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# ABB Q1 Presentation

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Power and productivity
for a better world™

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# Important notices

This presentation includes forward-looking information and statements including statements concerning the outlook for our businesses. These statements are based on current expectations, estimates and projections about the factors that may affect our future performance, including global economic conditions, and 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,” “outlook” or similar expressions.

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- costs associated with compliance activities
- raw materials availability and prices
- market acceptance of new products and services
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This presentation contains non-GAAP measures of performance. Definitions of these measures and reconciliations between these measures and their US GAAP counterparts can be found in “Supplemental Financial Information” under “Reports and Presentations” – “Quarterly Financial Releases” on our website at www.abb.com/investorrelations

# Four divisions on track, orders stable, cash improved
## “Step change” program launched in Power Systems

**Growth[1]**

- Total orders steady vs Q1 2013, base orders 3% higher on positive early-cycle trend
- Base orders up in 3 biggest markets: US +5%, China +6% and Germany +8%
- Large orders 12% lower—demand from utilities and some process industries remained muted

**Execution**

- Group excluding Power Systems (PS) delivered higher operational EBITDA
- Cost savings in line with plan
- Cash flow improvement $290 mill excluding the PS shortfall
- Further disciplined portfolio pruning (T&B HVAC business, Power-One’s Power Solutions unit)

**Power Systems disappoints, “step change” program launched**

- Poor performance and charges related to project execution in offshore wind and EPC[2] solar
- Low-margin order backlog continues to weigh on margins
- “Step change” goes beyond strategic realignment to achieve fundamental transformation

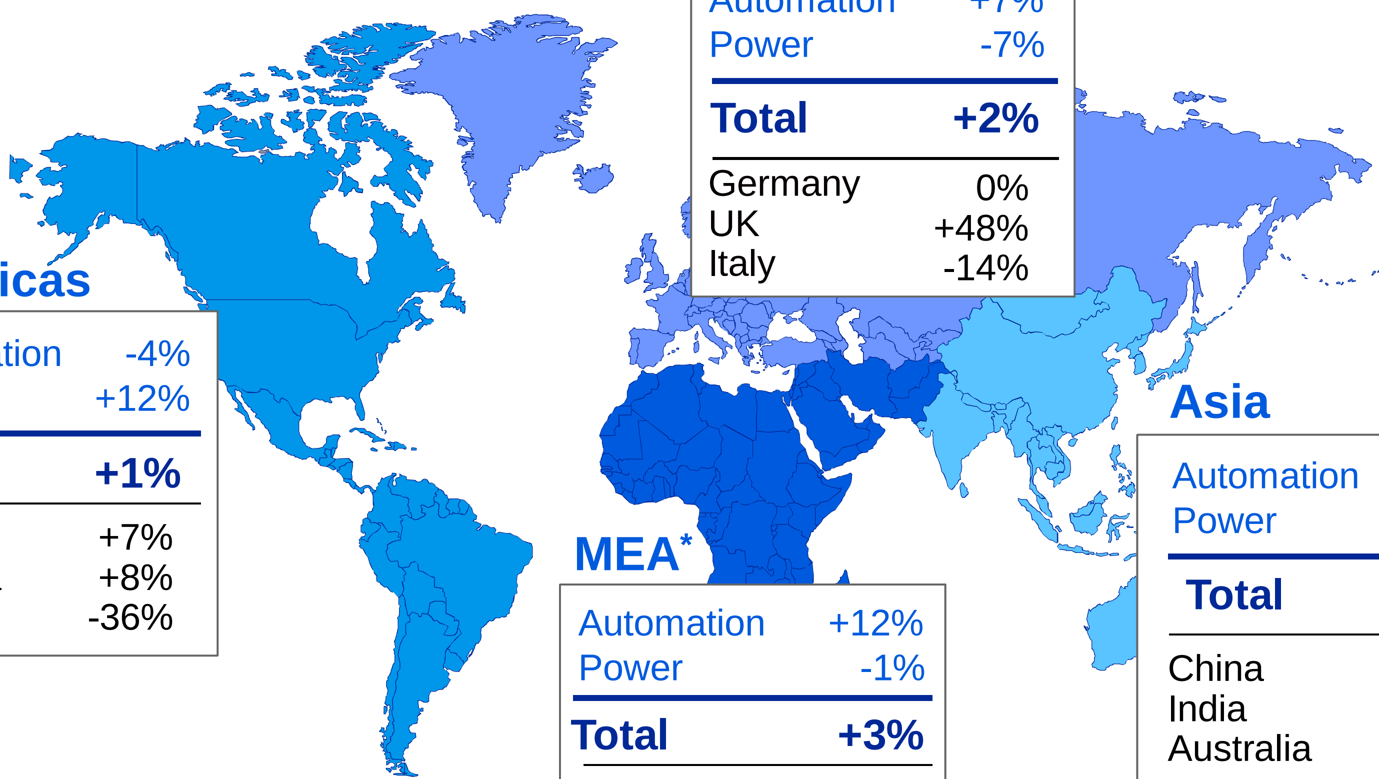
[1] Changes in orders and revenues on a like-for-like basis. For definition see our “Supplemental Financial Information”
[2] Engineering, procurement and construction

