
November 19, 2020

Capital Markets Day 2020

Supplemental Reconciliations and Definitions

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The following financial measures supplement the November 19, 2020, Press Release and the Capital Markets Day 2020 presentations. 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 Consolidated Financial Information (unaudited) prepared in accordance with U.S. GAAP as of and for the nine and three months ended September 30, 2020, and with the Consolidated Financial Statements prepared in accordance with U.S. GAAP as of and for the years ended December 31, 2019, 2018, 2017, 2016, 2015, 2014 and 2013.

On January 1, 2018, the Company adopted a new accounting standard, Revenue from contracts with customers, on January 1, 2019, the Company adopted a new accounting standard for lease accounting and on January 2020, the Company adopted new accounting standard updates related to the measurement of credit losses on financial instruments, and consistent with the method of adoption elected, comparative information of previous periods has not been restated and are reported under the accounting standards in effect for those periods.

Operational EBITA margin for the trailing twelve months

Definition

Operational EBITA margin for the trailing twelve months

Operational EBITA margin is Operational EBITA for the twelve months preceding the relevant balance sheet date as a percentage of Operational revenues for the same trailing twelve-month period.

For the full definition of Operational EBITA, refer to Supplemental Reconciliations and Definitions, ABB Q3 2020 Financial information on global.abb/group/en/investors/results-and-reports/2020.

Reconciliation

The following tables provide the Operational EBITA Margin by Business Area.

Reconciliation of Operational EBITA margin by Business Area for the trailing twelve months

(\$ in millions, unless otherwise indicated)	Trailing twelve months to September 30, 2020					
	Electrification	Industrial Automation	Motion	Robotics & Discrete Automation	Corporate and Other and Intersegment elimination	Consolidated
Operational revenues by quarter						
Q4 2019	3,226	1,671	1,653	783	(294)	7,039
Q1 2020	2,783	1,479	1,507	669	(197)	6,241
Q2 2020	2,764	1,364	1,579	633	(202)	6,138
Q3 2020	3,023	1,397	1,615	801	(267)	6,569
Total for the trailing twelve months to September 30, 2020	11,796	5,911	6,354	2,886	(960)	25,987
Operational EBITA by quarter						
Q4 2019	421	202	254	86	(253)	710
Q1 2020	318	144	230	59	(115)	636
Q2 2020	348	115	279	43	(134)	651
Q3 2020	493	89	281	76	(152)	787
Total for the trailing twelve months to September 30, 2020	1,580	550	1,044	264	(654)	2,784
Operational EBITA margin (%)	13.4%	9.3%	16.4%	9.1%	n.a.	10.7%

Trailing twelve months to September 30, 2019						
		Industrial		Robotics & Discrete	Corporate and Other and	
(\$ in millions, unless otherwise indicated)	Electrification	Automation	Motion	Automation	Intersegment elimination	Consolidated
Operational revenues by quarter						
Q4 2018	3,324	1,731	1,662	884	(213)	7,388
Q1 2019	3,052	1,518	1,605	847	(186)	6,836
Q2 2019	3,268	1,575	1,642	852	(163)	7,174
Q3 2019	3,171	1,505	1,633	830	(227)	6,912
Total for the trailing twelve months to September 30, 2019	12,815	6,329	6,542	3,413	(789)	28,310
Operational EBITA by quarter						
Q4 2018	388	235	248	116	(403)	584
Q1 2019	377	205	263	95	(174)	766
Q2 2019	440	190	275	105	(185)	825
Q3 2019	450	135	290	107	(176)	806
Total for the trailing twelve months to September 30, 2019	1,655	765	1,076	423	(938)	2,981
Operational EBITA margin (%)	12.9%	12.1%	16.4%	12.4%	n.a.	10.5%

Industrial Automation Business Area and former Process Automation Division

The following section presents the definition of Return on Capital employed (ROCE) and Operational EBITA as well as the reconciliations of Operational EBITA Margin and Return on Capital employed for the Industrial Automation Business Area and Former Process Automation Division.

Definitions

Return on Capital employed (ROCE)

Return on Capital employed is calculated as Operational EBITA after tax, divided by the average of the period's opening and closing Capital employed, adjusted (as needed) to reflect impacts from significant acquisitions/divestments occurring during the same period.

Capital employed

Capital employed is calculated as the sum of Adjusted total fixed assets and Net working capital (as defined below).

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, (vi) contract liabilities, and (vii) other current liabilities (including primarily: (a) non-trade payables, (b) deferred income and (c) accrued expenses).

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, (iv) investments in equity-accounted companies, and (v) operating lease right-of-use assets, less (vi) deferred tax liabilities relating to fair value adjustments recorded for fixed assets acquired in business combinations.

Notional tax on Operational EBITA

The Notional tax on operational EBITA is computed using an adjusted group effective tax rate applicable to continuing operations. The Adjusted Group effective tax rate is computed by dividing a combined adjusted income tax expense (for both continuing and discontinued operations) by a combined adjusted pre-tax income (from both continuing and discontinued operations). Certain amounts recorded in income before taxes and the related income tax expense (primarily gains and losses from sale of businesses) are excluded to arrive at the computation. Amounts recorded in income tax expense for certain non-operational items and quantified in the table below are also excluded from the computation of the Adjusted Group effective tax rate.

