	+0.8pts
Discrete Automation & Motion	2,201	-9%	-8%	2,221	-5%	-3%	14.0%	-0.5pts
Process Automation	1,369	-22%	-20%	1,717	-8%	-6%	12.2%	-0.1pts
Power Grids	2,655	-4%	0%	2,779	-6%	+1%	9.0%	+2.2pts
Corporate & other (incl. inter-division elimination)	-360			-437				
ABB Group	8,316	-8%	-5%	8,677	-5%	-2%	12.7%	+1.0pts

Electrification Products

Orders were mixed as positive order development in Europe could not offset declines in the Americas and AMEA. Product orders were stronger in Germany and Russia but softer in China, Saudi Arabia, and the US, with the lower demand pattern impacting revenues. Capacity adjustments to address the shift in demand were implemented swiftly in the quarter. Operational EBITA margin improved ~80 basis points on additional cost savings and some positive mix.

Discrete Automation and Motion

Total orders were impacted by lower large orders and steady third party base order development. Continued strong demand patterns in automotive and food and beverage could not fully offset the capex declines in process industries such as oil and gas. Revenues were impacted by lower volumes and timing of order backlog execution. The implementation of focused capacity adjustments and productivity measures resulted in improved margin for the second consecutive quarter and the division re-entering the target margin corridor.

Process Automation

Reduced capital expenditure and cautious discretionary spending in process industries impacted large and base orders. Total orders declined 20 percent (22 percent in US dollars) while third party base orders were 8 percent lower (10 percent in US dollars). Revenues were lower on execution timing of the order backlog and lower base order demand. Operational EBITA margin was basically stable as early initiated cost and productivity savings largely offset lower volumes and reduced capacity utilization.

Power Grids

Strong third party base order growth of 7 percent (4 percent in US dollars) compensated for lower large orders; total orders were steady. Revenues were higher, reflecting solid conversion of the order backlog. The operational EBITA margin of 9 percent was significantly higher than in the second quarter of 2015 based on improved volumes, and productivity and cost savings, e.g., the ongoing step change program. This result includes additional project costs for the remediation actions taken with regards to cable components. The strategic portfolio review is progressing according to plan and ABB will report on this review at its Capital Markets Day in October 2016.

More information

The Q2 2016 results press release and presentation slides are available on the ABB News Center at www.abb.com/news and on the Investor Relations homepage at www.abb.com/investorrelations.

ABB will host a press conference today starting at 10:00 a.m. Central European Time (CET) (9:00 a.m. BST, 4:00 a.m. EDT). The event will be accessible by conference call. UK callers should dial +44 203 059 58 62. From Sweden, the number is +46 85 051 00 31, and from the rest of Europe, +41 58 310 50 00. Callers from the US and Canada should dial +1 866 291 41 66 (toll free) or +1 631 570 56 13 (long distance tariff). Lines will be open 10-15 minutes before the start of the conference. A podcast of the media conference will be available for one week afterwards. The podcast will be accessible [here](#).

A conference call for analysts and investors is scheduled to begin today at 2:00 p.m. CET (1:00 p.m. BST, 8:00 a.m. EDT). UK callers should dial +44 203 514 3188. From Sweden, the number is +46 85 051 00 31, and from the rest of Europe, +41 58 310 50 00. Callers from the US and Canada should dial +1 800 860 2442 (toll-free) or +1 412 858 4600 (long distance tariff). Callers are requested to phone in 10 minutes before the start of the call. The call will also be accessible on the ABB website and a recorded session will be available as a podcast one hour after the end of the conference call and can be downloaded from our website www.abb.com

Investor calendar 2016

Capital Markets Day, Zurich	October 4, 2016
Third-quarter 2016 results	October 27, 2016
Fourth-quarter and full year 2016 results	February 8, 2017

ABB (www.abb.com) is a leading global technology company in power and automation that enables utility, industry, and transport & infrastructure customers to improve their performance while lowering environmental impact. The ABB Group of companies operates in roughly 100 countries and employs about 135,000 people.

Important notice about forward-looking information

This press release includes forward-looking information and statements as well as other statements concerning the outlook for our business, including those in the Short-term outlook, Next Level Strategy and Outlook sections of this release. These statements are based on current expectations, estimates and projections about the factors that may affect our future performance, including global economic conditions, the economic conditions of the regions and industries that are major markets for ABB Ltd. These expectations, estimates and projections are generally identifiable by statements containing words such as “expects,” “believes,” “estimates,” “targets,” “plans,” “is likely” or similar expressions. However, there are many risks and uncertainties, many of which are beyond our control, that could cause our actual results to differ materially from the forward-looking information and statements made in this press release and which could affect our ability to achieve any or all of our stated targets. The important factors that could cause such differences include, among others, business risks associated with the volatile global economic environment and political conditions, costs associated with compliance activities, raw materials availability and prices, market acceptance of new products and services, changes in governmental regulations and currency exchange rates and such other factors as may be discussed from time to time in ABB Ltd's filings with the U.S. Securities and Exchange Commission, including its Annual Reports on Form 20-F. Although ABB Ltd believes that its expectations reflected in any such forward-looking statement are based upon reasonable assumptions, it can give no assurance that those expectations will be achieved.

Zurich, July 21, 2016
Ulrich Spiesshofer, CEO

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