# Key figures first quarter 2014

| | Q1 14 | Q1 13 | Change | | |
|---|---|---|---|---|---|
| *$ millions unless otherwise indicated* | | | *US$* | *Local currency* | *Like-for-like* |
| Orders | 10,358 | 10,492 | *-1%* | *+1%* | *+1%* |
| Order backlog (end March) | 26,924 | 29,614 | *-9%* | *-9%* | |
| Revenues | 9,471 | 9,715 | *-3%* | *-1%* | *-2%* |
| Income from operations | 855 | 1,052 | *-19%* | | |
| as % of revenues | 9.0% | 10.8% | | | |
| Operational EBITDA | 1,271 | 1,458 | *-13%* | | |
| as % of operational revenues | 13.4% | 15.0% | | | |
| Net income | 544 | 664 | *-18%* | | |
| Basic net income per share ($) | 0.24 | 0.29 | | | |
| Cash from operating activities | (45) | (223) | | | |

# Orders received by region overview

**2014 Q1 order growth by region**
Change on a like-for-like basis



## Americas

| | |
|---|---|
| Automation | -4% |
| Power | +12% |
| **Total** | **+1%** |
| US | +7% |
| Canada | +8% |
| Brazil | -36% |

## Europe

| | |
|---|---|
| Automation | +7% |
| Power | -7% |
| **Total** | **+2%** |
| Germany | 0% |
| UK | +48% |
| Italy | -14% |

## MEA*

| | |
|---|---|
| Automation | +12% |
| Power | -1% |
| **Total** | **+3%** |
| Saudi Arabia | +15% |

* Middle East and Africa

## Asia

| | |
|---|---|
| Automation | 0% |
| Power | -5% |
| **Total** | **-2%** |
| China | -4% |
| India | +31% |
| Australia | -11% |

# Key figures ABB and by division first quarter 2014

| *US$ millions unless otherwise stated* | **Orders** | △ Local currency | **Revenues** | △ Local currency | **Operational EBITDA** | △ US$ | **Operational EBITDA %** | △ |
|---|---|---|---|---|---|---|---|---|
| Discrete Automation and Motion | 2,816 | *+14%* | 2,381 | *+3%* | 395 | *-5%* | 16.6%[1] | *-1.2 pts*[1] |
| *Like-for-like* | | *+9%* | | *-2%* | | | | |
| Low Voltage Products | 1,975 | *+3%* | 1,882 | *+7%* | 346 | *+8%* | 18.4% | *+0.4 pts* |
| Process Automation | 2,004 | *-17%* | 1,943 | *+1%* | 264 | *+2%* | 13.6% | *+0.5 pts* |
| *Like-for like* | | *-11%* | | *+4%* | | | | |
| Power Products | 2,725 | *-3%* | 2,391 | *-2%* | 354 | *-5%* | 14.8% | *-0.1 pts* |
| Power Systems | 1,490 | *-6%* | 1,608 | *-19%* | (29) | *n.a.* | -1.8% | *-10.1 pts* |
| Corporate | (652) | | (734) | | (59) | | | |
| **ABB Group** | **10,358** | ***+1%*** | **9,471** | ***-1%*** | **1,271** | ***-13%*** | **13.4%** | ***-1.6 pts*** |
| *Like-for like* | | *+1%* | | *-2%* | | | | |

[1] Excluding the impact of the Power-One acquisition, operational EBITDA margin in Discrete Automation and Motion was stable vs Q1 2013

