

Ulrich Spiesshofer, CEO; Eric Elzvik, CFO, October 22<sup>nd</sup>, 2014

## ABB delivers strong order growth

Q3 2014 results presentation

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# Q3 2014 key takeaways ABB delivers strong order growth in Q3

#### **Profitable Growth**

Orders up 28%<sup>1</sup>, large orders in power and oil & gas

Base orders up 5<sup>th</sup> consecutive quarter

Double-digit service growth

Book-to-bill at 1.14x

Q3 revenue reflects lower opening order backlog

Orders show results from 1<sup>st</sup> year of PIE initiatives

#### Relentless Execution

PS 'step change' on track; Q3 operational EBITDA breakeven

Operational EBITDA reflects lower revenues and PS

Cost reduction and cash generation on track

\$4 bn share buyback launched, \$350 mn purchased

Solid progress in PS, good execution on cost and cash

#### **Business-led Collaboration**

Organizational realignment well underway for smooth implementation on Jan. 1

- Roles and responsibilities
- Global business lines
- · Regional structure
- Management appointments

Streamlining market-focused organization on track

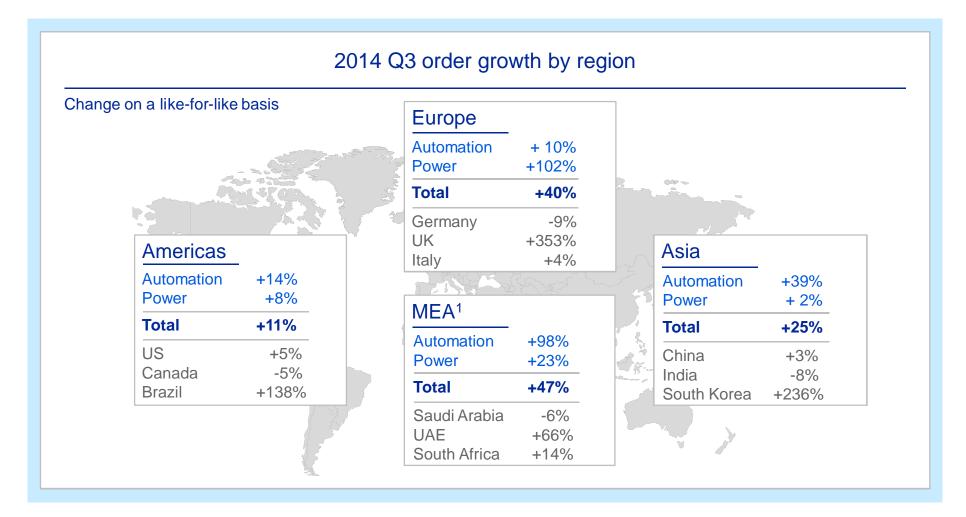
Launched Next Level strategy aimed at accelerating sustainable value creation



## Q3 2014 Key figures

	Q3 14	Q3 13	Change
\$ mn unless otherwise indicated			
Orders	11,225	9,089	+28%1
Revenues	9,823	10,535	-4% <sup>1</sup>
Operational EBITDA	1,418	1,638	-13%
as % of operational revenues	14.3%	15.7%	
Income from operations	1,222	1,324	-8%
as % of revenues	12.4%	12.6%	
Net income	734	835	-12%
Basic earnings per share (\$)	0.32	0.36	
Cash from operating activities	1,169	1,241	-6%

## Power and automation growth in all regions Overview



## Large orders more than tripled

#### 2014 Q3 large order examples

#### **Americas**

#### \$100-mn mine automation, Brazil

- Combined automation and power solution
- Improves productivity, lowers environmental impact

#### Europe

#### \$800-mn HVDC, UK

- Attractive profitability and risk profile
- Leverage ABB technology, strong track record on execution

#### MEA

#### \$200-mn gas treatment plant, Tunisia

- Targeting higher-growth oil & gas segment
- Power and automation combination as a competitive advantage

