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OCTOBER 27, 2016

# Q3 2016

# Financial Information



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# Financial Information

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## 3 Key Figures

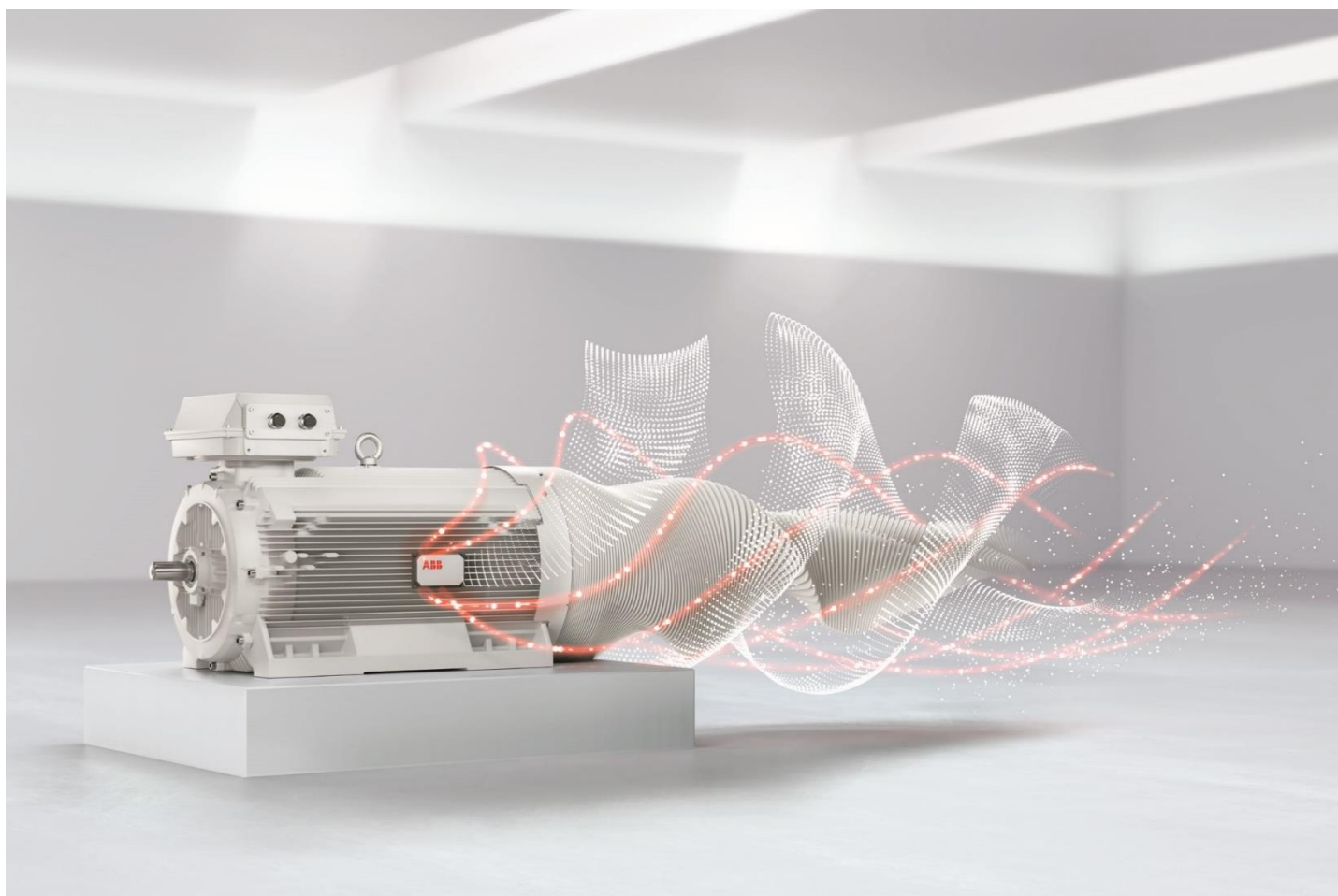
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## 8 Interim Consolidated Financial Information (unaudited)

- 8 Interim Consolidated Income Statements
- 9 Interim Condensed Consolidated Statements of Comprehensive Income
- 10 Interim Consolidated Balance Sheets
- 11 Interim Consolidated Statements of Cash Flows
- 12 Interim Consolidated Statements of Changes in Stockholders' Equity
- 13 Notes to the Interim Consolidated Financial Information

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## 32 Supplemental Reconciliations and Definitions



FINANCIAL INFORMATION

## Key Figures

| (\$ in millions, unless otherwise indicated)       | Q3 2016 | Q3 2015 | CHANGE             |                           |
|--|---------|---------|--------------------|---------------------------|
|  |         |         | US\$               | Comparable <sup>(1)</sup> |
| Orders   | 7,533   | 8,767   | -14%               | -13%                      |
| Order backlog (end September)                      | 24,554  | 25,371  | -3%                | -2%                       |
| Revenues   | 8,255   | 8,519   | -3%                | 0%                        |
| Operational EBITA <sup>(1)</sup>                   | 1,046   | 1,081   | -3%                | -2% <sup>(2)</sup>        |
| as % of operational revenues <sup>(1)</sup>        | 12.6%   | 12.5%   | +0.1 pts           |                           |
| Net income   | 568     | 577     | -2%                |                           |
| Basic earnings per share (\$)                      | 0.27    | 0.26    | 2% <sup>(3)</sup>  |                           |
| Operational earnings per share <sup>(1)</sup> (\$) | 0.32    | 0.32    | -1% <sup>(3)</sup> | 0% <sup>(3)</sup>         |
| Cash flow from operating activities                | 1,081   | 1,173   | -8%                |                           |

| (\$ in millions, unless otherwise indicated)       | 9M 2016 | 9M 2015 | CHANGE              |                           |
|--|---------|---------|---------------------|---------------------------|
|  |         |         | US\$                | Comparable <sup>(1)</sup> |
| Orders   | 25,102  | 28,167  | -11%                | -8%                       |
| Revenues   | 24,835  | 26,239  | -5%                 | -1%                       |
| Operational EBITA <sup>(1)</sup>                   | 3,095   | 3,088   | 0%                  | 3% <sup>(2)</sup>         |
| as % of operational revenues <sup>(1)</sup>        | 12.4%   | 11.8%   | +0.6pts             |                           |
| Net income   | 1,474   | 1,729   | -15%                |                           |
| Basic earnings per share (\$)                      | 0.68    | 0.77    | -12% <sup>(3)</sup> |                           |
| Operational earnings per share <sup>(1)</sup> (\$) | 0.95    | 0.90    | 5% <sup>(3)</sup>   | 7% <sup>(3)</sup>         |
| Cash flow from operating activities                | 2,415   | 1,824   | 32%                 |                           |

(1) For a reconciliation of non-GAAP measures see "[Supplemental Reconciliations and Definitions](#)" on page 32.

(2) Constant currency (not adjusted for portfolio changes).

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

| (\$ in millions, unless otherwise indicated) |  | Q3 2016       | Q3 2015       | CHANGE      |             |             |
|--|--|---------------|---------------|-------------|-------------|-------------|
|  |  |               |               | US\$        | Local       | Comparable  |
| <b>Orders</b>                                | <b>ABB Group</b>   | <b>7,533</b>  | <b>8,767</b>  | <b>-14%</b> | <b>-13%</b> | <b>-13%</b> |
|  | Electrification Products   | 2,223         | 2,365         | -6%         | -4%         | -4%         |
|  | Discrete Automation and Motion   | 2,123         | 2,241         | -5%         | -4%         | -4%         |
|  | Process Automation   | 1,193         | 1,529         | -22%        | -21%        | -21%        |
|  | Power Grids  | 2,391         | 3,082         | -22%        | -21%        | -21%        |
|  | <i>Corporate and Other</i><br><i>(incl. inter-division eliminations)</i> | (397)         | (450)         |             |             |             |
| <b>Third-party base orders</b>               | <b>ABB Group</b>   | <b>6,727</b>  | <b>7,272</b>  | <b>-7%</b>  | <b>-6%</b>  | <b>-6%</b>  |
|  | Electrification Products   | 2,095         | 2,173         | -4%         | -1%         | -1%         |
|  | Discrete Automation and Motion   | 1,899         | 1,983         | -4%         | -3%         | -3%         |
|  | Process Automation   | 1,128         | 1,316         | -14%        | -13%        | -13%        |
|  | Power Grids  | 1,588         | 1,782         | -11%        | -10%        | -9%         |
|  | <i>Corporate and Other</i>   | 17            | 18            |             |             |             |
| <b>Order backlog (end September)</b>         | <b>ABB Group</b>   | <b>24,554</b> | <b>25,371</b> | <b>-3%</b>  | <b>-3%</b>  | <b>-2%</b>  |
|  | Electrification Products   | 3,093         | 3,038         | 2%          | 3%          | 3%          |
|  | Discrete Automation and Motion   | 4,458         | 4,601         | -3%         | -2%         | -2%         |
|  | Process Automation   | 5,675         | 6,322         | -10%        | -11%        | -11%        |
|  | Power Grids  | 13,063        | 13,117        | 0%          | 1%          | 2%          |
|  | <i>Corporate and Other</i><br><i>(incl. inter-division eliminations)</i> | (1,735)       | (1,707)       |             |             |             |
| <b>Revenues</b>                              | <b>ABB Group</b>   | <b>8,255</b>  | <b>8,519</b>  | <b>-3%</b>  | <b>-2%</b>  | <b>0%</b>   |
|  | Electrification Products   | 2,308         | 2,353         | -2%         | 0%          | 0%          |
|  | Discrete Automation and Motion   | 2,203         | 2,220         | -1%         | 0%          | 0%          |
|  | Process Automation   | 1,523         | 1,659         | -8%         | -7%         | -7%         |
|  | Power Grids  | 2,636         | 2,791         | -6%         | -4%         | 1%          |
|  | <i>Corporate and Other</i><br><i>(incl. inter-division eliminations)</i> | (415)         | (504)         |             |             |             |
| <b>Operational EBITA</b>                     | <b>ABB Group</b>   | <b>1,046</b>  | <b>1,081</b>  | <b>-3%</b>  | <b>-2%</b>  |             |
|  | Electrification Products   | 411           | 410           | 0%          | 2%          |             |
|  | Discrete Automation and Motion   | 311           | 335           | -7%         | -6%         |             |
|  | Process Automation   | 187           | 181           | 3%          | 4%          |             |
|  | Power Grids  | 254           | 221           | 15%         | 17%         |             |
|  | <i>Corporate and Other</i><br><i>(incl. inter-division eliminations)</i> | (117)         | (66)          |             |             |             |
| <b>Operational EBITA %</b>                   | <b>ABB Group</b>   | <b>12.6%</b>  | <b>12.5%</b>  |             |             |             |
|  | Electrification Products   | 17.8%         | 17.4%         |             |             |             |
|  | Discrete Automation and Motion   | 14.1%         | 14.8%         |             |             |             |
|  | Process Automation   | 12.2%         | 10.7%         |             |             |             |
|  | Power Grids  | 9.5%          | 7.8%          |             |             |             |
| <b>Income from operations</b>                | <b>ABB Group</b>   | <b>878</b>    | <b>882</b>    |             |             |             |
|  | Electrification Products   | 389           | 390           |             |             |             |
|  | Discrete Automation and Motion   | 276           | 264           |             |             |             |
|  | Process Automation   | 170           | 159           |             |             |             |
|  | Power Grids  | 222           | 159           |             |             |             |
|  | <i>Corporate and Other</i><br><i>(incl. inter-division eliminations)</i> | (179)         | (90)          |             |             |             |
| <b>Income from operations %</b>              | <b>ABB Group</b>   | <b>10.6%</b>  | <b>10.4%</b>  |             |             |             |
|  | Electrification Products   | 16.9%         | 16.6%         |             |             |             |
|  | Discrete Automation and Motion   | 12.5%         | 11.9%         |             |             |             |
|  | Process Automation   | 11.2%         | 9.6%          |             |             |             |
|  | Power Grids  | 8.4%          | 5.7%          |             |             |             |
| <b>Cash flow from operating activities</b>   | <b>ABB Group</b>   | <b>1,081</b>  | <b>1,173</b>  |             |             |             |
|  | Electrification Products   | 373           | 372           |             |             |             |
|  | Discrete Automation and Motion   | 322           | 386           |             |             |             |
|  | Process Automation   | 234           | 197           |             |             |             |
|  | Power Grids  | 189           | 189           |             |             |             |
|  | <i>Corporate and Other</i>   | (37)          | 29            |             |             |             |

| (\$ in millions, unless otherwise indicated) |  | 9M 2016       | 9M 2015       | CHANGE      |            |            |
|--|--|---------------|---------------|-------------|------------|------------|
|  |  |               |               | US\$        | Local      | Comparable |
| <b>Orders</b>                                | <b>ABB Group</b>   | <b>25,102</b> | <b>28,167</b> | <b>-11%</b> | <b>-8%</b> | <b>-8%</b> |
|  | Electrification Products   | 7,001         | 7,493         | -7%         | -3%        | -3%        |
|  | Discrete Automation and Motion   | 6,641         | 7,238         | -8%         | -6%        | -6%        |
|  | Process Automation   | 4,346         | 5,551         | -22%        | -19%       | -19%       |
|  | Power Grids  | 8,353         | 9,577         | -13%        | -11%       | -10%       |
|  | <i>Corporate and Other</i><br><i>(incl. inter-division eliminations)</i> | (1,239)       | (1,692)       |             |            |            |
| <b>Third-party base orders</b>               | <b>ABB Group</b>   | <b>22,027</b> | <b>23,180</b> | <b>-5%</b>  | <b>-2%</b> | <b>-2%</b> |
|  | Electrification Products   | 6,606         | 6,948         | -5%         | -2%        | -2%        |
|  | Discrete Automation and Motion   | 5,957         | 6,267         | -5%         | -3%        | -3%        |
|  | Process Automation   | 3,809         | 4,246         | -10%        | -7%        | -7%        |
|  | Power Grids  | 5,612         | 5,663         | -1%         | 2%         | 3%         |
|  | <i>Corporate and Other</i>   | 43            | 56            |             |            |            |
| <b>Order backlog (end September)</b>         | <b>ABB Group</b>   | <b>24,554</b> | <b>25,371</b> | <b>-3%</b>  | <b>-3%</b> | <b>-2%</b> |
|  | Electrification Products   | 3,093         | 3,038         | 2%          | 3%         | 3%         |
|  | Discrete Automation and Motion   | 4,458         | 4,601         | -3%         | -2%        | -2%        |
|  | Process Automation   | 5,675         | 6,322         | -10%        | -11%       | -11%       |
|  | Power Grids  | 13,063        | 13,117        | 0%          | 1%         | 2%         |
|  | <i>Corporate and Other</i><br><i>(incl. inter-division eliminations)</i> | (1,735)       | (1,707)       |             |            |            |
| <b>Revenues</b>                              | <b>ABB Group</b>   | <b>24,835</b> | <b>26,239</b> | <b>-5%</b>  | <b>-2%</b> | <b>-1%</b> |
|  | Electrification Products   | 6,830         | 7,088         | -4%         | 0%         | 0%         |
|  | Discrete Automation and Motion   | 6,503         | 6,839         | -5%         | -3%        | -3%        |
|  | Process Automation   | 4,861         | 5,298         | -8%         | -5%        | -5%        |
|  | Power Grids  | 7,933         | 8,514         | -7%         | -4%        | 0%         |
|  | <i>Corporate and Other</i><br><i>(incl. inter-division eliminations)</i> | (1,292)       | (1,500)       |             |            |            |
| <b>Operational EBITA</b>                     | <b>ABB Group</b>   | <b>3,095</b>  | <b>3,088</b>  | <b>0%</b>   | <b>3%</b>  |            |
|  | Electrification Products   | 1,143         | 1,161         | -2%         | 1%         |            |
|  | Discrete Automation and Motion   | 896           | 992           | -10%        | -8%        |            |
|  | Process Automation   | 593           | 624           | -5%         | -2%        |            |
|  | Power Grids  | 706           | 581           | 22%         | 24%        |            |
|  | <i>Corporate and Other</i><br><i>(incl. inter-division eliminations)</i> | (243)         | (270)         |             |            |            |
| <b>Operational EBITA %</b>                   | <b>ABB Group</b>   | <b>12.4%</b>  | <b>11.8%</b>  |             |            |            |
|  | Electrification Products   | 16.7%         | 16.4%         |             |            |            |
|  | Discrete Automation and Motion   | 13.8%         | 14.5%         |             |            |            |
|  | Process Automation   | 12.1%         | 11.8%         |             |            |            |
|  | Power Grids  | 8.9%          | 6.8%          |             |            |            |
| <b>Income from operations</b>                | <b>ABB Group</b>   | <b>2,309</b>  | <b>2,702</b>  |             |            |            |
|  | Electrification Products   | 1,016         | 1,089         |             |            |            |
|  | Discrete Automation and Motion   | 742           | 857           |             |            |            |
|  | Process Automation   | 452           | 580           |             |            |            |
|  | Power Grids  | 554           | 468           |             |            |            |
|  | <i>Corporate and Other</i><br><i>(incl. inter-division eliminations)</i> | (455)         | (292)         |             |            |            |
| <b>Income from operations %</b>              | <b>ABB Group</b>   | <b>9.3%</b>   | <b>10.3%</b>  |             |            |            |
|  | Electrification Products   | 14.9%         | 15.4%         |             |            |            |
|  | Discrete Automation and Motion   | 11.4%         | 12.5%         |             |            |            |
|  | Process Automation   | 9.3%          | 10.9%         |             |            |            |
|  | Power Grids  | 7.0%          | 5.5%          |             |            |            |
| <b>Cash flow from operating activities</b>   | <b>ABB Group</b>   | <b>2,415</b>  | <b>1,824</b>  |             |            |            |
|  | Electrification Products   | 770           | 774           |             |            |            |
|  | Discrete Automation and Motion   | 694           | 834           |             |            |            |
|  | Process Automation   | 542           | 316           |             |            |            |
|  | Power Grids  | 561           | 135           |             |            |            |
|  | <i>Corporate and Other</i>   | (152)         | (235)         |             |            |            |