# Operational EBITDA Bridge

**Factors affecting operational EBITDA Q1 2014 vs Q1 2013**

*US$ millions*

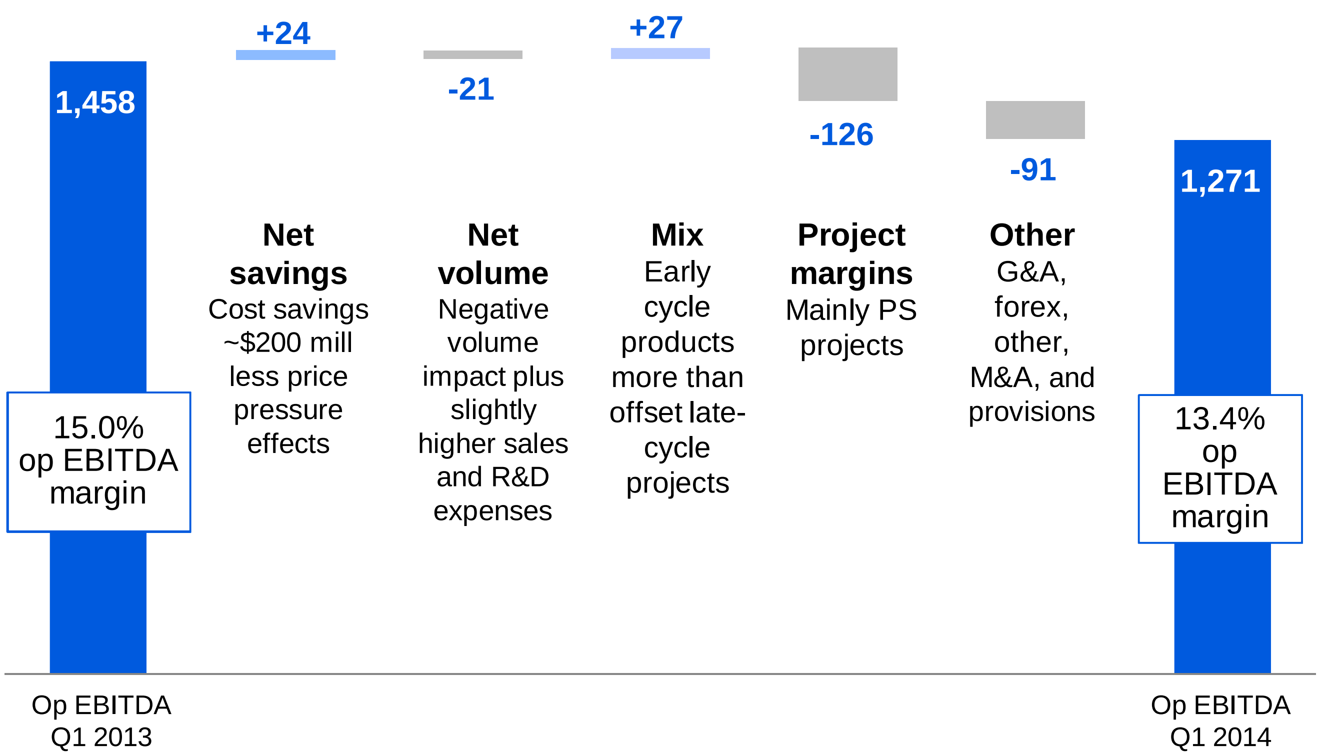
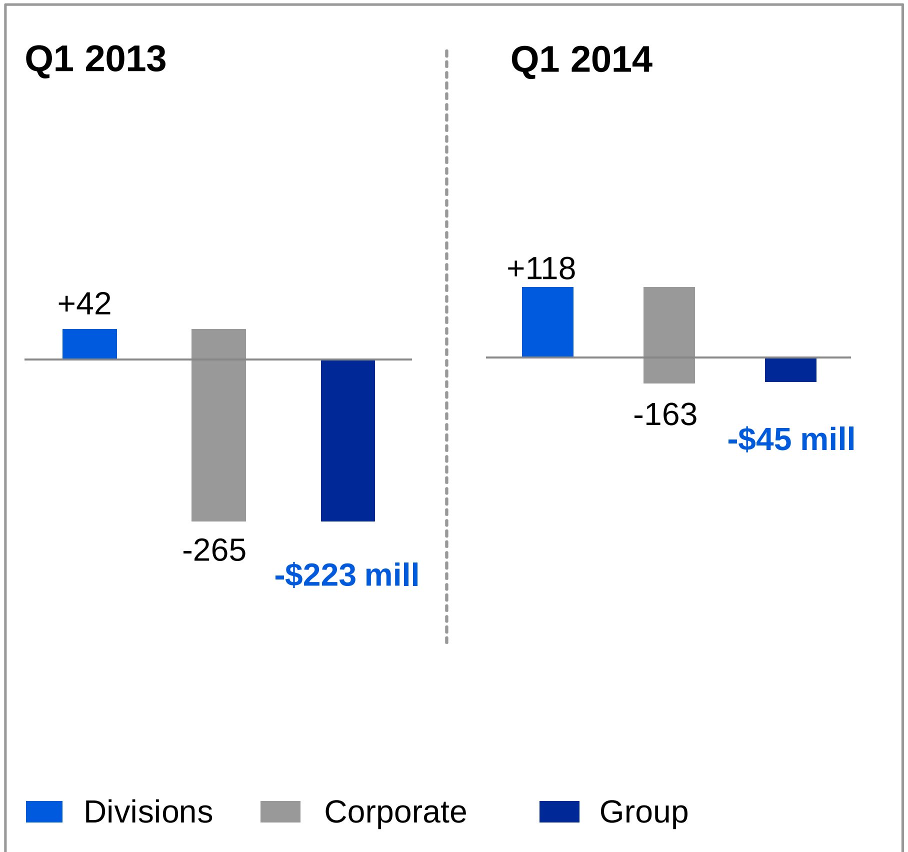