#### Asia

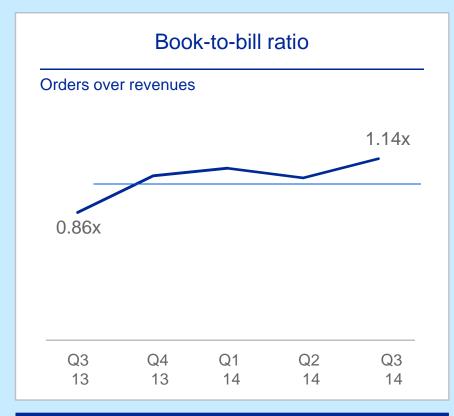
#### \$30-mn power substation, Bangladesh

- Targeting urbanization and infrastructure in emerging markets
- Turnkey substations

# Broad-based order momentum through PIE Well executed across businesses and regions

Base order growth					
% change <sup>1</sup> Q3 14 vs Q3 13					
Brazil	+3%				
Canada	+9%				
China	+4%				
Finland	+13%				
Germany	+4%				
France	+6%				
Japan	+7%				
Saudi Arabia	+63%				
Switzerland	+8%				
UK	+14%				



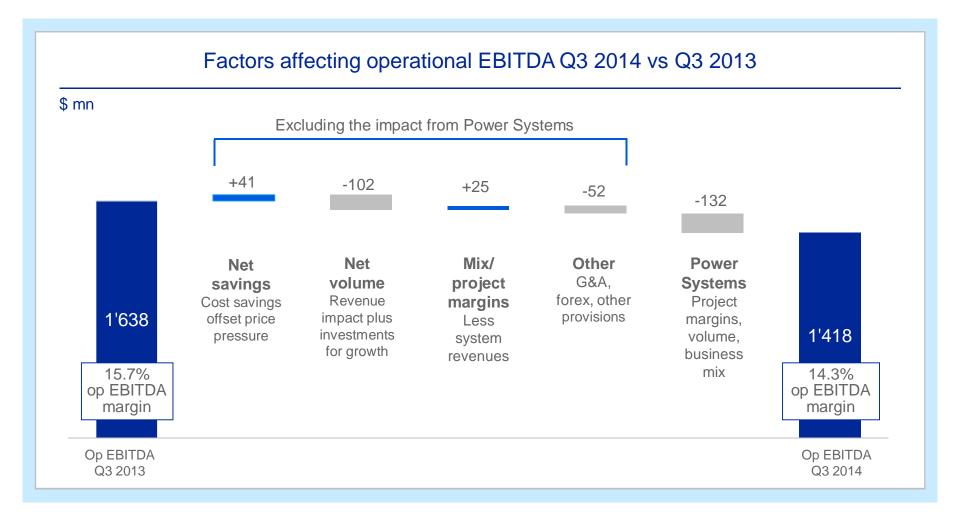


Supports revenue growth in 2015 and beyond



## Operational EBITDA bridge Solid execution on cost offset by volume

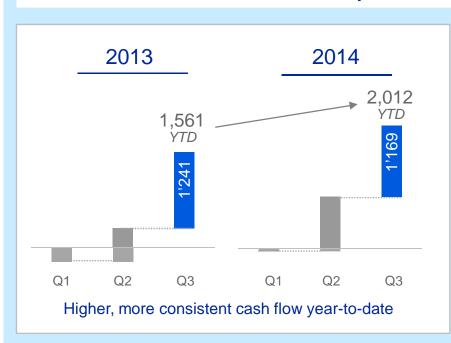
### Solid execution on cost offset by volume effects and PS



#### Cash flow

### Cash from operations up ~\$400 million year-to-date

#### Quarterly cash from operations (\$ mn)



Q3 cash flow lower vs 2013

- NWC improvements—lower as % of revenues
- Offset by net income decrease

Cash from operations up 29% year-to-date

Focused efforts to generate a more even distribution of quarterly cash flows over the year

\$4-bn share buyback program:

15.4 mn shares purchased in quarter

Buyback value of \$350 mn

## Key figures Q3 2014 Divisional overview

\$ mn unless otherwise stated	Orders	Like-for-like	Revenues	Like-for-like	Operational EBITDA%	$\triangle$	Cash flow from operations	$\triangle$
Discrete Automation and Motion	2,697	+14%	2,635	+4%	18.1%	-0.7pts	409	-117
Low Voltage Products	1,914	+3%	1,921	+3%	18.9%	-0.8 pts	308	-127
Process Automation	2,622	+58%	1,899	-6%	12.6%	-1.0 pts	258	-13
Power Products	2,725	+13%	2,455	-8%	14.6%	0 pts	325	+118
Power Systems	2,177	+84%	1,637	-19%	0.5%	-6.5pts	(92)	+26
Corporate	(910)		(724)				(39)	+41
ABB Group	11,225	+28%	9,823	-4%	14.3%	-1.4 pts	1,169	-72

## ABB – Next Level

### Shaping a global leader in power & automation

Presented September 9th, 2014

Shifting the center of gravity Strengthening competitiveness **Profitable**  Driving organic growth momentum growth Lowering risk Well Incremental acquisitions and partnerships positioned Leading operating model Delivering attractive Driving change through 1'000-day Relentless shareholder returns programs execution Linked strategy, performance management 2014-2016 and compensation share buy-back Simplifying how we work together Attractive **Business-led** markets Streamlining market focused organization collaboration Leadership development Accelerating sustainable value creation

#### ABB - Next Level

#### Profitable growth: Penetration, innovation and expansion

Example

**Penetration** Industry growth initiatives drove solid order growth in PP **Profitable** growth \$70-mn rail modernization order for Swiss Federal Railways Well Improved penetration of installed base drives 10%<sup>1</sup> service order positioned growth, incl. >30% service growth in Power Products in China **Innovation** 525 kV HVDC cable breakthrough to double power capacity Relentless 800xA MIDAS control system to improve mine automation execution World's most powerful frequency converter order for German rail YuMi® human-friendly dual arm robot **Expansion** Attractive Business-led New drives factory in Malaysia markets collaboration Singapore robotics solutions hub Accelerating sustainable value creation

#### ABB - Next Level

## Expansion: ABB-Vestas microgrid alliance

Example

Well positioned



Attractive markets

**Profitable** growth

Relentless execution

Microgrid solutions Grid control

Electrical infrastructure

Service solutions

Affordable, reliable, environmentally friendly electricity for communities in Africa







Refurbished wind turbines Project development **EPC** responsibility Local turbine service

Business-led collaboration

Other recently-announced partnerships

ABB-Volvo for e-vehicle charging ABB-BYD for energy storage solutions ABB joins UNEP network for increased energy efficiency

Accelerating sustainable value creation

#### ABB – Next Level

### Relentless execution: Driving cost savings and profitability

Example

**Cost savings** Leading operating model Profitable Operational improvements in Q3 savings in line with longterm ambition (3-5% COS<sup>1</sup>) high-voltage capacitors (Sweden) growth Well positioned Project examples: Actions: Streamlined plant layout Bundled purchasing of 140,000t carbon steel/yr Optimized white collar Relentless processes (Europe) execution Integrated sales tools eSourcing lowers lowvoltage cable costs Outcome: (Americas) Revenue productivity up ~40% Packaging re-design to Lead times reduced by ~50% Attractive reduce logistics costs Business-led Inventory turns doubled markets (Europe) collaboration Accelerating sustainable value creation

#### ABB - Next Level

#### Relentless execution: Power Systems 'step change' update

Power Systems update Profitable Milestones achieved in critical projects growth Dolwin 1 HVDC system energized Well Dolwin 2 platform being commissioned in Norway positioned Solar EPC on track to close 90% by end 2014 Lowering cost Capacity rationalization Relentless Cost out measures on target execution Standardizing engineering solutions Adapting the business model De-risk EPC New model: system integrator Attractive **Growing profitable base business** Business-led markets Using PIE for market visibility and channels collaboration Consulting and services Capitalize on broad market presence Accelerating sustainable value creation