## Operational EBITA

| (\$ in millions, unless otherwise indicated)   | ABB             |              | Electrification<br>Products |              | Discrete Automation<br>and Motion |              | Process<br>Automation |              | Power<br>Grids |              |
|--|-----------------|--------------|-----------------------------|--------------|-----------------------------------|--------------|-----------------------|--------------|----------------|--------------|
|  | Q3 16           | Q3 15        | Q3 16                       | Q3 15        | Q3 16                             | Q3 15        | Q3 16                 | Q3 15        | Q3 16          | Q3 15        |
|  | <b>Revenues</b> | <b>8,255</b> | <b>8,519</b>                | <b>2,308</b> | <b>2,353</b>                      | <b>2,203</b> | <b>2,220</b>          | <b>1,523</b> | <b>1,659</b>   | <b>2,636</b> |
| FX/commodity timing<br>differences in total revenues   | 43              | 113          | 5                           | -            | 4                                 | 37           | 8                     | 32           | 25             | 43           |
| <b>Operational revenues</b>  | <b>8,298</b>    | <b>8,632</b> | <b>2,313</b>                | <b>2,353</b> | <b>2,207</b>                      | <b>2,257</b> | <b>1,531</b>          | <b>1,691</b> | <b>2,661</b>   | <b>2,834</b> |
| <b>Income from operations</b>  | <b>878</b>      | <b>882</b>   | <b>389</b>                  | <b>390</b>   | <b>276</b>                        | <b>264</b>   | <b>170</b>            | <b>159</b>   | <b>222</b>     | <b>159</b>   |
| Acquisition-related amortization   | 70              | 74           | 24                          | 25           | 30                                | 31           | 3                     | 3            | 9              | 10           |
| Restructuring and<br>restructuring-related expenses <sup>(1)</sup>   | 39              | 59           | (7)                         | 10           | (4)                               | 16           | 7                     | 3            | 12             | 13           |
| Gains and losses from sale of businesses,<br>acquisition-related expenses and certain<br>non-operational items | 35              | (6)          | 1                           | (1)          | 4                                 | -            | -                     | 1            | 2              | 5            |
| FX/commodity timing<br>differences in income from operations   | 24              | 72           | 4                           | (14)         | 5                                 | 24           | 7                     | 15           | 9              | 34           |
| <b>Operational EBITA</b>   | <b>1,046</b>    | <b>1,081</b> | <b>411</b>                  | <b>410</b>   | <b>311</b>                        | <b>335</b>   | <b>187</b>            | <b>181</b>   | <b>254</b>     | <b>221</b>   |
| <b>Operational EBITA margin (%)</b>  | <b>12.6%</b>    | <b>12.5%</b> | <b>17.8%</b>                | <b>17.4%</b> | <b>14.1%</b>                      | <b>14.8%</b> | <b>12.2%</b>          | <b>10.7%</b> | <b>9.5%</b>    | <b>7.8%</b>  |

| (\$ in millions, unless otherwise indicated)   | ABB             |               | Electrification<br>Products |              | Discrete Automation<br>and Motion |              | Process<br>Automation |              | Power<br>Grids |              |
|--|-----------------|---------------|-----------------------------|--------------|-----------------------------------|--------------|-----------------------|--------------|----------------|--------------|
|  | 9M 16           | 9M 15         | 9M 16                       | 9M 15        | 9M 16                             | 9M 15        | 9M 16                 | 9M 15        | 9M 16          | 9M 15        |
|  | <b>Revenues</b> | <b>24,835</b> | <b>26,239</b>               | <b>6,830</b> | <b>7,088</b>                      | <b>6,503</b> | <b>6,839</b>          | <b>4,861</b> | <b>5,298</b>   | <b>7,933</b> |
| FX/commodity timing<br>differences in total revenues   | 61              | (24)          | -                           | (7)          | (2)                               | -            | 32                    | -            | 30             | (17)         |
| <b>Operational revenues</b>  | <b>24,896</b>   | <b>26,215</b> | <b>6,830</b>                | <b>7,081</b> | <b>6,501</b>                      | <b>6,839</b> | <b>4,893</b>          | <b>5,298</b> | <b>7,963</b>   | <b>8,497</b> |
| <b>Income from operations</b>  | <b>2,309</b>    | <b>2,702</b>  | <b>1,016</b>                | <b>1,089</b> | <b>742</b>                        | <b>857</b>   | <b>452</b>            | <b>580</b>   | <b>554</b>     | <b>468</b>   |
| Acquisition-related amortization   | 212             | 237           | 72                          | 76           | 91                                | 96           | 9                     | 9            | 27             | 42           |
| Restructuring and<br>restructuring-related expenses <sup>(1)</sup>   | 475             | 143           | 48                          | 20           | 57                                | 44           | 100                   | 24           | 106            | 38           |
| Gains and losses from sale of businesses,<br>acquisition-related expenses and certain<br>non-operational items | 46              | 44            | 1                           | -            | 4                                 | -            | -                     | 19           | 6              | 38           |
| FX/commodity timing<br>differences in income from operations   | 53              | (38)          | 6                           | (24)         | 2                                 | (5)          | 32                    | (8)          | 13             | (5)          |
| <b>Operational EBITA</b>   | <b>3,095</b>    | <b>3,088</b>  | <b>1,143</b>                | <b>1,161</b> | <b>896</b>                        | <b>992</b>   | <b>593</b>            | <b>624</b>   | <b>706</b>     | <b>581</b>   |
| <b>Operational EBITA margin (%)</b>  | <b>12.4%</b>    | <b>11.8%</b>  | <b>16.7%</b>                | <b>16.4%</b> | <b>13.8%</b>                      | <b>14.5%</b> | <b>12.1%</b>          | <b>11.8%</b> | <b>8.9%</b>    | <b>6.8%</b>  |

(1) Amounts also include the incremental implementation costs in relation to the White Collar Productivity program.

## Depreciation and Amortization

| (\$ in millions)                                     | ABB          |       | Electrification<br>Products |       | Discrete Automation<br>and Motion |       | Process<br>Automation |       | Power<br>Grids |       |
|--|--------------|-------|-----------------------------|-------|-----------------------------------|-------|-----------------------|-------|----------------|-------|
|  | Q3 16        | Q3 15 | Q3 16                       | Q3 15 | Q3 16                             | Q3 15 | Q3 16                 | Q3 15 | Q3 16          | Q3 15 |
|  | Depreciation | 195   | 188                         | 50    | 51                                | 40    | 37                    | 15    | 14             | 51    |
| Amortization   | 91           | 96    | 27                          | 27    | 34                                | 37    | 4                     | 5     | 16             | 15    |
| including total acquisition-related amortization of: | 70           | 74    | 24                          | 25    | 30                                | 31    | 3                     | 3     | 9              | 10    |

| (\$ in millions)                                     | ABB          |       | Electrification<br>Products |       | Discrete Automation<br>and Motion |       | Process<br>Automation |       | Power<br>Grids |       |
|--|--------------|-------|-----------------------------|-------|-----------------------------------|-------|-----------------------|-------|----------------|-------|
|  | 9M 16        | 9M 15 | 9M 16                       | 9M 15 | 9M 16                             | 9M 15 | 9M 16                 | 9M 15 | 9M 16          | 9M 15 |
|  | Depreciation | 576   | 572                         | 150   | 155                               | 118   | 110                   | 44    | 45             | 151   |
| Amortization   | 277          | 300   | 80                          | 83    | 103                               | 110   | 13                    | 14    | 49             | 59    |
| including total acquisition-related amortization of: | 212          | 237   | 72                          | 76    | 91                                | 96    | 9                     | 9     | 27             | 42    |

## Orders received and revenues by region

(\$ in millions, unless otherwise indicated)

|                              | Orders received |              | CHANGE      |             |             | Revenues     |              | CHANGE     |            |             |
|------------------------------|-----------------|--------------|-------------|-------------|-------------|--------------|--------------|------------|------------|-------------|
|                              | Q3 16           | Q3 15        | US\$        | Local       | Com-parable | Q3 16        | Q3 15        | US\$       | Local      | Com-parable |
| Europe                       | 2,336           | 2,909        | -20%        | -19%        | -18%        | 2,733        | 2,821        | -3%        | -1%        | 3%          |
| The Americas                 | 2,208           | 2,660        | -17%        | -16%        | -16%        | 2,456        | 2,569        | -4%        | -3%        | -3%         |
| Asia, Middle East and Africa | 2,989           | 3,198        | -7%         | -5%         | -5%         | 3,066        | 3,129        | -2%        | 0%         | 0%          |
| <b>ABB Group</b>             | <b>7,533</b>    | <b>8,767</b> | <b>-14%</b> | <b>-13%</b> | <b>-13%</b> | <b>8,255</b> | <b>8,519</b> | <b>-3%</b> | <b>-2%</b> | <b>0%</b>   |

(\$ in millions, unless otherwise indicated)

|                              | Orders received |               | CHANGE      |            |             | Revenues      |               | CHANGE     |            |             |
|------------------------------|-----------------|---------------|-------------|------------|-------------|---------------|---------------|------------|------------|-------------|
|                              | 9M 16           | 9M 15         | US\$        | Local      | Com-parable | 9M 16         | 9M 15         | US\$       | Local      | Com-parable |
| Europe                       | 8,684           | 9,680         | -10%        | -8%        | -8%         | 8,299         | 8,574         | -3%        | -1%        | 3%          |
| The Americas                 | 6,864           | 8,014         | -14%        | -12%       | -12%        | 7,272         | 7,927         | -8%        | -5%        | -5%         |
| Asia, Middle East and Africa | 9,554           | 10,473        | -9%         | -5%        | -5%         | 9,264         | 9,738         | -5%        | -2%        | -2%         |
| <b>ABB Group</b>             | <b>25,102</b>   | <b>28,167</b> | <b>-11%</b> | <b>-8%</b> | <b>-8%</b>  | <b>24,835</b> | <b>26,239</b> | <b>-5%</b> | <b>-2%</b> | <b>-1%</b>  |

# Interim Consolidated Financial Information

## ABB Ltd Interim Consolidated Income Statements (unaudited)

| (\$ in millions, except per share data in \$)                                       | Nine months ended |                 | Three months ended |                |
|---|-------------------|-----------------|--------------------|----------------|
|   | Sep. 30, 2016     | Sep. 30, 2015   | Sep. 30, 2016      | Sep. 30, 2015  |
| Sales of products   | 20,477            | 21,878          | 6,802              | 7,116          |
| Sales of services and software  | 4,358             | 4,361           | 1,453              | 1,403          |
| <b>Total revenues</b>   | <b>24,835</b>     | <b>26,239</b>   | <b>8,255</b>       | <b>8,519</b>   |
| Cost of sales of products   | (14,980)          | (15,874)        | (4,911)            | (5,163)        |
| Cost of services and software   | (2,623)           | (2,626)         | (885)              | (838)          |
| <b>Total cost of sales</b>  | <b>(17,603)</b>   | <b>(18,500)</b> | <b>(5,796)</b>     | <b>(6,001)</b> |
| <b>Gross profit</b>   | <b>7,232</b>      | <b>7,739</b>    | <b>2,459</b>       | <b>2,518</b>   |
| Selling, general and administrative expenses  | (3,955)           | (3,994)         | (1,280)            | (1,307)        |
| Non-order related research and development expenses                                 | (951)             | (998)           | (303)              | (322)          |
| Other income (expense), net   | (17)              | (45)            | 2                  | (7)            |
| <b>Income from operations</b>   | <b>2,309</b>      | <b>2,702</b>    | <b>878</b>         | <b>882</b>     |
| Interest and dividend income  | 54                | 56              | 16                 | 18             |
| Interest and other finance expense  | (230)             | (223)           | (84)               | (64)           |
| <b>Income from continuing operations before taxes</b>                               | <b>2,133</b>      | <b>2,535</b>    | <b>810</b>         | <b>836</b>     |
| Provision for taxes   | (587)             | (722)           | (237)              | (229)          |
| <b>Income from continuing operations, net of tax</b>                                | <b>1,546</b>      | <b>1,813</b>    | <b>573</b>         | <b>607</b>     |
| Income from discontinued operations, net of tax                                     | 14                | 2               | 16                 | -              |
| <b>Net income</b>   | <b>1,560</b>      | <b>1,815</b>    | <b>589</b>         | <b>607</b>     |
| Net income attributable to noncontrolling interests                                 | (86)              | (86)            | (21)               | (30)           |
| <b>Net income attributable to ABB</b>   | <b>1,474</b>      | <b>1,729</b>    | <b>568</b>         | <b>577</b>     |
| <b>Amounts attributable to ABB shareholders:</b>                                    |                   |                 |                    |                |
| Income from continuing operations, net of tax                                       | 1,460             | 1,727           | 552                | 577            |
| Net income  | 1,474             | 1,729           | 568                | 577            |
| <b>Basic earnings per share attributable to ABB shareholders:</b>                   |                   |                 |                    |                |
| Income from continuing operations, net of tax                                       | 0.68              | 0.77            | 0.26               | 0.26           |
| Net income  | 0.68              | 0.77            | 0.27               | 0.26           |
| <b>Diluted earnings per share attributable to ABB shareholders:</b>                 |                   |                 |                    |                |
| Income from continuing operations, net of tax                                       | 0.68              | 0.77            | 0.26               | 0.26           |
| Net income  | 0.68              | 0.77            | 0.27               | 0.26           |
| <b>Weighted-average number of shares outstanding (in millions) used to compute:</b> |                   |                 |                    |                |
| Basic earnings per share attributable to ABB shareholders                           | 2,155             | 2,234           | 2,135              | 2,219          |
| Diluted earnings per share attributable to ABB shareholders                         | 2,159             | 2,239           | 2,139              | 2,223          |

See Notes to the Interim Consolidated Financial Information



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## ABB Ltd Interim Condensed Consolidated Statements of Comprehensive Income (unaudited)

| (\$ in millions)  | Nine months ended |               | Three months ended |               |
|---|-------------------|---------------|--------------------|---------------|
|   | Sep. 30, 2016     | Sep. 30, 2015 | Sep. 30, 2016      | Sep. 30, 2015 |
| <b>Total comprehensive income, net of tax</b>                                   | <b>1,767</b>      | <b>1,162</b>  | <b>592</b>         | <b>303</b>    |
| Total comprehensive income attributable to noncontrolling interests, net of tax | (87)              | (73)          | (22)               | (21)          |
| <b>Total comprehensive income attributable to ABB shareholders, net of tax</b>  | <b>1,680</b>      | <b>1,089</b>  | <b>570</b>         | <b>282</b>    |