Chart 7

# Group Q1 cash flow significantly improved despite PS shortfall

**Cash from operations Q1 2014 vs Q1 2013**

*US$ millions*




- Divisional cash flows +$80 mill higher, despite >$100-mill deterioration in Power Systems
- Total cash flow improved by $290 mill excluding PS effects
- Seasonal Q1 build-up of working capital
- Driving improvements to NWC management remains a high priority
  - NWC integrated into process excellence
  - Continue to drive towards 11-14% NWC-to-revenues

# Executing along our three focus areas in Q1

**Profitable Growth**

Business-led collaboration

Relentless execution

**Penetration**
- Continue push on power sales in industry and infrastructure
- Drive automation in emerging economies
- Further penetration in oil & gas

**Innovation**
- Energy efficiency
- Smart grid

**Expansion**
- New partnerships in target markets
- Microgrids

## Q1 examples

- Medium-voltage switchgear for UK rail network
- Robotics/automation package for food company in Indonesia
- Medium-voltage drives for Shell refinery in the Netherlands

- IEC 5 motors for Europe
- 3D grid planning and simulation

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- Philips in building automation
- Solar inverters for rural Africa

# Executing along our three focus areas in Q1

Profitable Growth

**Business-led collaboration**

Relentless execution

- Combined expertise across divisions to create greater customer value
- Multi-division footprint expansion
- Joint channel development

**Q1 examples**

- Swedish rail $200-million upgrade order

ABB's new plant in Sorocaba, Brazil

- $300 mill in China, $200 mill in Brazil

- Combine power and automation channels to Tier 1, 2, and 3 cities China

# Executing along our three focus areas in Q1

| Focus area | | Q1 examples |
|---|---|---|
| Profitable Growth<br>Business-led collaboration<br>**Relentless execution** | ▪ Continued cost reductions adding white collar productivity focus | ▪ Sales productivity pilots started |
| | ▪ Improved cash management | ▪ Inventory management improvements in Discrete Automation and Motion |
| | ▪ Acquisition integration | ▪ Power-One progressing well, in line with overall integration performance |
| | ▪ Disciplined portfolio pruning | ▪ T&B HVAC unit, Power-One Power Solutions |
| | ▪ Power Systems step change | |

# Power Systems step change

In-depth review revealed need for deeper "step change" program

- Projects, portfolio, execution, people, go-to market/business model

## Focus areas

1. EPC*: Adjust offshore wind business model and risk/reward hurdles, re-allocate management resources
2. Large project execution: Cost and cash management plus change management across businesses
3. Base orders growth with higher value-add and profitability (e.g., service)
4. Long-term strategy: Business model and portfolio, return on investment

## Actions taken

1. Stop bidding for solar PV EPC (follows exits from low-value-add EPC water)
2. Management changes (stronger in project/risk management, turnarounds, e.g., external resources added to support PS "Step Change" )
3. Focused hiring of service resources
4. Restructuring and cost take-out efforts being implemented

* EPC: Engineering, Procurement and Construction contracts

**Transformation will take longer than originally expected, and will continue to weigh on margins. Long-term we remain confident that the outcome will be a strong, more profitable and competitive business**

# Q1 summary

## Q1 Results

- Four of five divisions on track
- Positive early-cycle development offsets lower large orders
- Revenues reflect lower opening order backlog
- Group earnings excluding Power Systems up
- “Step change” program launched to deepen PS business transformation
- Cash flow improved despite PS setback

