

Supplemental financial information December 31, 2014

ABB presents the following financial measures to supplement its Interim Consolidated Financial Information (unaudited) which is prepared in accordance with United States generally accepted accounting principles (U.S. GAAP). 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 year and three months ended December 31, 2014.

Like-for-like Growth Rates

The like-for-like growth rates of revenues and orders are calculated by adjusting reported revenues and orders, in both the current and comparable periods, for the effects of currency translation and portfolio changes. 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 revenues and orders of such business are adjusted to exclude the revenues and orders of any corresponding quarters which are not comparable when computing the like-for-like growth rate. In addition, certain other adjustments, which affect the business portfolio but do not qualify as a divestment, are treated in a similar manner to a divestment. We do not adjust for portfolio changes where the business acquired or divested has annual revenues of less than \$50 million.

Operational EBITDA margin

Definition

Operational EBITDA margin

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

Operational EBITDA

Operational EBITDA represents Income from operations excluding depreciation and amortization, 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).

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).

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Reconciliation

Year ended December 31, 2014

(\$ in millions, unless otherwise indicated)	Discrete Automation and Motion	Low Voltage Products	Process Automation	Power Products	Power Systems	Corporate and Other Intersegment elimination	Consolidated
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
Depreciation and amortization	309	301	88	217	175	215	1,305
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 EBITDA	1,760	1,429	1,029	1,519	5	(342)	5,400
Operational EBITDA margin (%)	17.4%	18.9%	12.9%	14.7%	0.1%	-	13.5%

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Year ended December 31, 2013

(\$ in millions, unless otherwise indicated)	Discrete Automation and Motion	Low Voltage Products	Process Automation	Power Products	Power Systems	Corporate and Other and Intersegment elimination	Consolidated
Total revenues	9,915	7,729	8,497	11,032	8,375	(3,700)	41,848
<i>Foreign exchange/commodity timing differences in total revenues:</i>							
Unrealized gains and losses on derivatives	(9)	5	14	6	(1)	-	15
Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized	1	-	7	7	(10)	-	5
Unrealized foreign exchange movements on receivables (and related assets)	(2)	(4)	(5)	(9)	5	-	(15)
Operational revenues	9,905	7,730	8,513	11,036	8,369	(3,700)	41,853
Income (loss) from operations	1,458	1,092	990	1,331	171	(655)	4,387
Depreciation and amortization	285	323	87	223	183	217	1,318
Restructuring and restructuring-related expenses	19	31	31	66	101	4	252
Gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items	33	16	(6)	19	4	115	181
<i>Foreign exchange/commodity timing differences in income from operations:</i>							
Unrealized gains and losses on derivatives (foreign exchange, commodities, embedded derivatives)	(14)	8	(6)	(12)	(28)	(8)	(60)
Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized	1	-	-	6	(21)	-	(14)
Unrealized foreign exchange movements on receivables/payables (and related assets/liabilities)	1	(2)	-	4	9	(1)	11
Operational EBITDA	1,783	1,468	1,096	1,637	419	(328)	6,075
Operational EBITDA margin (%)	18.0%	19.0%	12.9%	14.8%	5.0%	-	14.5%

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Three months ended December 31, 2014

(\$ in millions, unless otherwise indicated)	Discrete Automation and Motion	Low Voltage Products	Process Automation	Power Products	Power Systems	Corporate and Other and Intersegment elimination	Consolidated
Total revenues	2,583	1,793	2,094	2,825	1,965	(914)	10,346
<i>Foreign exchange/commodity timing differences in total revenues:</i>							
Unrealized gains and losses on derivatives	9	2	12	5	29	-	57
Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized	-	-	10	2	22	1	35
Unrealized foreign exchange movements on receivables (and related assets)	(6)	1	(6)	(2)	(13)	-	(26)
Operational revenues	2,586	1,796	2,110	2,830	2,003	(913)	10,412
Income (loss) from operations	357	267	353	330	(47)	(211)	1,049
Depreciation and amortization	75	74	21	53	39	55	317
Restructuring and restructuring-related expenses	11	16	17	16	29	4	93
Gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items	-	(12)	(122)	6	2	4	(122)
<i>Foreign exchange/commodity timing differences in income from operations:</i>							
Unrealized gains and losses on derivatives (foreign exchange, commodities, embedded derivatives)	2	1	9	(2)	21	(9)	22
Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized	-	-	6	2	14	-	22
Unrealized foreign exchange movements on receivables/payables (and related assets/liabilities)	(1)	9	(6)	5	(9)	1	(1)
Operational EBITDA	444	355	278	410	49	(156)	1,380
Operational EBITDA margin (%)	17.2%	19.8%	13.2%	14.5%	2.4%	-	13.3%