See Notes to the Interim Consolidated Financial Information

## ABB Ltd Interim Consolidated Balance Sheets (unaudited)

| (\$ in millions, except share data)  | Sep. 30, 2016 | Dec. 31, 2015 |
|--|---------------|---------------|
| Cash and equivalents   | 3,538         | 4,565         |
| Marketable securities and short-term investments   | 1,827         | 1,633         |
| Receivables, net   | 10,155        | 10,061        |
| Inventories, net   | 5,017         | 4,757         |
| Prepaid expenses   | 242           | 225           |
| Deferred taxes   | 858           | 881           |
| Other current assets   | 631           | 638           |
| Assets held for sale   | 634           | –             |
| <b>Total current assets</b>  | <b>22,902</b> | <b>22,760</b> |
| Property, plant and equipment, net   | 4,861         | 5,276         |
| Goodwill   | 9,639         | 9,671         |
| Other intangible assets, net   | 2,102         | 2,337         |
| Prepaid pension and other employee benefits  | 69            | 68            |
| Investments in equity-accounted companies  | 173           | 178           |
| Deferred taxes   | 490           | 423           |
| Other non-current assets   | 573           | 643           |
| <b>Total assets</b>  | <b>40,809</b> | <b>41,356</b> |
| Accounts payable, trade  | 4,458         | 4,342         |
| Billings in excess of sales  | 1,330         | 1,375         |
| Short-term debt and current maturities of long-term debt   | 1,402         | 1,454         |
| Advances from customers  | 1,591         | 1,598         |
| Deferred taxes   | 228           | 249           |
| Provisions for warranties  | 1,104         | 1,089         |
| Other provisions   | 1,938         | 1,920         |
| Other current liabilities  | 3,897         | 3,817         |
| Liabilities held for sale  | 229           | –             |
| <b>Total current liabilities</b>   | <b>16,177</b> | <b>15,844</b> |
| Long-term debt   | 6,319         | 5,985         |
| Pension and other employee benefits  | 1,810         | 1,924         |
| Deferred taxes   | 968           | 965           |
| Other non-current liabilities  | 1,622         | 1,650         |
| <b>Total liabilities</b>   | <b>26,896</b> | <b>26,368</b> |
| Commitments and contingencies  |               |               |
| <b>Stockholders' equity:</b>   |               |               |
| Capital stock and additional paid-in capital<br>(2,214,743,264 and 2,314,743,264 issued shares at September 30, 2016, and December 31, 2015, respectively) | 208           | 1,444         |
| Retained earnings  | 19,500        | 20,476        |
| Accumulated other comprehensive loss   | (4,652)       | (4,858)       |
| Treasury stock, at cost<br>(78,817,923 and 123,118,123 shares at September 30, 2016, and December 31, 2015, respectively)                                  | (1,616)       | (2,581)       |
| <b>Total ABB stockholders' equity</b>  | <b>13,440</b> | <b>14,481</b> |
| Noncontrolling interests   | 473           | 507           |
| <b>Total stockholders' equity</b>  | <b>13,913</b> | <b>14,988</b> |
| <b>Total liabilities and stockholders' equity</b>  | <b>40,809</b> | <b>41,356</b> |

See Notes to the Interim Consolidated Financial Information

## ABB Ltd Interim Consolidated Statements of Cash Flows (unaudited)

| (\$ in millions)  | Nine months ended |                | Three months ended |               |
|---|-------------------|----------------|--------------------|---------------|
|   | Sep. 30, 2016     | Sep. 30, 2015  | Sep. 30, 2016      | Sep. 30, 2015 |
| <b>Operating activities:</b>  |                   |                |                    |               |
| Net income  | 1,560             | 1,815          | 589                | 607           |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b>                                |                   |                |                    |               |
| Depreciation and amortization   | 853               | 872            | 286                | 284           |
| Deferred taxes  | (108)             | (26)           | 19                 | (7)           |
| Net loss (gain) from sale of property, plant and equipment  | (33)              | (21)           | (25)               | (2)           |
| Net loss (gain) from sale of businesses   | -                 | 19             | -                  | 15            |
| Net loss (gain) from derivatives and foreign exchange   | 58                | (38)           | 10                 | 54            |
| Other   | 110               | 130            | 41                 | 21            |
| <b>Changes in operating assets and liabilities:</b>   |                   |                |                    |               |
| Trade receivables, net  | (68)              | (201)          | 163                | 218           |
| Inventories, net  | (261)             | (404)          | (57)               | (103)         |
| Trade payables  | 153               | (128)          | (14)               | (89)          |
| Accrued liabilities   | 14                | (22)           | 179                | 164           |
| Billings in excess of sales   | 4                 | 90             | (5)                | (29)          |
| Provisions, net   | (5)               | (157)          | (112)              | (50)          |
| Advances from customers   | (20)              | (6)            | 2                  | 52            |
| Income taxes payable and receivable   | 123               | (73)           | 2                  | 15            |
| Other assets and liabilities, net   | 35                | (26)           | 3                  | 23            |
| <b>Net cash provided by operating activities</b>  | <b>2,415</b>      | <b>1,824</b>   | <b>1,081</b>       | <b>1,173</b>  |
| <b>Investing activities:</b>  |                   |                |                    |               |
| Purchases of marketable securities (available-for-sale)   | (821)             | (1,098)        | (410)              | (236)         |
| Purchases of short-term investments   | (2,172)           | (546)          | (803)              | (65)          |
| Purchases of property, plant and equipment and intangible assets  | (532)             | (547)          | (184)              | (189)         |
| Acquisition of businesses (net of cash acquired) and increases in cost- and equity-accounted companies                  | (24)              | (44)           | (5)                | (3)           |
| Proceeds from sales of marketable securities (available-for-sale)   | 773               | 379            | 735                | 20            |
| Proceeds from maturity of marketable securities (available-for-sale)  | 539               | 627            | -                  | 133           |
| Proceeds from short-term investments  | 1,450             | 628            | 917                | 116           |
| Proceeds from sales of property, plant and equipment  | 52                | 44             | 24                 | 20            |
| Proceeds from sales of businesses (net of transaction costs and cash disposed) and cost- and equity-accounted companies | (1)               | 69             | (3)                | 68            |
| Net cash from settlement of foreign currency derivatives  | (34)              | 208            | (13)               | 23            |
| Other investing activities  | 13                | 15             | 5                  | -             |
| <b>Net cash provided by (used in) investing activities</b>  | <b>(757)</b>      | <b>(265)</b>   | <b>263</b>         | <b>(113)</b>  |
| <b>Financing activities:</b>  |                   |                |                    |               |
| Net changes in debt with original maturities of 90 days or less   | 9                 | 75             | (282)              | (341)         |
| Increase in debt  | 905               | 55             | 53                 | 4             |
| Repayment of debt   | (735)             | (78)           | (71)               | (16)          |
| Delivery of shares  | 143               | 107            | 142                | -             |
| Purchase of treasury stock  | (1,299)           | (1,048)        | (102)              | (150)         |
| Dividends paid  | -                 | (1,357)        | -                  | -             |
| Reduction in nominal value of common shares paid to shareholders  | (1,610)           | (392)          | (1,610)            | (392)         |
| Dividends paid to noncontrolling shareholders   | (121)             | (131)          | (14)               | (26)          |
| Other financing activities  | (21)              | (18)           | (9)                | (24)          |
| <b>Net cash used in financing activities</b>  | <b>(2,729)</b>    | <b>(2,787)</b> | <b>(1,893)</b>     | <b>(945)</b>  |
| Effects of exchange rate changes on cash and equivalents  | 44                | (245)          | 2                  | (99)          |
| <b>Net change in cash and equivalents – continuing operations</b>   | <b>(1,027)</b>    | <b>(1,473)</b> | <b>(547)</b>       | <b>16</b>     |
| Cash and equivalents, beginning of period   | 4,565             | 5,443          | 4,085              | 3,954         |
| <b>Cash and equivalents, end of period</b>  | <b>3,538</b>      | <b>3,970</b>   | <b>3,538</b>       | <b>3,970</b>  |
| <b>Supplementary disclosure of cash flow information:</b>   |                   |                |                    |               |
| Interest paid   | 144               | 151            | 21                 | 21            |
| Taxes paid  | 591               | 836            | 230                | 220           |

See Notes to the Interim Consolidated Financial Information

## ABB Ltd Interim Consolidated Statements of Changes in Stockholders' Equity (unaudited)

| (\$ in millions)   | Capital stock and additional paid-in capital | Retained earnings | Accumulated other comprehensive loss     |  |  |  | Total accumulated other comprehensive loss | Treasury stock | Total ABB stockholders' equity | Noncontrolling interests | Total stockholders' equity |
|--|--|-------------------|--|--|--|--|--|----------------|--------------------------------|--------------------------|----------------------------|
|  |  |                   | Foreign currency translation adjustments | Unrealized gains (losses) on available-for-sale securities | Pension and other post-retirement plan adjustments | Unrealized gains (losses) of cash flow hedge derivatives |  |                |                                |                          |                            |
| <b>Balance at January 1, 2015</b>  | <b>1,777</b>                                 | <b>19,939</b>     | <b>(2,102)</b>                           | <b>13</b>  | <b>(2,131)</b>                                     | <b>(21)</b>  | <b>(4,241)</b>                             | <b>(1,206)</b> | <b>16,269</b>                  | <b>546</b>               | <b>16,815</b>              |
| <b>Comprehensive income:</b>   |  |                   |  |  |  |  |  |                |                                |                          |                            |
| Net income   |  | 1,729             |  |  |  |  |  |                | 1,729                          | 86                       | 1,815                      |
| Foreign currency translation adjustments, net of tax of \$(3)  |  |                   | (831)                                    |  |  |  | (831)                                      |                | (831)                          | (13)                     | (844)                      |
| Effect of change in fair value of available-for-sale securities, net of tax of \$0                   |  |                   |  | (2)  |  |  | (2)  |                | (2)                            |                          | (2)                        |
| Unrecognized income (expense) related to pensions and other postretirement plans, net of tax of \$65 |  |                   |  |  | 179  |  | 179  |                | 179                            |                          | 179                        |
| Change in derivatives qualifying as cash flow hedges, net of tax of \$(1)                            |  |                   |  |  |  | 14   | 14   |                | 14                             |                          | 14                         |
| <b>Total comprehensive income</b>  |  |                   |  |  |  |  |  |                | <b>1,089</b>                   | <b>73</b>                | <b>1,162</b>               |
| Changes in noncontrolling interests  |  |                   |  |  |  |  |  |                | -                              | (2)                      | (2)                        |
| Dividends paid to noncontrolling shareholders  |  |                   |  |  |  |  |  |                | -                              | (137)                    | (137)                      |
| Dividends paid   |  | (1,317)           |  |  |  |  |  |                | (1,317)                        |                          | (1,317)                    |
| Reduction in nominal value of common shares paid to shareholders                                     | (349)  | (54)              |  |  |  |  |  |                | (403)                          |                          | (403)                      |
| Share-based payment arrangements   | 43   |                   |  |  |  |  |  |                | 43                             |                          | 43                         |
| Purchase of treasury stock   |  |                   |  |  |  |  |  | (1,047)        | (1,047)                        |                          | (1,047)                    |
| Delivery of shares   | (17)   |                   |  |  |  |  |  | 124            | 107                            |                          | 107                        |
| Call options   | 4  |                   |  |  |  |  |  |                | 4                              |                          | 4                          |
| <b>Balance at September 30, 2015</b>   | <b>1,458</b>                                 | <b>20,297</b>     | <b>(2,933)</b>                           | <b>11</b>  | <b>(1,952)</b>                                     | <b>(7)</b>   | <b>(4,881)</b>                             | <b>(2,129)</b> | <b>14,745</b>                  | <b>480</b>               | <b>15,225</b>              |
| <b>Balance at January 1, 2016</b>  | <b>1,444</b>                                 | <b>20,476</b>     | <b>(3,135)</b>                           | <b>7</b>   | <b>(1,719)</b>                                     | <b>(11)</b>  | <b>(4,858)</b>                             | <b>(2,581)</b> | <b>14,481</b>                  | <b>507</b>               | <b>14,988</b>              |
| <b>Comprehensive income:</b>   |  |                   |  |  |  |  |  |                |                                |                          |                            |
| Net income   |  | 1,474             |  |  |  |  |  |                | 1,474                          | 86                       | 1,560                      |
| Foreign currency translation adjustments, net of tax of \$11   |  |                   | 97                                       |  |  |  | 97   |                | 97                             | 1                        | 98                         |
| Effect of change in fair value of available-for-sale securities, net of tax of \$1                   |  |                   |  | 7  |  |  | 7  |                | 7                              |                          | 7                          |
| Unrecognized income (expense) related to pensions and other postretirement plans, net of tax of \$23 |  |                   |  |  | 89   |  | 89   |                | 89                             |                          | 89                         |
| Change in derivatives qualifying as cash flow hedges, net of tax of \$4                              |  |                   |  |  |  | 13   | 13   |                | 13                             |                          | 13                         |
| <b>Total comprehensive income</b>  |  |                   |  |  |  |  |  |                | <b>1,680</b>                   | <b>87</b>                | <b>1,767</b>               |
| Dividends paid to noncontrolling shareholders  |  |                   |  |  |  |  |  |                | -                              | (121)                    | (121)                      |
| Reduction in nominal value of common shares paid to shareholders                                     | (1,224)                                      | (402)             |  |  |  |  |  |                | (1,626)                        |                          | (1,626)                    |
| Cancellation of treasury shares  | (40)   | (2,007)           |  |  |  |  |  | 2,047          | -                              |                          | -                          |
| Share-based payment arrangements   | 37   |                   |  |  |  |  |  |                | 37                             |                          | 37                         |
| Purchase of treasury stock   |  |                   |  |  |  |  |  | (1,280)        | (1,280)                        |                          | (1,280)                    |
| Delivery of shares   | (14)   | (41)              |  |  |  |  |  | 198            | 143                            |                          | 143                        |
| Call options   | 5  |                   |  |  |  |  |  |                | 5                              |                          | 5                          |
| <b>Balance at September 30, 2016</b>   | <b>208</b>                                   | <b>19,500</b>     | <b>(3,038)</b>                           | <b>14</b>  | <b>(1,630)</b>                                     | <b>2</b>   | <b>(4,652)</b>                             | <b>(1,616)</b> | <b>13,440</b>                  | <b>473</b>               | <b>13,913</b>              |

See Notes to the Interim Consolidated Financial Information

## Notes to the Interim Consolidated Financial Information (unaudited)

### Note 1 The Company and basis of presentation

ABB Ltd and its subsidiaries (collectively, the Company) together form a pioneering technology leader in electrification products, robotics and motion, industrial automation and power grids serving customers in utilities, industry and transport & infrastructure globally.

The Company's Interim Consolidated Financial Information is prepared in accordance with United States of America generally accepted accounting principles (U.S. GAAP) for interim financial reporting. As such, the Interim Consolidated Financial Information does not include all the information and notes required under U.S. GAAP for annual consolidated financial statements. Therefore, such financial information should be read in conjunction with the audited consolidated financial statements in the Company's Annual Report for the year ended December 31, 2015.

The preparation of financial information in conformity with U.S. GAAP requires management to make assumptions and estimates that directly affect the amounts reported in the Interim Consolidated Financial Information. The most significant, difficult and subjective of such accounting assumptions and estimates include:

- assumptions and projections, principally related to future material, labor and project-related overhead costs, used in determining the percentage-of-completion on projects,
- estimates of loss contingencies associated with litigation or threatened litigation and other claims and inquiries, environmental damages, product warranties, self-insurance reserves, regulatory and other proceedings,
- assumptions used in the calculation of pension and postretirement benefits and the fair value of pension plan assets,
- estimates used to record expected costs for employee severance in connection with restructuring programs,
- recognition and measurement of current and deferred income tax assets and liabilities (including the measurement of uncertain tax positions),
- growth rates, discount rates and other assumptions used in testing goodwill for impairment,
- assumptions used in determining inventory obsolescence and net realizable value,
- estimates and assumptions used in determining the fair values of assets and liabilities assumed in business combinations,
- growth rates, discount rates and other assumptions used to determine impairment of long-lived assets, and
- assessment of the allowance for doubtful accounts.

The actual results and outcomes may differ from the Company's estimates and assumptions.

A portion of the Company's activities (primarily long-term construction activities) has an operating cycle that exceeds one year. For classification of current assets and liabilities related to such activities, the Company elected to use the duration of the individual contracts as its operating cycle. Accordingly, there are accounts receivable, inventories and provisions related to these contracts which will not be realized within one year that have been classified as current.

In September 2016, the Company announced an agreement to divest its cables business. The assets and liabilities of this business are shown as assets and liabilities held for sale in the Company's Interim Consolidated Balance Sheet at September 30, 2016.

In the opinion of management, the unaudited Interim Consolidated Financial Information contains all necessary adjustments to present fairly the financial position, results of operations and cash flows for the reported interim periods. Management considers all such adjustments to be of a normal recurring nature.

The Interim Consolidated Financial Information is presented in United States dollars (\$) unless otherwise stated.

### Note 2 Recent accounting pronouncements Applicable for current periods

#### **Disclosures for investments in certain entities that calculate net asset value per share (or its equivalent)**

As of January 1, 2016, the Company adopted an accounting standard update regarding fair value disclosures for certain investments. Under the update, the Company is no longer required to categorize within the fair value hierarchy any investments for which fair value is measured using the net asset value per share practical expedient. The amendments also removed the requirement to make certain disclosures for investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the Company has elected to measure the fair value using that practical expedient. This update was applied retrospectively and did not have a significant impact on the consolidated financial statements.

#### **Simplifying the measurement of inventory**

As of January 1, 2016, the Company early-adopted an accounting standard update simplifying the subsequent measurement of inventories by replacing the current lower of cost or market test with a lower of cost and net realizable value test. The guidance applies only to inventories for which cost is determined by methods other than last-in first-out and the retail inventory methods. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The update was applied prospectively and did not have a significant impact on the consolidated financial statements.

#### **Revenue from contracts with customers**

In May 2014, an accounting standard update was issued to clarify the principles for recognizing revenues from contracts with customers. The update, which supersedes substantially all existing revenue recognition guidance, provides a single comprehensive model for recognizing revenues on the transfer of promised goods or services to customers in an amount that reflects the consideration that is expected to be received for those goods or services. Under the standard it is possible that more judgments and estimates would be required than under existing standards, including identifying the separate performance obligations in a contract, estimating any variable consideration elements, and allocating the transaction price to each separate performance obligation. The update also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Further updates were issued in 2016 to clarify the guidance on identifying performance obligations and licensing, to enhance the implementation guidance on principal versus agent considerations and to add other practical expedients.