## Outlook

- Reiterate Q4 macro outlook
  - Encouraging early-cycle indicators
  - Uncertainty remains on pace of recovery in key markets
- Organic growth initiatives are key management priority
- Execution on cost, productivity and integration to continue
- More time needed for step change to improve PS margins
- Good progress on longer-term strategy planning ahead of Capital Markets Day in September

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# Orders and revenues by region and division Q1 2014

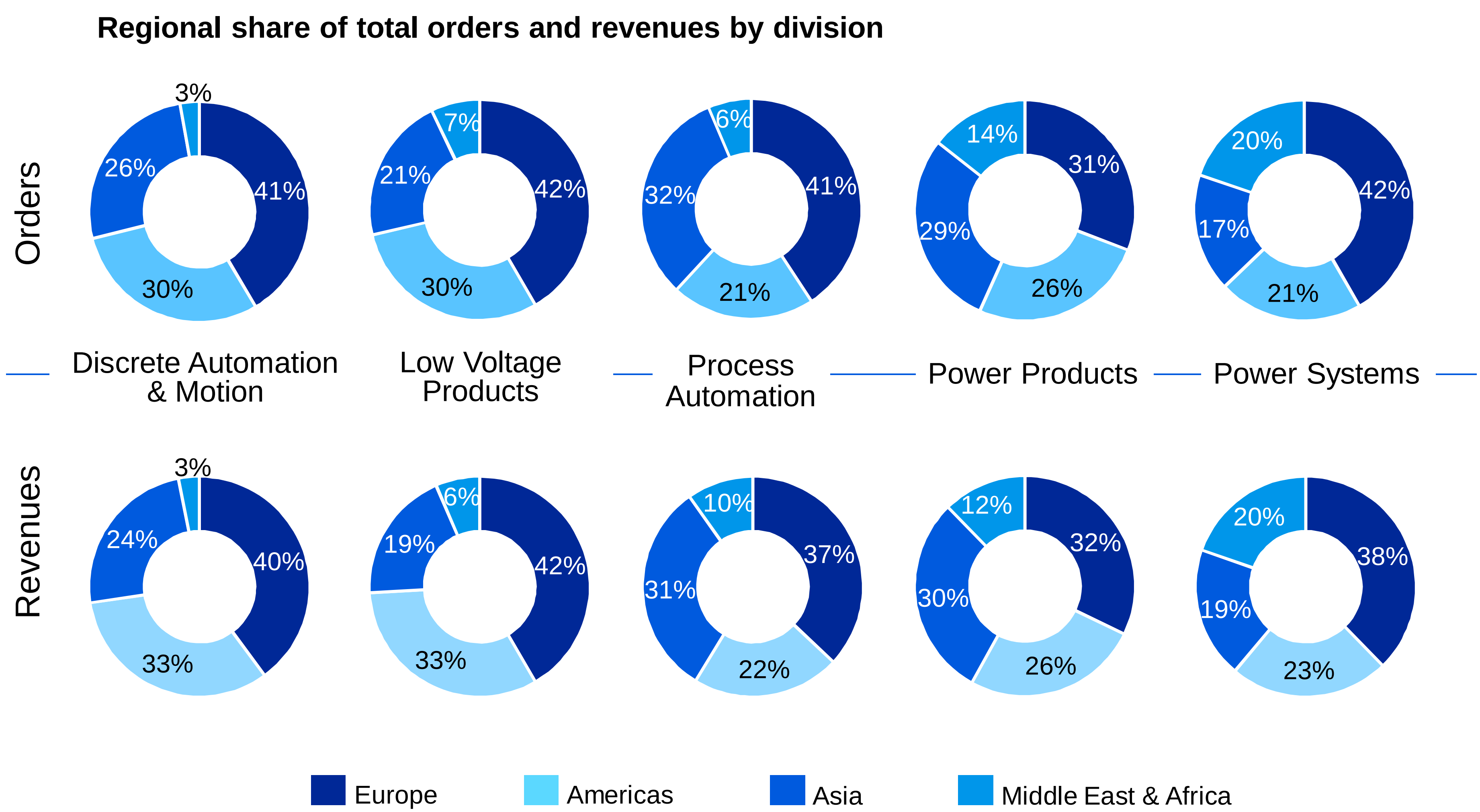
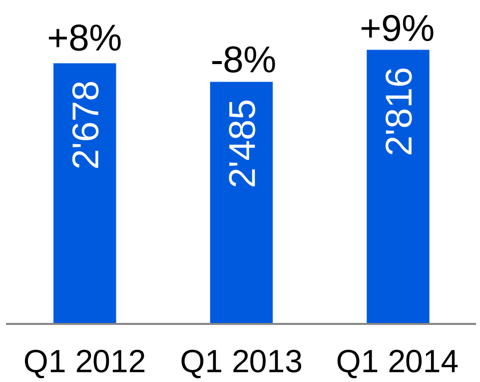