#### ABB - Next Level

### Business-led collaboration: Simplifying how we work together

Example

Organizational realignment well underway for smooth implementation on Jan. 1 Profitable growth Regional structure Roles and responsibilities Well Management appointments Global business lines positioned Relentless execution Europe Attractive Asia, Middle East & Africa **Business-led** markets collaboration Accelerating sustainable value creation

# Implementing the Next Level strategy Management team is mobilizing the entire organization

#### Next Level: accelerating sustainable value creation

Strategy and new financial targets announced in September

Focused, phased and rigorous implementation

- Internal communication and employee mobilization on track
- EC has briefed 12,000 employees face-to-face
- Staged roll-out in waves across countries and regions
- 1,000-day project teams and processes being put in place

Regional realignment (from 8 to 3 regions) and shared services consolidation underway

Actions taken to drive "Leading operating model" across the organization

Performance tracking tools being put in place

#### **Execution focus with continuous tracking and follow-up**

## Q3 summary and outlook Solid results despite increased uncertainty

#### Q3 results

ABB delivers strong order growth

- Orders up 28%<sup>1</sup> driven by large orders in power infrastructure and oil and gas
- Base orders increased for 5th consecutive quarter
- PS 'step change' program on track, operational EBITDA at breakeven in Q3
- Revenues and operational EBITDA reflect lower order backlog and Power Systems (PS)
- Cost reduction and cash generation on track
- Launched Next Level strategy aimed at accelerating sustainable value creation

#### Outlook

Long-term demand outlook remains positive

Growth drivers in place for utility, industry and transportation & infrastructure markets

Short-term picture is mixed, uncertainty has increased

Expect continued growth in US, China

Market remains impacted by slow growth in Europe, political tensions, health situation in Africa

Management team aims to continue to outgrow market in major customer segments

Driving Next Level strategy throughout the organization



## Key figures Q3 and 9-months 2014

	Q3 14	Q3 13		Change		9-mo. 14	9-mo. 13		Change	
\$ mn unless otherwise indicated			\$	Local currency	Like- for-like			\$	Local currency	Like- for-like
Orders	11'225	9'089	+24%	+25%	+28%	32'150	28'893	+11%	+13%	+13%
Order backlog (end September)	27'005	27'454	-2%	+4%						
Revenues	9'823	10'535	-7%	-6%	-4%	29'484	30'475	-3%	-2%	-2%
Income from operations	1'222	1'324	-8%			3'129	3'564	-12%		
as % of revenues	12.4%	12.6%				10.6%	11.7%			
Operational EBITDA	1'418	1'638	-13%			4'020	4'657	-14%		
as % of operational revenues	14.3%	15.7%				13.6%	15.3%			
Net income	734	835	-12%			1'914	2'262	-15%		
Basic earnings per share (\$)	0.32	0.36				0.83	0.99			
Cash from operating activities	1'169	1'241	-6%			2'012	1'561	+29%		