In August 2015, the effective date for the update was deferred and the update is now effective for the Company for annual and interim periods beginning January 1, 2018, and is to be applied either (i) retrospectively to each prior reporting period presented, with the option to elect certain defined practical expedients, or (ii) retrospectively with the cumulative effect of initially applying the update recognized at the date of adoption in retained earnings (with additional disclosure as to the impact on individual financial statement lines affected). Early adoption of the standard is permitted for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

The Company currently plans to adopt these updates as of January 1, 2018, pursuant to the aforementioned adoption method (ii) and currently does not anticipate these updates will have a significant impact on its consolidated financial statements. The Company continues to evaluate the expected impacts of the adoption of these updates and the expected impacts are subject to change.

#### **Balance sheet classification of deferred taxes**

In November 2015, an accounting standard update was issued which removes the requirement to separate deferred tax liabilities and assets into current and noncurrent amounts and instead requires all such amounts, as well as any related valuation allowance, to be classified as noncurrent in the balance sheet. This update is effective for the Company for annual and interim periods beginning January 1, 2017, with early adoption permitted, and is applicable either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company will adopt this update as of January 1, 2017, on a retrospective basis and expects the balance of deferred tax assets and liabilities to decrease by approximately USD 300 million due to additional netting impacts.

#### **Recognition and measurement of financial assets and financial liabilities**

In January 2016, an accounting standard update was issued to enhance the reporting model for financial instruments, which includes amendments to address aspects of recognition, measurement, presentation and disclosure. For example, the Company would be required to measure equity investments (except those accounted for under the equity method) at fair value with changes in fair value recognized in net income and to present separately financial assets and financial liabilities by measurement category and form of financial asset. This update is effective for the Company for annual and interim periods beginning January 1, 2018, with early adoption permitted for certain provisions. The Company is currently evaluating the impact of this update on its consolidated financial statements.

#### **Leases**

In February 2016, an accounting standard update was issued that requires lessees to recognize lease assets and corresponding lease liabilities on the balance sheet for all leases with terms of more than 12 months. The update, which supersedes existing lease guidance, will continue to classify leases as either finance or operating, with the classification determining the pattern of expense recognition in the income statement. This update is effective for the Company for annual and interim periods beginning January 1, 2019, with early adoption permitted, and is applicable on a modified retrospective basis with various optional practical expedients. The Company is currently evaluating the impact of this update on its consolidated financial statements.

#### **Simplifying the transition to the equity method of accounting**

In March 2016, an accounting standard update was issued which eliminates the retroactive adjustments to an investment upon it qualifying for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence by the investor. It requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment qualifies for equity method accounting. This update is effective for the Company for annual and interim periods beginning January 1, 2017, with early adoption permitted, and is applicable prospectively. The Company does not believe that this update will have a significant impact on its consolidated financial statements.

#### **Improvements to employee share-based payment accounting**

In March 2016, an accounting standard update was issued which changes the accounting for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as the classification in the statement of cash flows. This update is effective for the Company for annual and interim periods beginning January 1, 2017, with early adoption permitted. The Company does not believe that this update will have a significant impact on its consolidated financial statements.

#### **Measurement of credit losses on financial instruments**

In June 2016, an accounting standard update was issued which replaces the existing incurred loss impairment methodology for most financial assets with a new "current expected credit loss" model. The

new model will result in the immediate recognition of the estimated credit losses expected to occur over the remaining life of financial assets such as trade and other receivables, held-to-maturity debt securities, loans and other instruments. Credit losses relating to available-for-sale debt securities will be measured in a manner similar to current GAAP, except that the losses will be recorded through an allowance for credit losses rather than as a direct write-down of the security.

This update is effective for the Company for annual and interim periods beginning January 1, 2020, with early adoption permitted for annual and interim periods beginning January 1, 2019. The Company is currently evaluating the impact of this update on its consolidated financial statements.

#### Classification of certain cash receipts and cash payments in the statement of cash flows

In August 2016, an accounting standard update was issued which clarifies how certain cash receipts and cash payments, including debt prepayment or extinguishment costs, the settlement of zero coupon debt instruments, contingent consideration paid after a business combination, proceeds from insurance settlements, distributions from certain equity method investees and beneficial interests obtained in a financial asset securitization, should be presented and classified in the statement of cash flows. This update is effective for the Company for annual and interim periods beginning January 1, 2018 on a retrospective basis, with early adoption permitted. The Company does not believe that this update will have a significant impact on its consolidated financial statements.

#### Income taxes – Intra-entity transfers of assets other than inventory

In October 2016, an accounting standard update was issued that requires the Company to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs instead of when the asset has been sold to an outside party. This update is effective for the Company for annual and interim periods beginning January 1, 2018, with early adoption permitted, and is applicable on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact of this update on its consolidated financial statements.

### Note 3

#### Cash and equivalents, marketable securities and short-term investments

##### Current assets

Cash and equivalents, marketable securities and short-term investments consisted of the following:

| September 30, 2016                   |              |                        |                         |              |                      |  |
|--------------------------------------|--------------|------------------------|-------------------------|--------------|----------------------|--|
| (\$ in millions)                     | Cost basis   | Gross unrealized gains | Gross unrealized losses | Fair value   | Cash and equivalents | Marketable securities and short-term investments |
| Cash                                 | 1,758        |                        |                         | 1,758        | 1,758                | –  |
| Time deposits                        | 2,580        |                        |                         | 2,580        | 1,780                | 800  |
| Other short-term investments         | 230          |                        |                         | 230          | –                    | 230  |
| Debt securities available-for-sale:  |              |                        |                         |              |                      |  |
| U.S. government obligations          | 220          | 3                      | (1)                     | 222          | –                    | 222  |
| European government obligations      | 13           | –                      | –                       | 13           | –                    | 13   |
| Other government obligations         | 2            | –                      | –                       | 2            | –                    | 2  |
| Corporate                            | 95           | 3                      | –                       | 98           | –                    | 98   |
| Equity securities available-for-sale | 449          | 13                     | –                       | 462          | –                    | 462  |
| <b>Total</b>                         | <b>5,347</b> | <b>19</b>              | <b>(1)</b>              | <b>5,365</b> | <b>3,538</b>         | <b>1,827</b>                                     |

| December 31, 2015                    |              |                        |                         |              |                      |  |
|--------------------------------------|--------------|------------------------|-------------------------|--------------|----------------------|--|
| (\$ in millions)                     | Cost basis   | Gross unrealized gains | Gross unrealized losses | Fair value   | Cash and equivalents | Marketable securities and short-term investments |
| Cash                                 | 1,837        |                        |                         | 1,837        | 1,837                | –  |
| Time deposits                        | 2,821        |                        |                         | 2,821        | 2,717                | 104  |
| Other short-term investments         | 231          |                        |                         | 231          | –                    | 231  |
| Debt securities available-for-sale:  |              |                        |                         |              |                      |  |
| U.S. government obligations          | 120          | 2                      | (1)                     | 121          | –                    | 121  |
| Other government obligations         | 2            | –                      | –                       | 2            | –                    | 2  |
| Corporate                            | 519          | 1                      | (1)                     | 519          | 11                   | 508  |
| Equity securities available-for-sale | 658          | 9                      | –                       | 667          | –                    | 667  |
| <b>Total</b>                         | <b>6,188</b> | <b>12</b>              | <b>(2)</b>              | <b>6,198</b> | <b>4,565</b>         | <b>1,633</b>                                     |

Included in Other short-term investments at September 30, 2016, and December 31, 2015, are receivables of \$229 million and \$224 million, respectively, representing reverse repurchase agreements. These collateralized lendings, made to a financial institution, have maturity dates of less than one year.

##### Non-current assets

Included in “Other non-current assets” are certain held-to-maturity marketable securities. At September 30, 2016, the amortized cost, gross unrecognized gain and fair value (based on quoted market prices) of these securities were \$84 million, \$10 million and \$94 million, respectively. At December 31, 2015, the amortized cost, gross unrecognized gain and fair value (based on quoted market prices) of these securities

were \$99 million, \$11 million and \$110 million, respectively. These securities are pledged as security for certain outstanding deposit liabilities and the funds received at the respective maturity dates of the securities will only be available to the Company for repayment of these obligations.

**Note 4**  
**Derivative financial instruments**

The Company is exposed to certain currency, commodity, interest rate and equity risks arising from its global operating, financing and investing activities. The Company uses derivative instruments to reduce and manage the economic impact of these exposures.

**Currency risk**

Due to the global nature of the Company's operations, many of its subsidiaries are exposed to currency risk in their operating activities from entering into transactions in currencies other than their functional currency. To manage such currency risks, the Company's policies require the subsidiaries to hedge their foreign currency exposures from binding sales and purchase contracts denominated in foreign currencies. For forecasted foreign currency denominated sales of standard products and the related foreign currency denominated purchases, the Company's policy is to hedge up to a maximum of 100 percent of the forecasted foreign currency denominated exposures, depending on the length of the forecasted exposures. Forecasted exposures greater than 12 months are not hedged. Forward foreign exchange contracts are the main instrument used to protect the Company against the volatility of future cash flows (caused by changes in exchange rates) of contracted and forecasted sales and purchases denominated in foreign currencies. In addition, within its treasury operations, the Company primarily uses foreign exchange swaps and forward foreign exchange contracts to manage the currency and timing mismatches arising in its liquidity management activities.

**Commodity risk**

Various commodity products are used in the Company's manufacturing activities. Consequently it is exposed to volatility in future cash flows arising from changes in commodity prices. To manage the price risk of commodities, the Company's policies require that the subsidiaries hedge the commodity price risk exposures from binding contracts, as well as at least 50 percent (up to a maximum of 100 percent) of the forecasted commodity exposure over the next 12 months or longer (up to a maximum of 18 months). Primarily swap contracts are used to manage the associated price risks of commodities.

**Interest rate risk**

The Company has issued bonds at fixed rates. Interest rate swaps are used to manage the interest rate risk associated with certain debt and generally such swaps are designated as fair value hedges. In addition, from time to time, the Company uses instruments such as interest rate swaps, interest rate futures, bond futures or forward rate agreements to manage interest rate risk arising from the Company's balance sheet structure but does not designate such instruments as hedges.

**Equity risk**

The Company is exposed to fluctuations in the fair value of its warrant appreciation rights (WARs) issued under its management incentive plan. A WAR gives its holder the right to receive cash equal to the market price of an equivalent listed warrant on the date of exercise. To eliminate such risk, the Company has purchased cash-settled call options, indexed to the shares of the Company, which entitle the Company to receive amounts equivalent to its obligations under the outstanding WARs.

**Volume of derivative activity**

In general, while the Company's primary objective in its use of derivatives is to minimize exposures arising from its business, certain derivatives are designated and qualify for hedge accounting treatment while others either are not designated or do not qualify for hedge accounting.

**Foreign exchange and interest rate derivatives**

The gross notional amounts of outstanding foreign exchange and interest rate derivatives (whether designated as hedges or not) were as follows:

| Type of derivative<br>(\$ in millions) | Total notional amounts at |                   |                    |
|--|---------------------------|-------------------|--------------------|
|  | September 30, 2016        | December 31, 2015 | September 30, 2015 |
| Foreign exchange contracts             | 16,381                    | 16,467            | 17,501             |
| Embedded foreign exchange derivatives  | 2,919                     | 2,966             | 3,138              |
| Interest rate contracts                | 3,348                     | 4,302             | 2,789              |

**Derivative commodity contracts**

The following table shows the notional amounts of outstanding commodity derivatives (whether designated as hedges or not), on a net basis, to reflect the Company's requirements in the various commodities:

| Type of derivative | Unit          | Total notional amounts at |                   |                    |
|--------------------|---------------|---------------------------|-------------------|--------------------|
|                    |               | September 30, 2016        | December 31, 2015 | September 30, 2015 |
| Copper swaps       | metric tonnes | 54,321                    | 48,903            | 49,141             |
| Aluminum swaps     | metric tonnes | 4,950                     | 5,455             | 6,912              |
| Nickel swaps       | metric tonnes | –                         | 18                | –                  |
| Lead swaps         | metric tonnes | 18,025                    | 14,625            | 15,850             |
| Zinc swaps         | metric tonnes | 150                       | 225               | 300                |
| Silver swaps       | ounces        | 1,885,370                 | 1,727,255         | 1,566,590          |
| Crude oil swaps    | barrels       | 122,000                   | 133,500           | 128,200            |

**Equity derivatives**

At September 30, 2016, December 31, 2015, and September 30, 2015, the Company held 49 million, 55 million and 56 million cash-settled call options indexed to ABB Ltd shares (conversion ratio 5:1) with a total fair value of \$28 million, \$13 million and \$10 million, respectively.



## Cash flow hedges

As noted above, the Company mainly uses forward foreign exchange contracts to manage the foreign exchange risk of its operations, commodity swaps to manage its commodity risks and cash-settled call options to hedge its WAR liabilities. Where such instruments are designated and qualify as cash flow hedges, the effective portion of the changes in their fair value is recorded in "Accumulated other comprehensive loss" and subsequently reclassified into earnings in the same line item and in the same period as the underlying hedged transaction affects earnings. Any ineffectiveness in the hedge relationship, or hedge component excluded from the assessment of effectiveness, is recognized in earnings during the current period.

At September 30, 2016, and December 31, 2015, "Accumulated other comprehensive loss" included net unrealized gains of \$2 million and net unrealized losses of \$11 million, respectively, net of tax, on derivatives designated as cash flow hedges. Of the amount at September 30, 2016, net gains of \$4 million are expected to be reclassified to earnings in the following 12 months. At September 30, 2016, the longest maturity of a derivative classified as a cash flow hedge was 42 months.

The amount of gains or losses, net of tax, reclassified into earnings due to the discontinuance of cash flow hedge accounting and the amount of ineffectiveness in cash flow hedge relationships directly recognized in earnings were not significant in the nine and three months ended September 30, 2016 and 2015.

The pre-tax effects of derivative instruments, designated and qualifying as cash flow hedges, on "Accumulated other comprehensive loss" (OCI) and the Consolidated Income Statements were as follows:

| (\$ in millions)                       | Gains (losses) recognized in OCI<br>on derivatives (effective portion) |             | Gains (losses) reclassified from OCI<br>into income (effective portion) |             |
|--|--|-------------|---|-------------|
|  | 2016   | 2015        | 2016  | 2015        |
| <b>Nine months ended September 30,</b> |  |             |   |             |
| <b>Type of derivative:</b>             |  |             | <b>Location:</b>  |             |
| Foreign exchange contracts             | 8  | (7)         | Total revenues  | (31)        |
|  |  |             | Total cost of sales   | 8           |
| Commodity contracts                    | 1  | (6)         | Total cost of sales   | (7)         |
| Cash-settled call options              | 18   | (10)        | SG&A expenses <sup>(1)</sup>  | (6)         |
| <b>Total</b>                           | <b>27</b>  | <b>(23)</b> | <b>10</b>   | <b>(36)</b> |

| (\$ in millions)                        | Gains (losses) recognized in OCI<br>on derivatives (effective portion) |          | Gains (losses) reclassified from OCI<br>into income (effective portion) |            |
|---|--|----------|---|------------|
|   | 2016   | 2015     | 2016  | 2015       |
| <b>Three months ended September 30,</b> |  |          |   |            |
| <b>Type of derivative:</b>              |  |          | <b>Location:</b>  |            |
| Foreign exchange contracts              | 8  | 9        | Total revenues  | (7)        |
|   |  |          | Total cost of sales   | 3          |
| Commodity contracts                     | –  | (4)      | Total cost of sales   | (3)        |
| Cash-settled call options               | 15   | (3)      | SG&A expenses <sup>(1)</sup>  | (2)        |
| <b>Total</b>                            | <b>23</b>  | <b>2</b> | <b>11</b>   | <b>(9)</b> |

(1) SG&A expenses represent "Selling, general and administrative expenses".

The amounts in respect of gains (losses) recognized in income for hedge ineffectiveness and amounts excluded from effectiveness testing were not significant for the nine and three months ended September 30, 2016 and 2015.

Net derivative gains of \$9 million and net derivative losses of \$28 million, both net of tax, were reclassified from "Accumulated other comprehensive loss" to earnings during the nine months ended September 30, 2016 and 2015, respectively. During the three months ended September 30, 2016 and 2015, net derivative gains of \$9 million and net derivative losses of \$7 million, both net of tax, respectively, were reclassified from "Accumulated other comprehensive loss" to earnings.

## Fair value hedges

To reduce its interest rate exposure arising primarily from its debt issuance activities, the Company uses interest rate swaps. Where such instruments are designated as fair value hedges, the changes in the fair value of these instruments, as well as the changes in the fair value of the risk component of the underlying debt being hedged, are recorded as offsetting gains and losses in "Interest and other finance expense". Hedge ineffectiveness of instruments designated as fair value hedges for the nine and three months ended September 30, 2016 and 2015, was not significant.