Chart 15

# Discrete Automation and Motion Q1 2014 summary

**Orders received**

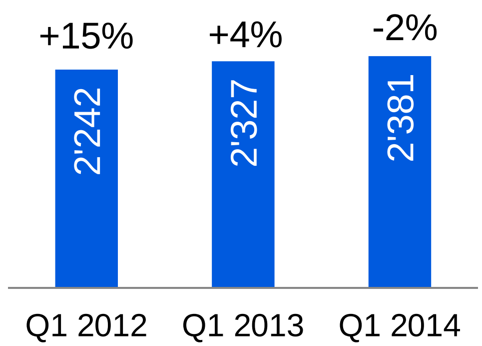
*US$ mill., y-o-y change*




- Early-cycle businesses continued to grow, compensating lower demand for products used in later-cycle process industries
- Orders also benefited from a large rail order in Sweden and organic growth initiatives across the portfolio, especially in service

**Revenues**

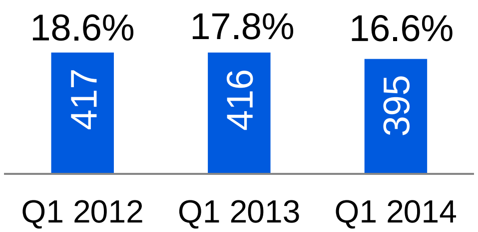
*US$ mill., y-o-y change*




- Lower opening order backlog in large motors, MV drives compared to same period in 2013
- Service revenues increased at a double-digit pace.

**Operational EBITDA**

*US$ mill., op EBITDA margin in %*

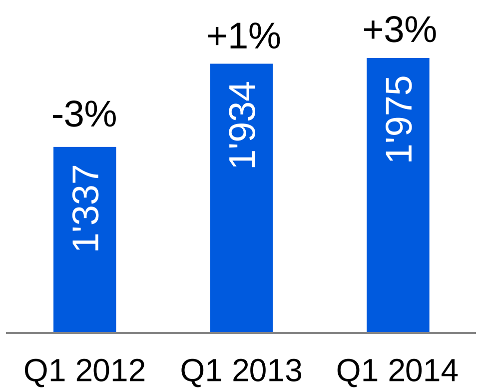



- Operational EBITDA margin steady excl. dilutive effect from Power-One acquisition

Note: Changes in orders and revenues above are on a like-for-like basis. For a definition, see our “Supplemental Financial Information”

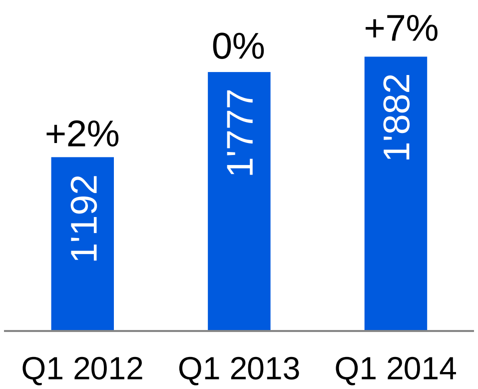
# Low Voltage Products Q1 2014 summary

**Orders received**
*US$ mill., y-o-y change*



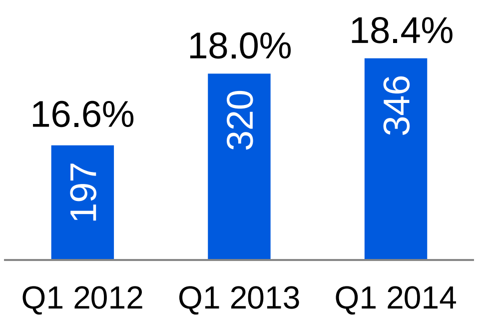

- Increase in orders reflects generally positive business environment in early-cycle industrial and building sectors in most regions, plus market penetration measures in a number of key markets.