Operational EBITA

Operational EBITA for Industrial Automation from 2016 to 2020 is as indicated above, for Process Automation from 2013 to 2015 refer to Supplemental Reconciliations and Definitions, ABB Q4 2015 Financial information on global.abb/group/en/investors/results-and-reports/2015. From 2013 to 2015 Operational EBITA included non-operational pension costs and therefore the measure is not directly comparable.

Industrial Automation Business Area

The following tables present the Operational EBITA Margin and Return on Capital employed of the Industrial Automation Business Area for 2016 to 2019.

Reconciliation of Operational EBITA margin – Industrial Automation Business Area

(\$ in millions, unless otherwise indicated)	December 31,			
	2019	2018	2017	2016
Total revenues	6,273	6,500	6,472	6,654
Foreign exchange/commodity timing differences in total revenues	(4)	(1)	(33)	27
Operational revenues	6,269	6,499	6,439	6,681
Income (loss) from operations	700	853	829	772
Acquisition-related amortization	4	6	7	11
Restructuring, related and implementation costs	21	35	85	76
Gains and losses from sale of businesses	–	3	(2)	–
Acquisition-and divestment-related expenses and certain non-operational items	2	7	9	9
Foreign exchange/commodity timing differences in income from operations	5	10	(26)	29
Operational EBITA	732	914	902	897
Operational EBITA margin (%)	11.7%	14.1%	14.0%	13.4%

Reconciliation of Return on Capital employed – Industrial Automation Business Area

(\$ in millions, unless otherwise indicated)	December 31,				
	2019	2018	2017	2016	2015
Adjusted total fixed assets:					
Property, plant and equipment, net ⁽¹⁾	266	250	263	246	280
Goodwill	1,615	1,616	1,631	1,592	1,606
Other intangible assets, net	41	47	51	57	76
Operating lease right-of-use assets ⁽²⁾	110	–	–	–	–
Adjusted total fixed assets	2,032	1,913	1,945	1,895	1,962
Net working capital	257	179	300	376	497
Capital employed	2,289	2,092	2,245	2,271	2,459
Average Capital employed:					
Capital employed at the end of previous year	2,092	2,245	2,271	2,459	
Capital employed at the end of current year	2,289	2,092	2,245	2,271	
Average Capital employed	2,191	2,169	2,258	2,365	
Operational EBITA for the year ended	732	914	902	897	
Notional tax on Operational EBITA	(200)	(235)	(255)	(240)	
Operational EBITA after tax	532	679	647	657	
Return on capital employed	24.3%	31.3%	28.7%	27.8%	

(1) Excludes real estate assets which are included in Corporate and Other.

(2) Due to change in accounting principles – prior periods have not been restated and thus are not directly comparable.

Former Process Automation Division

The following tables present the Operational EBITA Margin and Return on Capital employed of the former Process Automation Division for 2013 to 2015, as published in the 2015 Annual Report. The impacts of subsequent reorganizations, including the changes that resulted in the current Industrial Automation Business Area, are not adjusted for and thus the amounts are not directly comparable to those computed for the Industrial Automation Business Area above for the periods 2016 to 2019.

Reconciliation of Operational EBITA margin – Former Process Automation Division

(\$ in millions, unless otherwise indicated)	December 31,		
	2015	2014	2013
Total revenues	6,374	7,948	8,497
Foreign exchange/commodity timing differences in total revenues	23	10	16
Operational revenues	6,397	7,958	8,513
Income (loss) from operations	593	1,003	990
Acquisition-related amortization	12	17	13
Restructuring, related and implementation costs	112	43	31
Gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items	11	(113)	(6)
Foreign exchange/commodity timing differences in income from operations	27	8	(6)
Operational EBITA	755	958	1,022
Operational EBITA margin (%)	11.8%	12.0%	12.0%

Reconciliation of Return on Capital employed – Former Process Automation Division

(\$ in millions, unless otherwise indicated)	December 31,			
	2015	2014	2013	2012
Adjusted total fixed assets:				
Property, plant and equipment, net ⁽¹⁾	249	275	352	356
Goodwill	1,147	1,174	1,229	1,140
Other intangible assets, net	74	95	114	108
Adjusted total fixed assets	1,470	1,544	1,695	1,604
Net working capital	392	692	793	555
Capital employed	1,862	2,236	2,488	2,159
Average Capital employed:				
Capital employed at the end of previous year	2,236	2,488	2,159	
Capital employed at the end of current year	1,862	2,236	2,488	
Average Capital employed	2,049	2,362	2,324	
Operational EBITA for the year ended	755	958	1,022	
Notional tax on Operational EBITA	(204)	(261)	(284)	
Operational EBITA after tax	551	697	738	
Return on capital employed	26.9%	29.5%	31.8%	

(1) Excludes real estate assets which are included in Corporate and Other.

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