The effect of interest rate contracts, designated and qualifying as fair value hedges, on the Consolidated Income Statements was as follows:

| (\$ in millions)  | Nine months ended September 30, |      | Three months ended September 30, |      |
|---|---------------------------------|------|----------------------------------|------|
|   | 2016                            | 2015 | 2016                             | 2015 |
| <b>Gains (losses) recognized in Interest and other finance expense:</b> |                                 |      |                                  |      |
| - on derivatives designated as fair value hedges                        | 32                              | 30   | (16)                             | 28   |
| - on hedged item  | (30)                            | (27) | 17                               | (28) |

Derivatives not designated in hedge relationships

Derivative instruments that are not designated as hedges or do not qualify as either cash flow or fair value hedges are economic hedges used for risk management purposes. Gains and losses from changes in the fair values of such derivatives are recognized in the same line in the income statement as the economically hedged transaction.

Furthermore, under certain circumstances, the Company is required to split and account separately for foreign currency derivatives that are embedded within certain binding sales or purchase contracts denominated in a currency other than the functional currency of the subsidiary and the counterparty.

The gains (losses) recognized in the Consolidated Income Statements on derivatives not designated in hedging relationships were as follows:

| Type of derivative not designated as a hedge<br>(\$ in millions) | Location                                   | Gains (losses) recognized in income |            |                                  |             |
|--|--|-------------------------------------|------------|----------------------------------|-------------|
|  |  | Nine months ended September 30,     |            | Three months ended September 30, |             |
|  |  | 2016                                | 2015       | 2016                             | 2015        |
| Foreign exchange contracts                                       | Total revenues                             | (19)                                | (226)      | (42)                             | (273)       |
|  | Total cost of sales                        | (69)                                | 56         | (10)                             | 128         |
|  | SG&A expenses <sup>(1)</sup>               | (5)                                 | 9          | -                                | -           |
|  | Non-order related research and development | (1)                                 | (1)        | -                                | 1           |
|  | Interest and other finance expense         | (45)                                | 248        | 3                                | 22          |
| Embedded foreign exchange contracts                              | Total revenues                             | (41)                                | 138        | 8                                | 112         |
|  | Total cost of sales                        | 7                                   | (24)       | 1                                | (12)        |
|  | SG&A expenses <sup>(1)</sup>               | 1                                   | (2)        | -                                | (8)         |
| Commodity contracts  | Total cost of sales                        | 15                                  | (47)       | 5                                | (30)        |
| Other  | Interest and other finance expense         | 2                                   | (2)        | 3                                | (2)         |
| <b>Total</b>   |  | <b>(155)</b>                        | <b>149</b> | <b>(32)</b>                      | <b>(62)</b> |

(1) SG&A expenses represent "Selling, general and administrative expenses".

The fair values of derivatives included in the Consolidated Balance Sheets were as follows:

| (\$ in millions)  | September 30, 2016                |   |  |  |
|---|-----------------------------------|---|--|--|
|   | Derivative assets                 |   | Derivative liabilities                 |  |
|   | Current in "Other current assets" | Non-current in "Other non-current assets" | Current in "Other current liabilities" | Non-current in "Other non-current liabilities" |
| <b>Derivatives designated as hedging instruments:</b>     |                                   |   |  |  |
| Foreign exchange contracts                                | 12                                | 1   | 5                                      | 4  |
| Commodity contracts                                       | 1                                 | -   | -                                      | -  |
| Interest rate contracts                                   | -                                 | 124                                       | -                                      | -  |
| Cash-settled call options                                 | 16                                | 12  | -                                      | -  |
| <b>Total</b>  | <b>29</b>                         | <b>137</b>                                | <b>5</b>                               | <b>4</b>                                       |
| <b>Derivatives not designated as hedging instruments:</b> |                                   |   |  |  |
| Foreign exchange contracts                                | 111                               | 16  | 183                                    | 71   |
| Commodity contracts                                       | 10                                | 3   | 8                                      | 2  |
| Embedded foreign exchange derivatives                     | 51                                | 28  | 50                                     | 28   |
| <b>Total</b>  | <b>172</b>                        | <b>47</b>                                 | <b>241</b>                             | <b>101</b>                                     |
| <b>Total fair value</b>                                   | <b>201</b>                        | <b>184</b>                                | <b>246</b>                             | <b>105</b>                                     |

| (\$ in millions)  | December 31, 2015                 |   |  |  |
|---|-----------------------------------|---|--|--|
|   | Derivative assets                 |   | Derivative liabilities                 |  |
|   | Current in "Other current assets" | Non-current in "Other non-current assets" | Current in "Other current liabilities" | Non-current in "Other non-current liabilities" |
| <b>Derivatives designated as hedging instruments:</b>     |                                   |   |  |  |
| Foreign exchange contracts                                | 15                                | 10  | 8                                      | 16   |
| Commodity contracts                                       | -                                 | -   | 3                                      | -  |
| Interest rate contracts                                   | 6                                 | 86  | -                                      | -  |
| Cash-settled call options                                 | 8                                 | 5   | -                                      | -  |
| <b>Total</b>  | <b>29</b>                         | <b>101</b>                                | <b>11</b>                              | <b>16</b>                                      |
| <b>Derivatives not designated as hedging instruments:</b> |                                   |   |  |  |
| Foreign exchange contracts                                | 172                               | 32  | 237                                    | 81   |
| Commodity contracts                                       | 2                                 | -   | 29                                     | 9  |
| Cross-currency interest rate swaps                        | -                                 | -   | -                                      | 1  |
| Embedded foreign exchange derivatives                     | 94                                | 53  | 41                                     | 27   |
| <b>Total</b>  | <b>268</b>                        | <b>85</b>                                 | <b>307</b>                             | <b>118</b>                                     |
| <b>Total fair value</b>                                   | <b>297</b>                        | <b>186</b>                                | <b>318</b>                             | <b>134</b>                                     |

Close-out netting agreements provide for the termination, valuation and net settlement of some or all outstanding transactions between two counterparties on the occurrence of one or more pre-defined trigger events.

Although the Company is party to close-out netting agreements with most derivative counterparties, the fair values in the tables above and in the Consolidated Balance Sheets at September 30, 2016, and December 31, 2015, have been presented on a gross basis.

The Company's netting agreements and other similar arrangements allow net settlements under certain conditions. At September 30, 2016, and December 31, 2015, information related to these offsetting arrangements was as follows:

| (\$ in millions)                         |                                   |  |                          |                              |                    | September 30, 2016 |  |  |  |  |  |
|--|-----------------------------------|--|--------------------------|------------------------------|--------------------|--------------------|--|--|--|--|--|
| Type of agreement or similar arrangement | Gross amount of recognized assets | Derivative liabilities eligible for set-off in case of default | Cash collateral received | Non-cash collateral received | Net asset exposure |                    |  |  |  |  |  |
| Derivatives                              | 306                               | (165)  | -                        | -                            | 141                |                    |  |  |  |  |  |
| Reverse repurchase agreements            | 229                               | -  | -                        | (229)                        | -                  |                    |  |  |  |  |  |
| <b>Total</b>                             | <b>535</b>                        | <b>(165)</b>   | <b>-</b>                 | <b>(229)</b>                 | <b>141</b>         |                    |  |  |  |  |  |

| (\$ in millions)                         |  |  |                         |                             |                        | September 30, 2016 |  |  |  |  |  |
|--|--|--|-------------------------|-----------------------------|------------------------|--------------------|--|--|--|--|--|
| Type of agreement or similar arrangement | Gross amount of recognized liabilities | Derivative liabilities eligible for set-off in case of default | Cash collateral pledged | Non-cash collateral pledged | Net liability exposure |                    |  |  |  |  |  |
| Derivatives                              | 273                                    | (165)  | -                       | -                           | 108                    |                    |  |  |  |  |  |
| <b>Total</b>                             | <b>273</b>                             | <b>(165)</b>   | <b>-</b>                | <b>-</b>                    | <b>108</b>             |                    |  |  |  |  |  |

| (\$ in millions)                         |                                   |  |                          |                              |                    | December 31, 2015 |  |  |  |  |  |
|--|-----------------------------------|--|--------------------------|------------------------------|--------------------|-------------------|--|--|--|--|--|
| Type of agreement or similar arrangement | Gross amount of recognized assets | Derivative liabilities eligible for set-off in case of default | Cash collateral received | Non-cash collateral received | Net asset exposure |                   |  |  |  |  |  |
| Derivatives                              | 336                               | (215)  | -                        | -                            | 121                |                   |  |  |  |  |  |
| Reverse repurchase agreements            | 224                               | -  | -                        | (224)                        | -                  |                   |  |  |  |  |  |
| <b>Total</b>                             | <b>560</b>                        | <b>(215)</b>   | <b>-</b>                 | <b>(224)</b>                 | <b>121</b>         |                   |  |  |  |  |  |

| (\$ in millions)                         |  |  |                         |                             |                        | December 31, 2015 |  |  |  |  |  |
|--|--|--|-------------------------|-----------------------------|------------------------|-------------------|--|--|--|--|--|
| Type of agreement or similar arrangement | Gross amount of recognized liabilities | Derivative liabilities eligible for set-off in case of default | Cash collateral pledged | Non-cash collateral pledged | Net liability exposure |                   |  |  |  |  |  |
| Derivatives                              | 384                                    | (215)  | (3)                     | -                           | 166                    |                   |  |  |  |  |  |
| <b>Total</b>                             | <b>384</b>                             | <b>(215)</b>   | <b>(3)</b>              | <b>-</b>                    | <b>166</b>             |                   |  |  |  |  |  |

#### Note 5 Fair values

The Company uses fair value measurement principles to record certain financial assets and liabilities on a recurring basis and, when necessary, to record certain non-financial assets at fair value on a non-recurring basis, as well as to determine fair value disclosures for certain financial instruments carried at amortized cost in the financial statements. Financial assets and liabilities recorded at fair value on a recurring basis include foreign currency, commodity and interest rate derivatives, as well as cash-settled call options and available-for-sale securities. Non-financial assets recorded at fair value on a non-recurring basis include long-lived assets that are reduced to their estimated fair value due to impairments.

Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various valuation techniques including the market approach (using observable market data for identical or similar assets and liabilities), the income approach (discounted cash flow models) and the cost approach (using costs a market participant would incur to develop a comparable asset). Inputs used to determine the fair value of assets and liabilities are defined by a three-level hierarchy, depending on the reliability of those inputs. The Company has categorized its financial assets and liabilities and non-financial assets measured at fair value within this hierarchy based on whether the inputs to the valuation technique are observable or unobservable. An observable input is based on market data obtained from independent sources, while an unobservable input reflects the Company's assumptions about market data.

The levels of the fair value hierarchy are as follows:

- Level 1: Valuation inputs consist of quoted prices in an active market for identical assets or liabilities (observable quoted prices). Assets and liabilities valued using Level 1 inputs include listed derivatives which are actively traded such as commodity futures, interest rate futures and certain actively-traded debt securities.
- Level 2: Valuation inputs consist of observable inputs (other than Level 1 inputs) such as actively-quoted prices for similar assets, quoted prices in inactive markets and inputs other than quoted prices such as interest rate yield curves, credit spreads, or inputs derived from other observable data by interpolation, correlation, regression or other means. The adjustments applied to quoted prices or the inputs used in valuation models may be both observable and unobservable. In these cases, the

fair value measurement is classified as Level 2 unless the unobservable portion of the adjustment or the unobservable input to the valuation model is significant, in which case the fair value measurement would be classified as Level 3. Assets and liabilities valued or disclosed using Level 2 inputs include investments in certain funds, reverse repurchase agreements, certain debt securities that are not actively traded, interest rate swaps, commodity swaps, cash-settled call options, forward foreign exchange contracts, foreign exchange swaps and forward rate agreements, time deposits, as well as financing receivables and debt.

Level 3: Valuation inputs are based on the Company's assumptions of relevant market data (unobservable input).

Whenever quoted prices involve bid-ask spreads, the Company ordinarily determines fair values based on mid-market quotes. However, for the purpose of determining the fair value of cash-settled call options serving as hedges of the Company's management incentive plan, bid prices are used.

When determining fair values based on quoted prices in an active market, the Company considers if the level of transaction activity for the financial instrument has significantly decreased, or would not be considered orderly. In such cases, the resulting changes in valuation techniques would be disclosed. If the market is considered disorderly or if quoted prices are not available, the Company is required to use another valuation technique, such as an income approach.

Recurring fair value measures

The fair values of financial assets and liabilities measured at fair value on a recurring basis were as follows:

| (\$ in millions)   | September 30, 2016 |            |          | Total fair value |
|--|--------------------|------------|----------|------------------|
|  | Level 1            | Level 2    | Level 3  |                  |
| <b>Assets</b>  |                    |            |          |                  |
| Available-for-sale securities in "Marketable securities and short-term investments": |                    |            |          |                  |
| Equity securities  | –                  | 462        | –        | 462              |
| Debt securities—U.S. government obligations  | 222                | –          | –        | 222              |
| Debt securities—European government obligations                                      | 13                 | –          | –        | 13               |
| Debt securities—Other government obligations   | –                  | 2          | –        | 2                |
| Debt securities—Corporate  | –                  | 98         | –        | 98               |
| Derivative assets—current in "Other current assets"                                  | –                  | 201        | –        | 201              |
| Derivative assets—non-current in "Other non-current assets"                          | –                  | 184        | –        | 184              |
| <b>Total</b>   | <b>235</b>         | <b>947</b> | <b>–</b> | <b>1,182</b>     |
| <b>Liabilities</b>   |                    |            |          |                  |
| Derivative liabilities—current in "Other current liabilities"                        | –                  | 246        | –        | 246              |
| Derivative liabilities—non-current in "Other non-current liabilities"                | –                  | 105        | –        | 105              |
| <b>Total</b>   | <b>–</b>           | <b>351</b> | <b>–</b> | <b>351</b>       |

| (\$ in millions)   | December 31, 2015 |              |          | Total fair value |
|--|-------------------|--------------|----------|------------------|
|  | Level 1           | Level 2      | Level 3  |                  |
| <b>Assets</b>  |                   |              |          |                  |
| Available-for-sale securities in "Cash and equivalents":                             |                   |              |          |                  |
| Debt securities—Corporate  | –                 | 11           | –        | 11               |
| Available-for-sale securities in "Marketable securities and short-term investments": |                   |              |          |                  |
| Equity securities  | –                 | 667          | –        | 667              |
| Debt securities—U.S. government obligations  | 121               | –            | –        | 121              |
| Debt securities—Other government obligations   | –                 | 2            | –        | 2                |
| Debt securities—Corporate  | –                 | 508          | –        | 508              |
| Derivative assets—current in "Other current assets"                                  | 1                 | 296          | –        | 297              |
| Derivative assets—non-current in "Other non-current assets"                          | –                 | 186          | –        | 186              |
| <b>Total</b>   | <b>122</b>        | <b>1,670</b> | <b>–</b> | <b>1,792</b>     |
| <b>Liabilities</b>   |                   |              |          |                  |
| Derivative liabilities—current in "Other current liabilities"                        | 3                 | 315          | –        | 318              |
| Derivative liabilities—non-current in "Other non-current liabilities"                | –                 | 134          | –        | 134              |
| <b>Total</b>   | <b>3</b>          | <b>449</b>   | <b>–</b> | <b>452</b>       |

The Company uses the following methods and assumptions in estimating fair values of financial assets and liabilities measured at fair value on a recurring basis:

- Available-for-sale securities in "Cash and equivalents" and "Marketable securities and short-term investments": If quoted market prices in active markets for identical assets are available, these are considered Level 1 inputs; however, when markets are not active, these inputs are considered Level 2. If such quoted market prices are not available, fair value is determined using market prices for similar assets or present value techniques, applying an appropriate risk-free interest rate adjusted for nonperformance risk. The inputs used in present value techniques are observable and fall into the Level 2 category.
- Derivatives: The fair values of derivative instruments are determined using quoted prices of identical instruments from an active market, if available (Level 1). If quoted prices are not available, price quotes for similar instruments, appropriately adjusted, or present value techniques, based on available market

data, or option pricing models are used. Cash-settled call options hedging the Company's WAR liability are valued based on bid prices of the equivalent listed warrant. The fair values obtained using price quotes for similar instruments or valuation techniques represent a Level 2 input unless significant unobservable inputs are used.

Non-recurring fair value measures There were no significant non-recurring fair value measurements during the nine and three months ended September 30, 2016 and 2015.