**Revenues**
*US$ mill., y-o-y change*




- Revenues grew in all regions in the quarter and benefited from the execution of system orders out of the backlog

**Operational EBITDA**
*US$ mill., op EBITDA margin in %*

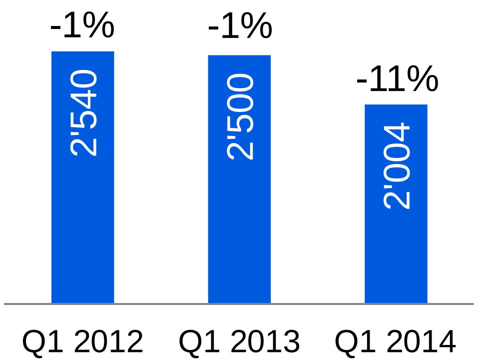



- Operational EBITDA and margin increased on higher revenues and improved project execution in low-voltage systems
- Increased profitability despite higher spending to drive sales growth and greater investments in R&D

Note: Changes in orders and revenues above are on a like-for-like basis. For a definition, see our “Supplemental Financial Information”

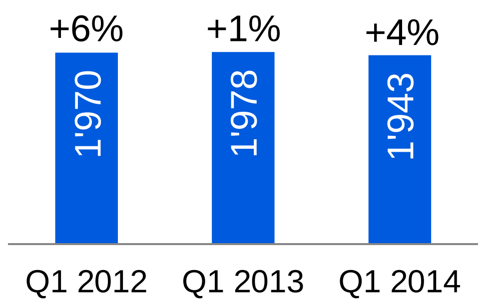
# Process Automation Q1 2014 summary

**Orders received**
*US$ mill., y-o-y change*



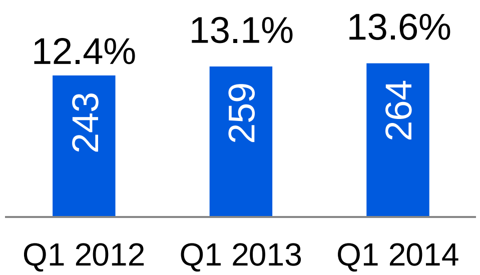

- Double-digit increase in oil and gas orders and higher demand for measurement products and turbocharging were more than offset by a strong decline in mining orders vs. high level in Q1 2013

**Revenues**
*US$ mill., y-o-y change*




- Revenues were modestly higher on execution of the strong order backlog in oil and gas and marine

**Operational EBITDA**
*US$ mill., op EBITDA margin in %*

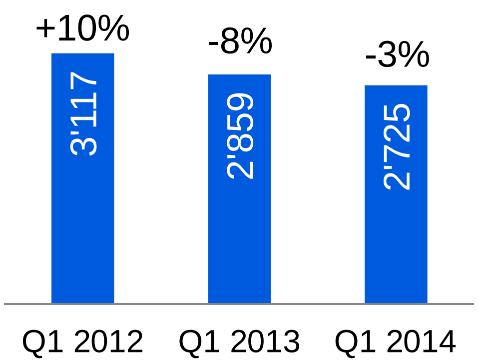



- Improved operational EBITDA and margins primarily reflect solid project execution out of the order backlog and continued strict cost control

Note: Changes in orders and revenues above are on a like-for-like basis. For a definition, see our “Supplemental Financial Information”

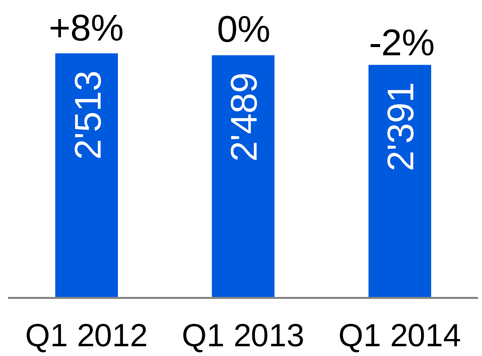
# Power Products Q1 2014 summary

## Orders received
*US$ mill., y-o-y change*



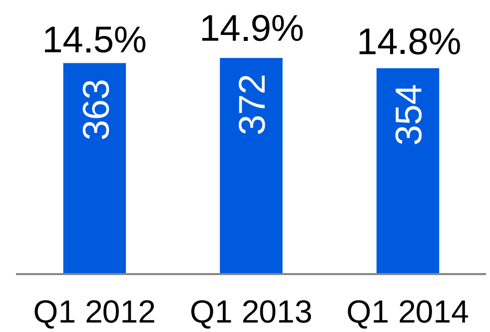

- Industrial and power distribution orders increased
- Large orders were lower as utilities remained cautious in transmission investments