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Three months ended December 31, 2013

(\$ in millions, unless otherwise indicated)	Discrete Automation and Motion	Low Voltage Products	Process Automation	Power Products	Power Systems	Corporate and Other and Intersegment elimination	Consolidated
Total revenues	2,687	2,022	2,261	3,070	2,300	(967)	11,373
<i>Foreign exchange/commodity timing differences in total revenues:</i>							
Unrealized gains and losses on derivatives	-	1	8	3	6	-	18
Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized	1	-	(2)	2	(6)	-	(5)
Unrealized foreign exchange movements on receivables (and related assets)	(3)	(2)	(1)	7	(1)	-	-
Operational revenues	2,685	2,021	2,266	3,082	2,299	(967)	11,386
Income (loss) from operations	357	283	263	356	(169)	(267)	823
Depreciation and amortization	81	82	22	60	48	59	352
Restructuring and restructuring-related expenses	12	14	17	28	85	2	158
Gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items	14	7	(8)	9	3	64	89
<i>Foreign exchange/commodity timing differences in income from operations:</i>							
Unrealized gains and losses on derivatives (foreign exchange, commodities, embedded derivatives)	1	1	6	-	-	(1)	7
Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized	-	-	(4)	2	(18)	-	(20)
Unrealized foreign exchange movements on receivables/payables (and related assets/liabilities)	(2)	(1)	-	12	1	(1)	9
Operational EBITDA	463	386	296	467	(50)	(144)	1,418
Operational EBITDA margin (%)	17.2%	19.1%	13.1%	15.2%	-2.2%	-	12.5%

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Operational EBITA margin

In line with the updated financial targets in the company's Next Level strategy, ABB will change to reporting operational EBITA instead of operational EBITDA with its first quarter 2015 results.

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 EBITDA to Operational EBITA Reconciliation

(\$ in millions)	Year ended December 31,	
	2014	2013
Operational EBITDA	5,400	6,075
Depreciation and amortization	(1,305)	(1,318)
Acquisition-related amortization	380	390
Operational EBITA	4,475	5,147
Operational EBITA margin (%)	11.2%	12.3%

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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.

Reconciliation

(\$ in millions, except per share data in \$)

	Year ended December 31,			
	2014	EPS ⁽¹⁾	2013	EPS ⁽¹⁾
Net income (attributable to ABB)	2,594	1.13	2,787	1.21
Restructuring and restructuring-related expenses ⁽²⁾	171	0.07	182	0.08
Gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items ⁽³⁾	(221)	(0.10)	131	0.06
FX/commodity timing differences in income from operations ⁽²⁾	120	0.05	(46)	(0.02)
Acquisition-related amortization ⁽²⁾	275	0.12	282	0.12
Operational net income	2,939	1.28	3,336	1.45

(\$ in millions, except per share data in \$)

	Three months ended December 31,			
	2014	EPS ⁽¹⁾	2013	EPS ⁽¹⁾
Net income (attributable to ABB)	680	0.30	525	0.23
Restructuring and restructuring-related expenses ⁽²⁾	69	0.03	121	0.05
Gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items ⁽³⁾	(76)	(0.03)	68	0.03
FX/commodity timing differences in income from operations ⁽²⁾	32	0.01	(3)	-
Acquisition-related amortization ⁽²⁾	67	0.03	79	0.03
Operational net income	772	0.34	790	0.34

(1) EPS amounts are computed separately, 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.

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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	7,338	7,570	7,534	3,231	1,139
Total debt	7,691	8,023	10,071	3,996	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)	923	1,538	1,590	(1,771)	(6,428)

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Net working capital as a percentage of revenues

Definition

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) 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, 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.