Disclosure about financial instruments carried on a cost basis The fair values of financial instruments carried on a cost basis were as follows:

|   |                | September 30, 2016 |         |         |                  |
|---|----------------|--------------------|---------|---------|------------------|
| (\$ in millions)  | Carrying value | Level 1            | Level 2 | Level 3 | Total fair value |
| <b>Assets</b>   |                |                    |         |         |                  |
| Cash and equivalents (excluding available-for-sale securities with original maturities up to 3 months): |                |                    |         |         |                  |
| Cash  | 1,758          | 1,758              | –       | –       | 1,758            |
| Time deposits   | 1,780          | –                  | 1,780   | –       | 1,780            |
| Marketable securities and short-term investments (excluding available-for-sale securities):             |                |                    |         |         |                  |
| Time deposits   | 800            | –                  | 800     | –       | 800              |
| Receivables under reverse repurchase agreements   | 229            | –                  | 229     | –       | 229              |
| Other short-term investments  | 1              | 1                  | –       | –       | 1                |
| Other non-current assets:   |                |                    |         |         |                  |
| Loans granted   | 30             | –                  | 32      | –       | 32               |
| Held-to-maturity securities   | 84             | –                  | 94      | –       | 94               |
| Restricted cash deposits  | 89             | 61                 | 28      | –       | 89               |
| <b>Liabilities</b>  |                |                    |         |         |                  |
| Short-term debt and current maturities of long-term debt (excluding capital lease obligations)          |                |                    |         |         |                  |
|   | 1,385          | 1,104              | 281     | –       | 1,385            |
| Long-term debt (excluding capital lease obligations)  | 6,220          | 5,857              | 765     | –       | 6,622            |
| Non-current deposit liabilities in "Other non-current liabilities"                                      | 108            | –                  | 120     | –       | 120              |

|   |                | December 31, 2015 |         |         |                  |
|---|----------------|-------------------|---------|---------|------------------|
| (\$ in millions)  | Carrying value | Level 1           | Level 2 | Level 3 | Total fair value |
| <b>Assets</b>   |                |                   |         |         |                  |
| Cash and equivalents (excluding available-for-sale securities with original maturities up to 3 months): |                |                   |         |         |                  |
| Cash  | 1,837          | 1,837             | –       | –       | 1,837            |
| Time deposits   | 2,717          | –                 | 2,717   | –       | 2,717            |
| Marketable securities and short-term investments (excluding available-for-sale securities):             |                |                   |         |         |                  |
| Time deposits   | 104            | –                 | 104     | –       | 104              |
| Receivables under reverse repurchase agreements   | 224            | –                 | 224     | –       | 224              |
| Other short-term investments  | 7              | 7                 | –       | –       | 7                |
| Other non-current assets:   |                |                   |         |         |                  |
| Loans granted   | 29             | –                 | 30      | –       | 30               |
| Held-to-maturity securities   | 99             | –                 | 110     | –       | 110              |
| Restricted cash deposits  | 176            | 55                | 138     | –       | 193              |
| <b>Liabilities</b>  |                |                   |         |         |                  |
| Short-term debt and current maturities of long-term debt (excluding capital lease obligations)          |                |                   |         |         |                  |
|   | 1,427          | 614               | 817     | –       | 1,431            |
| Long-term debt (excluding capital lease obligations)  | 5,899          | 5,307             | 751     | –       | 6,058            |
| Non-current deposit liabilities in "Other non-current liabilities"                                      | 215            | –                 | 244     | –       | 244              |

The Company uses the following methods and assumptions in estimating fair values of financial instruments carried on a cost basis:

- Cash and equivalents (excluding available-for-sale securities with original maturities up to 3 months), and Marketable securities and short-term investments (excluding available-for-sale securities): The carrying amounts approximate the fair values as the items are short-term in nature.
- Other non-current assets: Includes (i) loans granted whose fair values are based on the carrying amount adjusted using a present value technique to reflect a premium or discount based on current market interest rates (Level 2 inputs), (ii) held-to-maturity securities (see Note 3) whose fair values are based on quoted market prices in inactive markets (Level 2 inputs), (iii) restricted cash whose fair values approximate the carrying amounts (Level 1 inputs) and restricted cash deposits pledged in respect of certain non-current deposit liabilities whose fair values are determined using a discounted cash flow methodology based on current market interest rates (Level 2 inputs).

- Short-term debt and current maturities of long-term debt (excluding capital lease obligations): Short-term debt includes commercial paper, bank borrowings and overdrafts. The carrying amounts of short-term debt and current maturities of long-term debt, excluding capital lease obligations, approximate their fair values.
- Long-term debt (excluding capital lease obligations): Fair values of bonds are determined using quoted market prices (Level 1 inputs), if available. For bonds without available quoted market prices and other long-term debt, the fair values are determined using a discounted cash flow methodology based upon borrowing rates of similar debt instruments and reflecting appropriate adjustments for non-performance risk (Level 2 inputs).
- Non-current deposit liabilities in “Other non-current liabilities”: The fair values of non-current deposit liabilities are determined using a discounted cash flow methodology based on risk-adjusted interest rates (Level 2 inputs).

**Note 6**  
**Commitments and contingencies**  
 Contingencies—Regulatory,  
 Compliance and Legal

**Antitrust**

In April 2014, the European Commission announced its decision regarding its investigation of anticompetitive practices in the cables industry and granted the Company full immunity from fines under the European Commission’s leniency program. In December 2013, the Company agreed with the Brazilian Antitrust Authority (CADE) to settle its ongoing investigation into the Company’s involvement in anticompetitive practices in the cables industry and the Company agreed to pay a fine of approximately 1.5 million Brazilian reais (equivalent to approximately \$1 million on date of payment).

In Brazil, the Company’s Gas Insulated Switchgear business is under investigation by the CADE for alleged anticompetitive practices. In addition, the CADE has opened an investigation into certain other power businesses of the Company, including flexible alternating current transmission systems (FACTS) and power transformers. With respect to these matters, management is cooperating fully with the authorities. An informed judgment about the outcome of these investigations or the amount of potential loss or range of loss for the Company, if any, relating to these investigations cannot be made at this stage.

**General**

In addition, the Company is aware of proceedings, or the threat of proceedings, against it and others in respect of private claims by customers and other third parties with regard to certain actual or alleged anticompetitive practices. Also, the Company is subject to other various legal proceedings, investigations, and claims that have not yet been resolved. With respect to the above mentioned regulatory matters and commercial litigation contingencies, the Company will bear the costs of the continuing investigations and any related legal proceedings.

**Liabilities recognized**

At both September 30, 2016, and December 31, 2015, the Company had aggregate liabilities of \$160 million, included in “Other provisions” and “Other non-current liabilities”, for the above regulatory, compliance and legal contingencies, and none of the individual liabilities recognized was significant. As it is not possible to make an informed judgment on the outcome of certain matters and as it is not possible, based on information currently available to management, to estimate the maximum potential liability on other matters, there could be material adverse outcomes beyond the amounts accrued.

Guarantees

**General**

The following table provides quantitative data regarding the Company’s third-party guarantees. The maximum potential payments represent a “worst-case scenario”, and do not reflect management’s expected outcomes.

| Maximum potential payments (\$ in millions) | September 30, 2016 | December 31, 2015 |
|---|--------------------|-------------------|
| Performance guarantees                      | 193                | 209               |
| Financial guarantees                        | 69                 | 77                |
| Indemnification guarantees                  | 72                 | 50                |
| <b>Total</b>                                | <b>334</b>         | <b>336</b>        |

The carrying amount of liabilities recorded in the Consolidated Balance Sheets reflects the Company’s best estimate of future payments, which it may incur as part of fulfilling its guarantee obligations. In respect of the above guarantees, the carrying amounts of liabilities at September 30, 2016, and December 31, 2015, were not significant.

The Company is party to various guarantees providing financial or performance assurances to certain third parties. These guarantees, which have various maturities up to 2020, mainly consist of performance guarantees whereby (i) the Company guarantees the performance of a third party’s product or service according to the terms of a contract and (ii) as member of a consortium that includes third parties, the Company guarantees not only its own performance but also the work of third parties. Such guarantees may include guarantees that a project will be completed within a specified time. If the third party does not fulfill the obligation, the Company will compensate the guaranteed party in cash or in kind. The original maturity dates for the majority of these performance guarantees range from one to six years.

**Commercial commitments**

In addition, in the normal course of bidding for and executing certain projects, the Company has entered into standby letters of credit, bid/performance bonds and surety bonds (collectively “performance bonds”) with various financial institutions. Customers can draw on such performance bonds in the event that the Company does not fulfill its contractual obligations. The Company would then have an obligation to reimburse the financial institution for amounts paid under the performance bonds. At September 30, 2016,

and December 31, 2015, the total outstanding performance bonds aggregated to \$8.5 billion and \$9.5 billion, respectively. There have been no significant amounts reimbursed to financial institutions under these types of arrangements in the nine and three months ended September 30, 2016 and 2015.

#### Product and order-related contingencies

The Company calculates its provision for product warranties based on historical claims experience and specific review of certain contracts.

The reconciliation of the "Provisions for warranties", including guarantees of product performance, was as follows:

| (\$ in millions)   | 2016         | 2015         |
|--|--------------|--------------|
| <b>Balance at January 1,</b>   | <b>1,089</b> | <b>1,148</b> |
| Claims paid in cash or in kind   | (197)        | (191)        |
| Net increase in provision for changes in estimates, warranties issued and warranties expired | 199          | 170          |
| Exchange rate differences  | 13           | (60)         |
| <b>Balance at September 30,</b>  | <b>1,104</b> | <b>1,067</b> |

**Note 7 Debt** The Company's total debt at September 30, 2016, and December 31, 2015, amounted to \$7,721 million and \$7,439 million, respectively.

Short-term debt and current maturities of long-term debt The Company's "Short-term debt and current maturities of long-term debt" consisted of the following:

| (\$ in millions)                     | September 30, 2016 | December 31, 2015 |
|--------------------------------------|--------------------|-------------------|
| Short-term debt                      | 313                | 278               |
| Current maturities of long-term debt | 1,089              | 1,176             |
| <b>Total</b>                         | <b>1,402</b>       | <b>1,454</b>      |

Short-term debt primarily represented issued commercial paper and short-term loans from various banks. At September 30, 2016, and December 31, 2015, \$180 million and \$132 million, respectively, was outstanding under the \$2 billion commercial paper program in the United States.

In May 2016, the Company exercised its option to extend the maturity of its \$2 billion multicurrency revolving credit facility to 2021. No amount was drawn at September 30, 2016, and December 31, 2015. The facility contains cross default clauses whereby an event of default would occur if the Company were to default on indebtedness as defined in the facility, at or above a specified threshold.

In June 2016, the Company repaid at maturity the USD 600 million 2.5% Notes.

Long-term debt The Company's long-term debt at September 30, 2016, and December 31, 2015, amounted to \$6,319 million and \$5,985 million, respectively.

Outstanding bonds (including maturities within the next 12 months) were as follows:

| (in millions)                    | September 30, 2016  |                               | December 31, 2015   |                               |
|----------------------------------|---------------------|-------------------------------|---------------------|-------------------------------|
|                                  | Nominal outstanding | Carrying value <sup>(1)</sup> | Nominal outstanding | Carrying value <sup>(1)</sup> |
| Bonds:                           |                     |                               |                     |                               |
| 2.5% USD Notes, due 2016         |                     | –                             | USD 600             | \$ 599                        |
| 1.25% CHF Bonds, due 2016        | CHF 500             | \$ 514                        | CHF 500             | \$ 510                        |
| 1.625% USD Notes, due 2017       | USD 500             | \$ 499                        | USD 500             | \$ 499                        |
| 4.25% AUD Notes, due 2017        | AUD 400             | \$ 308                        | AUD 400             | \$ 297                        |
| 1.50% CHF Bonds, due 2018        | CHF 350             | \$ 358                        | CHF 350             | \$ 352                        |
| 2.625% EUR Instruments, due 2019 | EUR 1,250           | \$ 1,394                      | EUR 1,250           | \$ 1,363                      |
| 4.0% USD Notes, due 2021         | USD 650             | \$ 642                        | USD 650             | \$ 641                        |
| 2.25% CHF Bonds, due 2021        | CHF 350             | \$ 393                        | CHF 350             | \$ 383                        |
| 5.625% USD Notes, due 2021       | USD 250             | \$ 275                        | USD 250             | \$ 279                        |
| 2.875% USD Notes, due 2022       | USD 1,250           | \$ 1,312                      | USD 1,250           | \$ 1,275                      |
| 0.625% EUR Notes, due 2023       | EUR 700             | \$ 778                        |                     | –                             |
| 4.375% USD Notes, due 2042       | USD 750             | \$ 722                        | USD 750             | \$ 722                        |
| <b>Total</b>                     |                     | <b>\$ 7,195</b>               |                     | <b>\$ 6,920</b>               |

(1) USD carrying values include unamortized debt issuance costs, bond discounts or premiums, as well as adjustments for fair value hedge accounting, where appropriate.

In May 2016, the Company issued notes with an aggregate principal of EUR 700 million, due 2023. The notes pay interest annually in arrears at a fixed rate of 0.625 percent per annum. The Company recorded net proceeds (after underwriting fees) of EUR 697 million (equivalent to approximately \$807 million on date of issuance).

In October 2016, the Company repaid at maturity the CHF 500 million 1.25% Bonds (equivalent to approximately \$506 million at date of payment).

**Note 8**  
**Employee benefits**

The Company operates defined benefit pension plans, defined contribution pension plans, and termination indemnity plans, in accordance with local regulations and practices. These plans cover a large portion of the Company's employees and provide benefits to employees in the event of death, disability, retirement, or termination of employment. Certain of these plans are multi-employer plans. The Company also operates other postretirement benefit plans including postretirement health care benefits, and other employee-related benefits for active employees including long-service award plans. The measurement date used for the Company's employee benefit plans is December 31. The funding policies of the Company's plans are consistent with the local government and tax requirements.

Net periodic benefit cost of the Company's defined benefit pension and other postretirement benefit plans consisted of the following:

| (\$ in millions)   | Defined pension benefits |            | Other postretirement benefits |          |
|--|--------------------------|------------|-------------------------------|----------|
|  | 2016                     | 2015       | 2016                          | 2015     |
| <b>Nine months ended September 30,</b>                     |                          |            |                               |          |
| Service cost   | 191                      | 203        | 1                             | 1        |
| Interest cost  | 213                      | 231        | 4                             | 6        |
| Expected return on plan assets                             | (306)                    | (345)      | –                             | –        |
| Amortization of prior service cost (credit)                | 30                       | 28         | (8)                           | (6)      |
| Amortization of net actuarial loss                         | 65                       | 95         | –                             | 1        |
| Curtailments, settlements and special termination benefits | 2                        | 1          | –                             | –        |
| <b>Net periodic benefit cost</b>                           | <b>195</b>               | <b>213</b> | <b>(3)</b>                    | <b>2</b> |

| (\$ in millions)   | Defined pension benefits |           | Other postretirement benefits |          |
|--|--------------------------|-----------|-------------------------------|----------|
|  | 2016                     | 2015      | 2016                          | 2015     |
| <b>Three months ended September 30,</b>                    |                          |           |                               |          |
| Service cost   | 65                       | 66        | 1                             | –        |
| Interest cost  | 71                       | 76        | 1                             | 2        |
| Expected return on plan assets                             | (102)                    | (112)     | –                             | –        |
| Amortization of prior service cost (credit)                | 9                        | 9         | (2)                           | (2)      |
| Amortization of net actuarial loss                         | 22                       | 40        | –                             | –        |
| Curtailments, settlements and special termination benefits | 1                        | 1         | –                             | –        |
| <b>Net periodic benefit cost</b>                           | <b>66</b>                | <b>80</b> | <b>–</b>                      | <b>–</b> |

Employer contributions were as follows:

| (\$ in millions)  | Defined pension benefits |      | Other postretirement benefits |      |
|---|--------------------------|------|-------------------------------|------|
|   | 2016                     | 2015 | 2016                          | 2015 |
| <b>Nine months ended September 30,</b>  |                          |      |                               |      |
| Total contributions to defined benefit pension and other postretirement benefit plans | 184                      | 155  | 9                             | 11   |
| Of which, discretionary contributions to defined benefit pension plans                | –                        | 10   | –                             | –    |

| (\$ in millions)  | Defined pension benefits |      | Other postretirement benefits |      |
|---|--------------------------|------|-------------------------------|------|
|   | 2016                     | 2015 | 2016                          | 2015 |
| <b>Three months ended September 30,</b>   |                          |      |                               |      |
| Total contributions to defined benefit pension and other postretirement benefit plans | 44                       | 56   | 3                             | 4    |
| Of which, discretionary contributions to defined benefit pension plans                | –                        | 10   | –                             | –    |

During the nine months ended September 30, 2016, total contributions included available-for-sale debt securities, having a fair value at the contribution date of \$40 million, contributed to certain of the Company's pension plans in Germany.

The Company expects to make contributions totaling approximately \$252 million and \$15 million to its defined benefit pension plans and other postretirement benefit plans, respectively, for the full year 2016.

**Note 9**  
**Stockholders' equity**

Between September 2014 and September 2016, the Company executed a share buyback program for the purchase of up to \$4 billion of its own shares and on September 30, 2016, announced that it had completed this program. Over the period of the share buyback, the Company purchased a total of 146.595 million shares (for approximately \$3 billion) for cancellation and 24.740 million shares (for approximately \$0.5 billion) to support its employee share programs. The shares acquired for cancellation were purchased through a separate trading line on the SIX Swiss Exchange (on which only the Company could purchase shares), while shares acquired for delivery under employee share programs were acquired through the ordinary trading line.