## Revenues
*US$ mill., y-o-y change*




- Revenue decline mainly due to the lower opening order backlog

## Operational EBITDA
*US$ mill., op EBITDA margin in %*



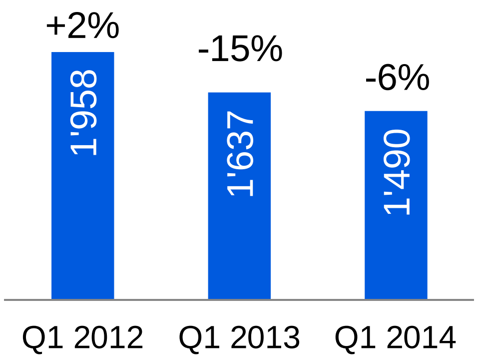

- Operational EBITDA margin was steady as the result of continued cost savings and solid execution

Note: Changes in orders and revenues above are on a like-for-like basis. For a definition, see our “Supplemental Financial Information”

# Power Systems Q1 2014 summary

## Orders received

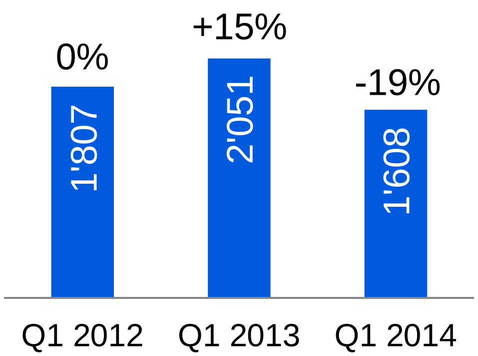
*US$ mill., y-o-y change*




- Large orders at the same level as last year
- Utility investments in power transmission remain cautious and the selectivity focus on margin and pull-through continues

## Revenues

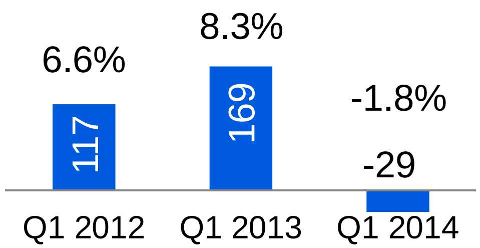
*US$ mill., y-o-y change*




- Revenues impacted by the lower opening order backlog and execution delays in select projects

## Operational EBITDA

*US$ mill., op EBITDA margin in %*




- Operational EBITDA loss mainly reflects the impact of project-related charges
- Lower revenues also affected earnings

Note: Changes in orders and revenues above are on a like-for-like basis. For a definition, see our “Supplemental Financial Information”

# Operational EPS analysis

| US$ millions, except per share data in US$ | Q1 14 | EPS[1] | Q1 13 | EPS[1] | △[2] |
|---|---|---|---|---|---|
| **Net income (attributable to ABB)** | **544** | **0.24** | **664** | **0.29** | **-18%** |
| Restructuring and restructuring-related expenses[3] | 34 | 0.01 | 14 | 0.01 | |
| Acquisition-related expenses and certain non-operational items[3] | 8 | 0.00 | 3 | 0.00 | |
| FX/commodity timing differences in Income from operations[3] | 18 | 0.01 | 44 | 0.02 | |
| Amortization rel. to acquisitions[3] | 72 | 0.03 | 67 | 0.03 | |
| **Operational net income** | **676** | **0.29** | **792** | **0.34** | **-15%** |

[1] EPS amounts are computed separately, therefore the sum of the per-share amounts shown may not equal to the total
[2] Calculated on basic earnings per share before rounding
[3] Net of tax at Group-effective tax rate

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# Order backlog by division

| **Order backlog (end March)**<br>*US$ millions* | **Q1 2014** | **Q1 2013** | **Change %** | |
|---|---|---|---|---|
| | | | *US$* | *Local currencies* |
| Discrete Automation and Motion | 4,839 | 4,467 | 8% | 7% |
| Low Voltage Products | 1,161 | 1,246 | -7% | -6% |
| Process Automation | 5,836 | 6,784 | -14% | -13% |
| Power Products | 8,277 | 8,831 | -6% | -6% |
| Power Systems | 9,280 | 11,511 | -19% | -19% |
| Consolidation and Other<br>(incl. Inter-division eliminations) | (2,469) | (3,225) | | |
| **Total Group** | **26,924** | **29,614** | **-9%** | **-9%** |

# For more information, call ABB Investor Relations
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