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.

Reconciliation

(\$ in millions, unless otherwise indicated)

	December 31,		
	2014	2013	2012
Net working capital:			
Receivables, net	11,078	12,146	11,575
Inventories, net	5,376	6,004	6,182
Prepaid expenses	218	252	311
Accounts payable, trade	(4,765)	(5,112)	(4,992)
Billings in excess of sales	(1,455)	(1,714)	(2,035)
Advances from customers	(1,624)	(1,726)	(1,937)
Other current liabilities ⁽¹⁾	(3,286)	(3,541)	(3,544)
Net working capital	5,542	6,309	5,560
Total revenues for the twelve months ended	39,830	41,848	39,336
Adjustment to annualize/eliminate revenues of certain acquisitions/(divestments)	(613)	460	915
Adjusted revenues for the trailing twelve months	39,217	42,308	40,251
Net working capital as a percentage of revenues	14%	15%	14%

(1) Amounts exclude \$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.

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Finance net

Definition

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

Reconciliation

(\$ in millions)

	Year ended December 31,	
	2014	2013
Interest and dividend income	80	69
Interest and other finance expense	(362)	(390)
Finance net	(282)	(321)

(\$ in millions)

	Three months ended December 31,	
	2014	2013
Interest and dividend income	23	19
Interest and other finance expense	(107)	(91)
Finance net	(84)	(72)

Book-to-bill ratio

Definition

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

Reconciliation

(\$ in millions, unless otherwise indicated)

	Year ended December 31,				
	2014	2013	2012	2011	2010
Orders received	41,515	38,896	40,232	40,210	32,681
Total revenues	39,830	41,848	39,336	37,990	31,589
Book-to-bill ratio	1.04	0.93	1.02	1.06	1.03

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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 and ii) interest paid.

Capital invested

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

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.

Reconciliation

(\$ in millions, unless otherwise indicated)

	Year ended December 31,		
	2014	2013	2012
Net cash provided by operating activities	3,845	3,653	3,779
Interest paid	259	287	189
Adjustment to annualize/eliminate net cash provided by operating activities of certain acquisitions/divestments ⁽¹⁾	(58)	86	(8)
Adjusted cash return	4,046	4,026	3,960
	December 31,		
	2014	2013	2012
Property, plant and equipment, net	5,652	6,254	5,947
Goodwill	10,053	10,670	10,226
Other intangible assets, net	2,702	3,297	3,501
Investments in equity-accounted companies	177	197	213
Total fixed assets	18,584	20,418	19,887
Less: deferred taxes recognized in certain acquisitions ⁽²⁾	(1,928)	(1,959)	(1,773)
Adjusted total fixed assets	16,656	18,459	18,114
Net working capital (as defined above)	5,542	6,309	5,560
Accumulated depreciation of property plant and equipment	6,905	7,127	6,599
Accumulated amortization of intangible assets including goodwill ⁽³⁾	2,767	2,793	2,321
Accumulated depreciation and amortization	9,672	9,920	8,920
Capital invested	31,870	34,688	32,594
Cash return on invested capital (CROI)	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) In 2014 and 2013 Power-One, Thomas & Betts and Baldor and in 2012 Thomas & Betts and Baldor.

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

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Free Cash Flow (FCF)

Definition

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).

Reconciliation

(\$ in millions)	Year ended December 31,		
	2014	2013	2012
Net cash provided by operating activities	3,845	3,653	3,779
<i>adjusted for the effects of:</i>			
Purchases of property, plant and equipment and intangible assets	(1,026)	(1,106)	(1,293)
Proceeds from sales of property, plant and equipment	33	80	40
Changes in financing receivables and other non-current receivables ⁽¹⁾	5	5	29
Free cash flow	2,857	2,632	2,555
Net income attributable to ABB	2,594	2,787	2,704
Free cash flow as a percentage of Net income (conversion rate)	110%	94%	94%

(1) In 2014 and 2013 included in "Other investing activities" in the Interim Consolidated Statements of Cash Flows.
In 2012 included in "Other investing activities" – see Consolidated Statements of Cash Flows in 2013 Annual Report.