In the nine months ended September 30, 2016, under the share buyback program, the Company purchased 60.370 million shares for cancellation and 4.940 million shares to support its employee share programs. No shares were bought in the third quarter of 2016. In the nine months ended September 30, 2016, these transactions resulted in an increase in Treasury stock of \$1,280 million. In the nine months ended September 30, 2015, the Company purchased 40.290 million shares for cancellation and 8.700 million shares to support its employee share programs, of which 4.860 million shares were purchased for cancellation in the three months ended September 30, 2015 (no shares were purchased for employee share programs in the third quarter of 2015). In the nine and three months ended September 30, 2015, these transactions resulted in an increase in Treasury stock of \$1,047 million and \$95 million, respectively.



At the Annual General Meeting of Shareholders on April 21, 2016, shareholders approved the proposal of the Board of Directors to reduce the share capital of the Company by cancelling 100 million shares which were bought back under the share buyback program. This cancellation was completed in July 2016, resulting in a decrease in Treasury stock of \$2,047 million and a corresponding total decrease in Capital stock and additional paid-in capital and in Retained earnings.

Also at the Annual General Meeting of Shareholders on April 21, 2016, shareholders approved the proposal of the Board of Directors to distribute 0.74 Swiss francs per share to shareholders by way of a nominal value reduction (reduction in the par value of each share) from 0.86 Swiss francs to 0.12 Swiss francs. In July 2016, the nominal value reduction was registered in the commercial register of the canton of Zurich, Switzerland, and was paid. The Company recorded a reduction in Capital stock and additional paid-in capital of \$1,224 million and a reduction in Retained earnings of \$402 million in relation to the nominal value reduction.

In the third quarter of 2016, the Company delivered 8.9 million shares of treasury stock for options exercised in connection with its management incentive plan for a total of \$142 million in proceeds.

In October 2016, the Company announced a new share buyback program for the purchase of up to \$3 billion of its own shares from 2017 to 2019.

**Note 10**  
**Earnings per share**

Basic earnings per share is calculated by dividing income by the weighted-average number of shares outstanding during the period. Diluted earnings per share is calculated by dividing income by the weighted-average number of shares outstanding during the period, assuming that all potentially dilutive securities were exercised, if dilutive. Potentially dilutive securities comprise outstanding written call options and outstanding options and shares granted subject to certain conditions under the Company's share-based payment arrangements.

**Basic earnings per share**

| (\$ in millions, except per share data in \$)                      | Nine months ended September 30, |              | Three months ended September 30, |              |
|--|---------------------------------|--------------|----------------------------------|--------------|
|  | 2016                            | 2015         | 2016                             | 2015         |
| <b>Amounts attributable to ABB shareholders:</b>                   |                                 |              |                                  |              |
| Income from continuing operations, net of tax                      | 1,460                           | 1,727        | 552                              | 577          |
| Income from discontinued operations, net of tax                    | 14                              | 2            | 16                               | –            |
| <b>Net income</b>  | <b>1,474</b>                    | <b>1,729</b> | <b>568</b>                       | <b>577</b>   |
| <b>Weighted-average number of shares outstanding (in millions)</b> | <b>2,155</b>                    | <b>2,234</b> | <b>2,135</b>                     | <b>2,219</b> |
| <b>Basic earnings per share attributable to ABB shareholders:</b>  |                                 |              |                                  |              |
| Income from continuing operations, net of tax                      | 0.68                            | 0.77         | 0.26                             | 0.26         |
| Income from discontinued operations, net of tax                    | –                               | –            | 0.01                             | –            |
| <b>Net income</b>  | <b>0.68</b>                     | <b>0.77</b>  | <b>0.27</b>                      | <b>0.26</b>  |

**Diluted earnings per share**

| (\$ in millions, except per share data in \$)                               | Nine months ended September 30, |              | Three months ended September 30, |              |
|---|---------------------------------|--------------|----------------------------------|--------------|
|   | 2016                            | 2015         | 2016                             | 2015         |
| <b>Amounts attributable to ABB shareholders:</b>                            |                                 |              |                                  |              |
| Income from continuing operations, net of tax                               | 1,460                           | 1,727        | 552                              | 577          |
| Income from discontinued operations, net of tax                             | 14                              | 2            | 16                               | –            |
| <b>Net income</b>   | <b>1,474</b>                    | <b>1,729</b> | <b>568</b>                       | <b>577</b>   |
| Weighted-average number of shares outstanding (in millions)                 | 2,155                           | 2,234        | 2,135                            | 2,219        |
| <b>Effect of dilutive securities:</b>                                       |                                 |              |                                  |              |
| Call options and shares   | 4                               | 5            | 4                                | 4            |
| <b>Adjusted weighted-average number of shares outstanding (in millions)</b> | <b>2,159</b>                    | <b>2,239</b> | <b>2,139</b>                     | <b>2,223</b> |
| <b>Diluted earnings per share attributable to ABB shareholders:</b>         |                                 |              |                                  |              |
| Income from continuing operations, net of tax                               | 0.68                            | 0.77         | 0.26                             | 0.26         |
| Income from discontinued operations, net of tax                             | –                               | –            | 0.01                             | –            |
| <b>Net income</b>   | <b>0.68</b>                     | <b>0.77</b>  | <b>0.27</b>                      | <b>0.26</b>  |

**Note 11**  
**Reclassifications out of**  
**accumulated other**  
**comprehensive loss**

The following table shows changes in "Accumulated other comprehensive loss" (OCI) attributable to ABB, by component, net of tax:

| (\$ in millions)   | Foreign currency<br>translation<br>adjustments | Unrealized gains<br>(losses) on<br>available-for-sale<br>securities | Pension and<br>other<br>postretirement<br>plan adjustments | Unrealized gains<br>(losses) of cash<br>flow hedge<br>derivatives | Total OCI      |
|--|--|---|--|---|----------------|
| <b>Balance at January 1, 2015</b>                          | <b>(2,102)</b>                                 | <b>13</b>   | <b>(2,131)</b>   | <b>(21)</b>   | <b>(4,241)</b> |
| Other comprehensive (loss) income before reclassifications | (844)  | (3)   | 91   | (14)  | (770)          |
| Amounts reclassified from OCI                              | -  | 1   | 88   | 28  | 117            |
| <b>Total other comprehensive (loss) income</b>             | <b>(844)</b>                                   | <b>(2)</b>  | <b>179</b>   | <b>14</b>   | <b>(653)</b>   |
| Less:  |  |   |  |   |                |
| Amounts attributable to noncontrolling interests           | (13)   | -   | -  | -   | (13)           |
| <b>Balance at September 30, 2015</b>                       | <b>(2,933)</b>                                 | <b>11</b>   | <b>(1,952)</b>   | <b>(7)</b>  | <b>(4,881)</b> |

| (\$ in millions)   | Foreign currency<br>translation<br>adjustments | Unrealized gains<br>(losses) on<br>available-for-sale<br>securities | Pension and<br>other<br>postretirement<br>plan adjustments | Unrealized gains<br>(losses) of cash<br>flow hedge<br>derivatives | Total OCI      |
|--|--|---|--|---|----------------|
| <b>Balance at January 1, 2016</b>                          | <b>(3,135)</b>                                 | <b>7</b>  | <b>(1,719)</b>   | <b>(11)</b>   | <b>(4,858)</b> |
| Other comprehensive (loss) income before reclassifications | 98   | 8   | 22   | 22  | 150            |
| Amounts reclassified from OCI                              | -  | (1)   | 67   | (9)   | 57             |
| <b>Total other comprehensive (loss) income</b>             | <b>98</b>                                      | <b>7</b>  | <b>89</b>  | <b>13</b>   | <b>207</b>     |
| Less:  |  |   |  |   |                |
| Amounts attributable to noncontrolling interests           | 1  | -   | -  | -   | 1              |
| <b>Balance at September 30, 2016</b>                       | <b>(3,038)</b>                                 | <b>14</b>   | <b>(1,630)</b>   | <b>2</b>  | <b>(4,652)</b> |

The following table reflects amounts reclassified out of OCI in respect of pension and other postretirement plan adjustments:

| (\$ in millions)  | Location of (gains) losses<br>reclassified from OCI | Nine months ended<br>September 30, |            | Three months ended<br>September 30, |           |
|---|---|------------------------------------|------------|-------------------------------------|-----------|
| Details about OCI components                              | reclassified from OCI                               | 2016                               | 2015       | 2016                                | 2015      |
| Pension and other postretirement plan adjustments:        |   |                                    |            |                                     |           |
| Amortization of prior service cost                        | Net periodic benefit cost <sup>(1)</sup>            | 22                                 | 22         | 7                                   | 7         |
| Amortization of net actuarial loss                        | Net periodic benefit cost <sup>(1)</sup>            | 65                                 | 96         | 22                                  | 40        |
| <b>Total before tax</b>                                   |   | <b>87</b>                          | <b>118</b> | <b>29</b>                           | <b>47</b> |
| Tax   | Provision for taxes                                 | (20)                               | (30)       | (7)                                 | (14)      |
| <b>Amounts reclassified from OCI</b>                      |   | <b>67</b>                          | <b>88</b>  | <b>22</b>                           | <b>33</b> |
| Unrealized gains (losses) of cash flow hedge derivatives: |   |                                    |            |                                     |           |
| Foreign exchange contracts                                | Total revenues                                      | 9                                  | 31         | 3                                   | 7         |
|   | Total cost of sales                                 | (9)                                | (8)        | (2)                                 | (3)       |
| Commodity contracts                                       | Total cost of sales                                 | 2                                  | 7          | (1)                                 | 3         |
| Cash-settled call options                                 | SG&A expenses <sup>(2)</sup>                        | (12)                               | 6          | (11)                                | 2         |
| <b>Total before tax</b>                                   |   | <b>(10)</b>                        | <b>36</b>  | <b>(11)</b>                         | <b>9</b>  |
| Tax   | Provision for taxes                                 | 1                                  | (8)        | 2                                   | (2)       |
| <b>Amounts reclassified from OCI</b>                      |   | <b>(9)</b>                         | <b>28</b>  | <b>(9)</b>                          | <b>7</b>  |

(1) These components are included in the computation of net periodic benefit cost (see Note 8).

(2) SG&A expenses represent "Selling, general and administrative expenses".

The amounts in respect of Unrealized gains (losses) on available-for-sale securities were not significant for the nine and three months ended September 30, 2016 and 2015.

**Note 12**  
**Restructuring and related**  
**expenses**

**White Collar Productivity program**

In September 2015, the Company announced a two-year program aimed at making the Company leaner, faster and more customer-focused. Planned productivity improvements include the rapid expansion and use of regional shared service centers as well as the streamlining of global operations and head office functions, with business units moving closer to their respective key markets. In the course of this program, the Company will implement and execute various restructuring initiatives across all operating segments and regions.

The following table outlines the costs incurred in the nine and three months ended September 30, 2016, the

cumulative costs incurred to date and the total amount of costs expected to be incurred under the program per operating segment:

| (\$ in millions)               | Costs incurred in the<br>nine months ended | Costs incurred in the<br>three months ended | Cumulative costs<br>incurred up to |                                     |
|--------------------------------|--|---|------------------------------------|-------------------------------------|
|                                | September 30, 2016                         | September 30, 2016                          | September 30, 2016                 | Total expected costs <sup>(1)</sup> |
| Electrification Products       | 25   | (7)   | 98                                 | 103                                 |
| Discrete Automation and Motion | 33   | (9)   | 78                                 | 82                                  |
| Process Automation             | 73   | (9)   | 169                                | 179                                 |
| Power Grids                    | 50   | (10)  | 120                                | 125                                 |
| Corporate and Other            | 49   | (4)   | 135                                | 142                                 |
| <b>Total</b>                   | <b>230</b>                                 | <b>(39)</b>                                 | <b>600</b>                         | <b>631</b>                          |

(1) Total expected costs have been recast to reflect the reorganization of the Company's operating segments as outlined in Note 13.

During the nine months ended September 30, 2016, the total expected program costs were reduced by \$221 million due to higher attrition rates and a favorable change in average severance costs per person across all operating segments. The variances in average severance costs were primarily due to more precise cost estimates being computed after determining the specific country locations of affected employees.

Of the total expected costs of \$631 million, the majority is related to employee severance costs.

The Company recorded the following expenses under this program:

| (\$ in millions)  | Nine months ended<br>September 30, |           | Three months ended<br>September 30, |           | Cumulative costs<br>incurred up to<br>September 30, 2016 |
|---|------------------------------------|-----------|-------------------------------------|-----------|--|
|   | 2016                               | 2015      | 2016                                | 2015      |  |
|   | Employee severance costs           | 229       | 18                                  | (39)      | 18   |
| Estimated contract settlement, loss order and other costs | 1                                  | -         | -                                   | -         | 6  |
| Inventory and long-lived asset impairments                | -                                  | -         | -                                   | -         | 1  |
| <b>Total</b>  | <b>230</b>                         | <b>18</b> | <b>(39)</b>                         | <b>18</b> | <b>600</b>   |

Expenses associated with this program are recorded in the following line items in the Consolidated Income Statements:

| (\$ in millions)                                    | Nine months ended September 30, |           | Three months ended September 30, |           |
|---|---------------------------------|-----------|----------------------------------|-----------|
|   | 2016                            | 2015      | 2016                             | 2015      |
| Total cost of sales                                 | 139                             | 9         | (20)                             | 9         |
| Selling, general and administrative expenses        | 77                              | 4         | (13)                             | 4         |
| Non-order related research and development expenses | 7                               | 4         | (3)                              | 4         |
| Other income (expense), net                         | 7                               | 1         | (3)                              | 1         |
| <b>Total</b>  | <b>230</b>                      | <b>18</b> | <b>(39)</b>                      | <b>18</b> |

Liabilities associated with the White Collar Productivity program are primarily included in "Other provisions". The following table shows the activity from the beginning of the program to September 30, 2016, by expense type.

| (\$ in millions)                       | Employee<br>severance costs         | Contract settlement,<br>loss order and other costs | Total      |
|--|-------------------------------------|--|------------|
|  | <b>Liability at January 1, 2015</b> | -  |            |
| Expenses                               | 364                                 | 5  | 369        |
| Cash payments                          | (34)                                | (1)  | (35)       |
| <b>Liability at December 31, 2015</b>  | <b>330</b>                          | <b>4</b>   | <b>334</b> |
| Expenses                               | 301                                 | 1  | 302        |
| Cash payments                          | (83)                                | (2)  | (85)       |
| Change in estimates                    | (72)                                | -  | (72)       |
| Exchange rate differences              | 1                                   | -  | 1          |
| <b>Liability at September 30, 2016</b> | <b>477</b>                          | <b>3</b>   | <b>480</b> |

The change in estimates of \$72 million, \$44 million of which was recorded in the three months ended September 30, 2016, results from higher attrition rates and a reduction in average severance costs per person. The reduction in the liability was recorded in income from operations, primarily as reductions in cost of sales of \$34 million and in selling, general and administrative expenses of \$27 million, and resulted in an increase in earnings per share (basic and diluted) of approximately \$0.02 and \$0.01 for the nine and three months ended September 30, 2016, respectively.

Other restructuring-related activities

In the nine months ended September 30, 2016 and 2015, the Company executed various other minor restructuring-related activities and incurred expenses of \$91 million and \$112 million, respectively. In the three months ended September 30, 2016 and 2015, these expenses amounted to \$24 million and \$28 million, respectively. These expenses mainly related to employee severance costs and were primarily recorded in "Total cost of sales".

**Note 13**  
**Operating segment data**

The Chief Operating Decision Maker (CODM) is the Company's Executive Committee. The CODM allocates resources to and assesses the performance of each operating segment using the information outlined below. The Company's operating segments consist of Electrification Products, Discrete Automation and Motion, Process Automation and Power Grids. The remaining operations of the Company are included in Corporate and Other.

Effective January 1, 2016, the Company reorganized its operating segments with the aim of delivering more customer value in a better, more focused way from its combined power and automation offering. The new Electrification Products segment includes the business of the former Low Voltage Products segment and the Medium Voltage Products business from the former Power Products segment. The Process Automation segment has been expanded to include the Distributed Control Systems business from the former Power Systems segment, while the remaining businesses of the former Power Products and Power Systems segments were combined to form the new Power Grids segment. There were no significant changes to the Discrete Automation and Motion segment.

In addition, commencing in 2016, the Company changed its method of allocating income taxes to its operating segments whereby tax assets are primarily accounted for in Corporate and Other. As a result, certain amounts relating to current and deferred tax assets previously reported within the total segment assets of each individual operating segment have been allocated to Corporate and Other.

The segment information for the nine and three months ended September 30, 2015 and at December 31, 2015, has been recast to reflect these organizational and allocation changes.