## Order backlog by division

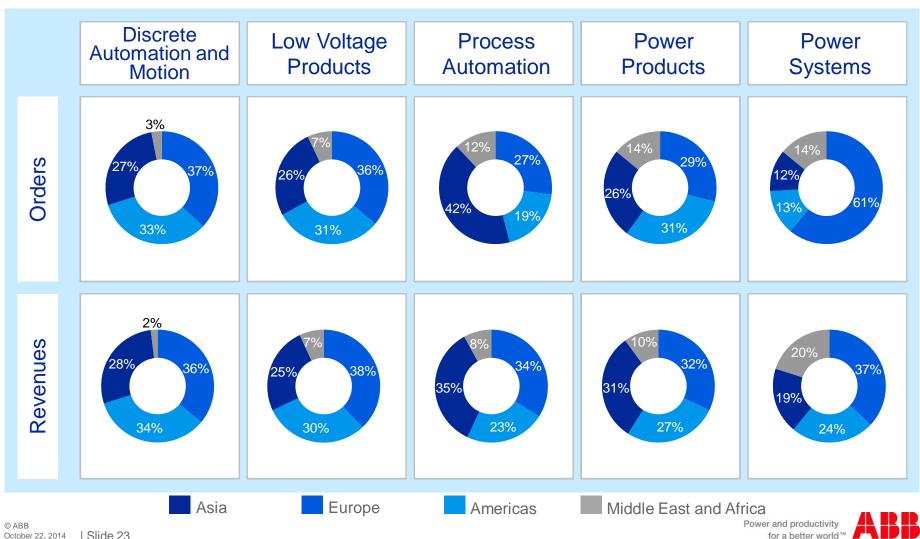
	2014	2013	Change %		
Order backlog (end September) \$ mn			\$	Local currencies	
Discrete Automation and Motion	4'741	4'532	+5%	+9%	
Low Voltage Products	994	1'242	-20%	-17%	
Process Automation	6'230	5'995	+4%	+10%	
Power Products	8'297	8'479	-2%	+3%	
Power Systems	9'128	9'954	-8%	-2%	
Consolidation and Other (incl. Inter-division eliminations)	(2'385)	(2'748)			
Total Group	27'005	27'454	-2%	+4%	

## Operational EPS analysis

	Q	3 14	Q:	3 13	
\$ mn, except per share data in \$		EPS <sup>1</sup>		EPS <sup>1</sup>	△2
Net income (attributable to ABB)	734	0.32	835	0.36	-12%
Restructuring and restructuring- related expenses <sup>3</sup>	40	0.02	29	0.01	
Gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items <sup>4</sup>	(103)	(0.04)	43	0.02	
FX/commodity timing differences in Income from operations <sup>3</sup>	56	0.02	(82)	(0.04)	
Acquisition-related amortization <sup>3</sup>	68	0.03	72	0.03	
Operational net income	795	0.35	897	0.39	-11%

<sup>&</sup>lt;sup>1</sup> EPS amounts are computed separately, therefore the sum of the per share amounts shown may not equal to the total; <sup>2</sup> Calculated on basic earnings per share before rounding; <sup>3</sup> Net of tax at the Adjusted Group effective tax rate; <sup>4</sup> Net of tax at the Adjusted Group effective tax rate, except for gains and losses on sale of businesses which are net of the actual provision for taxes

### Regional share of total orders and revenues by division Q3 2014



# Discrete Automation & Motion Q3 2014 summary







Increased in all businesses and regions

Driven by initiatives to drive base orders—including service—and continued demand growth in rail and marine Increase driven mainly by execution of strong order backlog in robotics, as well as power conversion and service

Margin decline reflects the dilutive impact from Power-One

Excluding that impact, operational EBITDA margin was higher vs year-earlier period

## Low Voltage Products Q3 2014 summary







Like-for-like orders steady to higher in all businesses

Growth in all regions except Europe which was steady vs Q3 13 Revenues grew in line with orders

Operational EBITDA margin mainly reflects higher share of lower-margin system revenues

# Process Automation Q3 2014 summary



Revenues
\$ mn, y-o-y change like-for-like

-6%

821,2

Q3 12

Q3 13

Q3 14



Large oil & gas, marine and mining orders offset lower base orders

Orders up strongly in all regions

Revenues reflect lower opening order backlog

Decline mainly reflects impact of lower revenues and comparison with very strong result in previous Q3

## Power Products Q3 2014 summary







Large and base orders up, supported by industry and selective transmission investments

Double-digit growth in Europe, Americas, Middle East and Africa; lower in Asia but growth in China Revenue decline mainly reflects lower opening order backlog

Operational EBITDA margin steady as a result of continued cost savings and favorable mix

## Power Systems Q3 2014 summary







Base and large orders up

Utilities remain cautious in power transmission investments

ABB continues to be selective, focusing on margin and pull-through

Revenues impacted by lower opening order backlog and execution delays in selected projects

Operational EBITDA and margin mainly reflect continued impact of project-related costs in offshore wind and EPC solar

Lower revenues also affected earnings

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