A description of the types of products and services provided by each reportable segment is as follows:

- **Electrification Products:** manufactures and sells products and services including low- and medium-voltage switchgear (air and gas insulated), breakers, switches, control products, DIN rail components, automation and distribution enclosures, wiring accessories and installation material for many kinds of applications.
- **Discrete Automation and Motion:** manufactures and sells motors, generators, variable speed drives, robots and robotics, solar inverters, wind converters, rectifiers, excitation systems, power quality and protection solutions, electric vehicle fast charging infrastructure, components and subsystems for railways, and related services for a wide range of applications in discrete automation, process industries, transportation and utilities.
- **Process Automation:** develops and sells control and plant optimization systems, automation products and solutions, including instrumentation, as well as industry-specific application knowledge and services for the oil, gas and petrochemicals, metals and minerals, marine and turbocharging, pulp and paper, chemical and pharmaceuticals, and power industries.
- **Power Grids:** supplies power and automation products, systems, and service and software solutions for power generation, transmission and distribution to utility, industry, transportation and infrastructure customers. These offerings address evolving grid developments which include the integration of renewables, network control, digital substations, microgrids and asset management. The segment also manufactures a wide range of power, distribution and traction transformers, an array of high-voltage products, including circuit breakers, switchgear, capacitors and power transmission systems.
- **Corporate and Other:** includes headquarters, central research and development, the Company's real estate activities, Group Treasury Operations, historical operating activities of certain divested businesses, and other minor business activities.

The Company evaluates the profitability of its segments based on Operational EBITA, which represents income from operations excluding amortization expense on intangibles arising upon acquisitions (acquisition-related 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).

The CODM primarily reviews the results of each segment on a basis that is before the elimination of profits made on inventory sales between segments. Segment results below are presented before these eliminations, with a total deduction for intersegment profits to arrive at the Company's consolidated Operational EBITA. Intersegment sales and transfers are accounted for as if the sales and transfers were to third parties, at current market prices.

The following tables present segment revenues, Operational EBITA, and the reconciliations of consolidated Operational EBITA to Income from continuing operations before taxes for the nine and three months ended September 30, 2016 and 2015, as well as total assets at September 30, 2016, and December 31, 2015.

| (\$ in millions)               | Nine months ended September 30, 2016 |                       |                | Nine months ended September 30, 2015 |                       |                |
|--------------------------------|--------------------------------------|-----------------------|----------------|--------------------------------------|-----------------------|----------------|
|                                | Third-party revenues                 | Intersegment revenues | Total revenues | Third-party revenues                 | Intersegment revenues | Total revenues |
| Electrification Products       | 6,426                                | 404                   | 6,830          | 6,638                                | 450                   | 7,088          |
| Discrete Automation and Motion | 6,090                                | 413                   | 6,503          | 6,383                                | 456                   | 6,839          |
| Process Automation             | 4,748                                | 113                   | 4,861          | 5,212                                | 86                    | 5,298          |
| Power Grids                    | 7,530                                | 403                   | 7,933          | 7,949                                | 565                   | 8,514          |
| Corporate and Other            | 41                                   | 1,160                 | 1,201          | 57                                   | 1,113                 | 1,170          |
| Intersegment elimination       | -                                    | (2,493)               | (2,493)        | -                                    | (2,670)               | (2,670)        |
| <b>Consolidated</b>            | <b>24,835</b>                        | <b>-</b>              | <b>24,835</b>  | <b>26,239</b>                        | <b>-</b>              | <b>26,239</b>  |

| (\$ in millions)               | Three months ended September 30, 2016 |                       |                | Three months ended September 30, 2015 |                       |                |
|--------------------------------|---------------------------------------|-----------------------|----------------|---------------------------------------|-----------------------|----------------|
|                                | Third-party revenues                  | Intersegment revenues | Total revenues | Third-party revenues                  | Intersegment revenues | Total revenues |
| Electrification Products       | 2,177                                 | 131                   | 2,308          | 2,205                                 | 148                   | 2,353          |
| Discrete Automation and Motion | 2,076                                 | 127                   | 2,203          | 2,050                                 | 170                   | 2,220          |
| Process Automation             | 1,490                                 | 33                    | 1,523          | 1,635                                 | 24                    | 1,659          |
| Power Grids                    | 2,498                                 | 138                   | 2,636          | 2,616                                 | 175                   | 2,791          |
| Corporate and Other            | 14                                    | 385                   | 399            | 13                                    | 359                   | 372            |
| Intersegment elimination       | -                                     | (814)                 | (814)          | -                                     | (876)                 | (876)          |
| <b>Consolidated</b>            | <b>8,255</b>                          | <b>-</b>              | <b>8,255</b>   | <b>8,519</b>                          | <b>-</b>              | <b>8,519</b>   |

| (\$ in millions)   | Nine months ended September 30, |              | Three months ended September 30, |              |
|--|---------------------------------|--------------|----------------------------------|--------------|
|  | 2016                            | 2015         | 2016                             | 2015         |
| <b>Operational EBITA:</b>  |                                 |              |                                  |              |
| Electrification Products   | 1,143                           | 1,161        | 411                              | 410          |
| Discrete Automation and Motion   | 896                             | 992          | 311                              | 335          |
| Process Automation   | 593                             | 624          | 187                              | 181          |
| Power Grids  | 706                             | 581          | 254                              | 221          |
| Corporate and Other and Intersegment elimination   | (243)                           | (270)        | (117)                            | (66)         |
| <b>Consolidated Operational EBITA</b>  | <b>3,095</b>                    | <b>3,088</b> | <b>1,046</b>                     | <b>1,081</b> |
| Acquisition-related amortization   | (212)                           | (237)        | (70)                             | (74)         |
| Restructuring and restructuring-related expenses <sup>(1)</sup>  | (475)                           | (143)        | (39)                             | (59)         |
| Gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items   | (46)                            | (44)         | (35)                             | 6            |
| Foreign exchange/commodity timing differences in income from operations:                                   |                                 |              |                                  |              |
| Unrealized gains and losses on derivatives (foreign exchange, commodities, embedded derivatives)           | (43)                            | 80           | (8)                              | (64)         |
| Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized | 11                              | (50)         | (3)                              | (22)         |
| Unrealized foreign exchange movements on receivables/payables (and related assets/liabilities)             | (21)                            | 8            | (13)                             | 14           |
| <b>Income from operations</b>  | <b>2,309</b>                    | <b>2,702</b> | <b>878</b>                       | <b>882</b>   |
| Interest and dividend income   | 54                              | 56           | 16                               | 18           |
| Interest and other finance expense   | (230)                           | (223)        | (84)                             | (64)         |
| <b>Income from continuing operations before taxes</b>  | <b>2,133</b>                    | <b>2,535</b> | <b>810</b>                       | <b>836</b>   |

(1) Amounts also include the incremental implementation costs in relation to the White Collar Productivity program.

| (\$ in millions)               | Total assets <sup>(1)</sup> |                   |
|--------------------------------|-----------------------------|-------------------|
|                                | September 30, 2016          | December 31, 2015 |
| Electrification Products       | 10,018                      | 9,474             |
| Discrete Automation and Motion | 8,780                       | 9,223             |
| Process Automation             | 4,490                       | 4,662             |
| Power Grids                    | 9,380                       | 9,422             |
| Corporate and Other            | 8,141                       | 8,575             |
| <b>Consolidated</b>            | <b>40,809</b>               | <b>41,356</b>     |

(1) Total assets are after intersegment eliminations and therefore reflect third-party assets only.

## Realignment of segments

On October 4, 2016, the Company announced a planned change in the composition of the business portfolio of its four segments, effective January 1, 2017. In addition, two of the segments will be renamed.

The primary portfolio change is that the scope of Electrification Products segment will be expanded to include electric vehicle charging, solar, and power quality businesses from the Discrete Automation and Motion segment.

In addition, the Discrete Automation and Motion segment will be renamed the Robotics and Motion segment while the Process Automation segment will be renamed the Industrial Automation segment.



# Supplemental Reconciliations and Definitions

The following reconciliations and definitions include measures which ABB uses to supplement its Interim Consolidated Financial Information (unaudited) which is prepared in accordance with United States generally accepted accounting principles (U.S. GAAP). Certain of these 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 nine and three months ended September 30, 2016.

## Comparable growth rates

Growth rates for certain key figures may be presented and discussed on a "comparable" basis. The comparable growth rate measures growth on a constant currency basis. Since we are a global company, the comparability of our operating results reported in U.S. dollars is affected by foreign currency exchange rate fluctuations. We calculate the impacts from foreign currency fluctuations by translating the current-year periods' reported key figures into U.S. dollar amounts using the exchange rates in effect for the comparable periods in the previous year.

Comparable growth rates are also adjusted for changes in our business portfolio. Adjustments to our business portfolio occur due to acquisitions, divestments, or by exiting specific business activities or customer markets. 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 key figures of such business are adjusted to exclude the relevant key figures of any corresponding quarters which are not comparable when computing the comparable growth rate. Certain portfolio changes which do not qualify as divestments under U.S. GAAP have been treated in a similar manner to divestments. Changes in our portfolio where we have exited certain business activities or customer markets are adjusted as if the relevant business was divested in the period when the decision to cease business activities was taken. We do not adjust for portfolio changes where the relevant business has annualized revenues of less than \$50 million.

The following tables provide reconciliations of reported growth rates of certain key figures to their respective comparable growth rate.

## Divisional comparable growth rate reconciliation

| Division                       | Q3 2016 compared to Q3 2015 |                         |                   |             |                     |                         |                   |            |
|--------------------------------|-----------------------------|-------------------------|-------------------|-------------|---------------------|-------------------------|-------------------|------------|
|                                | Order growth rate           |                         |                   |             | Revenue growth rate |                         |                   |            |
|                                | US\$ (as reported)          | Foreign exchange impact | Portfolio changes | Comparable  | US\$ (as reported)  | Foreign exchange impact | Portfolio changes | Comparable |
| Electrification Products       | -6%                         | 2%                      | 0%                | -4%         | -2%                 | 2%                      | 0%                | 0%         |
| Discrete Automation and Motion | -5%                         | 1%                      | 0%                | -4%         | -1%                 | 1%                      | 0%                | 0%         |
| Process Automation             | -22%                        | 1%                      | 0%                | -21%        | -8%                 | 1%                      | 0%                | -7%        |
| Power Grids                    | -22%                        | 1%                      | 0%                | -21%        | -6%                 | 2%                      | 5%                | 1%         |
| <b>ABB Group</b>               | <b>-14%</b>                 | <b>1%</b>               | <b>0%</b>         | <b>-13%</b> | <b>-3%</b>          | <b>1%</b>               | <b>2%</b>         | <b>0%</b>  |



**9M 2016 compared to 9M 2015**

| Division                       | Order growth rate        |                               |                      |            | Revenue growth rate      |                               |                      |            |
|--------------------------------|--------------------------|-------------------------------|----------------------|------------|--------------------------|-------------------------------|----------------------|------------|
|                                | US\$<br>(as<br>reported) | Foreign<br>exchange<br>impact | Portfolio<br>changes | Comparable | US\$<br>(as<br>reported) | Foreign<br>exchange<br>impact | Portfolio<br>changes | Comparable |
| Electrification Products       | -7%                      | 4%                            | 0%                   | -3%        | -4%                      | 4%                            | 0%                   | 0%         |
| Discrete Automation and Motion | -8%                      | 2%                            | 0%                   | -6%        | -5%                      | 2%                            | 0%                   | -3%        |
| Process Automation             | -22%                     | 3%                            | 0%                   | -19%       | -8%                      | 3%                            | 0%                   | -5%        |
| Power Grids                    | -13%                     | 2%                            | 1%                   | -10%       | -7%                      | 3%                            | 4%                   | 0%         |
| <b>ABB Group</b>               | <b>-11%</b>              | <b>3%</b>                     | <b>0%</b>            | <b>-8%</b> | <b>-5%</b>               | <b>3%</b>                     | <b>1%</b>            | <b>-1%</b> |

**Regional comparable growth rate reconciliation**

**Q3 2016 compared to Q3 2015**

| Region                       | Order growth rate        |                               |                      |             | Revenue growth rate      |                               |                      |            |
|------------------------------|--------------------------|-------------------------------|----------------------|-------------|--------------------------|-------------------------------|----------------------|------------|
|                              | US\$<br>(as<br>reported) | Foreign<br>exchange<br>impact | Portfolio<br>changes | Comparable  | US\$<br>(as<br>reported) | Foreign<br>exchange<br>impact | Portfolio<br>changes | Comparable |
| Europe                       | -20%                     | 1%                            | 1%                   | -18%        | -3%                      | 2%                            | 4%                   | 3%         |
| The Americas                 | -17%                     | 1%                            | 0%                   | -16%        | -4%                      | 1%                            | 0%                   | -3%        |
| Asia, Middle East and Africa | -7%                      | 2%                            | 0%                   | -5%         | -2%                      | 2%                            | 0%                   | 0%         |
| <b>ABB Group</b>             | <b>-14%</b>              | <b>1%</b>                     | <b>0%</b>            | <b>-13%</b> | <b>-3%</b>               | <b>1%</b>                     | <b>2%</b>            | <b>0%</b>  |

**9M 2016 compared to 9M 2015**

| Region                       | Order growth rate        |                               |                      |            | Revenue growth rate      |                               |                      |            |
|------------------------------|--------------------------|-------------------------------|----------------------|------------|--------------------------|-------------------------------|----------------------|------------|
|                              | US\$<br>(as<br>reported) | Foreign<br>exchange<br>impact | Portfolio<br>changes | Comparable | US\$<br>(as<br>reported) | Foreign<br>exchange<br>impact | Portfolio<br>changes | Comparable |
| Europe                       | -10%                     | 2%                            | 0%                   | -8%        | -3%                      | 2%                            | 4%                   | 3%         |
| The Americas                 | -14%                     | 2%                            | 0%                   | -12%       | -8%                      | 3%                            | 0%                   | -5%        |
| Asia, Middle East and Africa | -9%                      | 4%                            | 0%                   | -5%        | -5%                      | 3%                            | 0%                   | -2%        |
| <b>ABB Group</b>             | <b>-11%</b>              | <b>3%</b>                     | <b>0%</b>            | <b>-8%</b> | <b>-5%</b>               | <b>3%</b>                     | <b>1%</b>            | <b>-1%</b> |

**Order backlog growth rate reconciliation**

**September 30, 2016, compared to September 30, 2015**

| Division                       | US\$<br>(as<br>reported) | Foreign<br>exchange<br>impact | Portfolio<br>changes | Comparable |
|--------------------------------|--------------------------|-------------------------------|----------------------|------------|
| Electrification Products       | 2%                       | 1%                            | 0%                   | 3%         |
| Discrete Automation and Motion | -3%                      | 1%                            | 0%                   | -2%        |
| Process Automation             | -10%                     | -1%                           | 0%                   | -11%       |
| Power Grids                    | 0%                       | 1%                            | 1%                   | 2%         |
| <b>ABB Group</b>               | <b>-3%</b>               | <b>0%</b>                     | <b>1%</b>            | <b>-2%</b> |

**Other growth rate reconciliations**

|                  | Q3 2016 compared to Q3 2015 |                               |                      |            | 9M 2016 compared to 9M 2015 |                               |                      |            |
|------------------|-----------------------------|-------------------------------|----------------------|------------|-----------------------------|-------------------------------|----------------------|------------|
|                  | US\$<br>(as<br>reported)    | Foreign<br>exchange<br>impact | Portfolio<br>changes | Comparable | US\$<br>(as<br>reported)    | Foreign<br>exchange<br>impact | Portfolio<br>changes | Comparable |
| Large orders     | -46%                        | 1%                            | 0%                   | -45%       | -38%                        | 0%                            | 1%                   | -37%       |
| Base orders      | -7%                         | 1%                            | 0%                   | -6%        | -5%                         | 3%                            | 0%                   | -2%        |
| Service orders   | -5%                         | 2%                            | 0%                   | -3%        | -1%                         | 3%                            | 0%                   | 2%         |
| Service revenues | 4%                          | 1%                            | 0%                   | 5%         | 0%                          | 3%                            | 0%                   | 3%         |

**Division realignment:**

Effective January 1, 2016, we have realigned our organizational structure to better address customer needs and deliver operational efficiency. Our new streamlined structure is comprised of four operating divisions: Power Grids, Electrification Products, Discrete Automation and Motion and Process Automation. In addition, the operations of certain previously divested businesses have been excluded from the results of the four divisions (but are included in the total ABB Group) for the periods prior to their respective divestment. See Note 13 to the Interim Consolidated Financial Information (unaudited) for further details on the realignment.

The following information presents a reconciliation of growth rates of orders and revenues for 2015 compared with 2014 to reflect these organizational changes:

**Divisional comparable growth rate reconciliation:**

| Division                       | Q3 2015 compared to Q3 2014 |                               |                      |             |                          |                               |                      |            |
|--------------------------------|-----------------------------|-------------------------------|----------------------|-------------|--------------------------|-------------------------------|----------------------|------------|
|                                | Order growth rate           |                               |                      |             | Revenue growth rate      |                               |                      |            |
|                                | US\$<br>(as<br>reported)    | Foreign<br>exchange<br>impact | Portfolio<br>changes | Comparable  | US\$<br>(as<br>reported) | Foreign<br>exchange<br>impact | Portfolio<br>changes | Comparable |
| Electrification Products       | -15%                        | 11%                           | 0%                   | -4%         | -13%                     | 11%                           | 0%                   | -2%        |
| Discrete Automation and Motion | -17%                        | 8%                            | 0%                   | -9%         | -16%                     | 9%                            | 0%                   | -7%        |
| Process Automation             | -45%                        | 8%                            | 0%                   | -37%        | -19%                     | 12%                           | 0%                   | -7%        |
| Power Grids                    | -16%                        | 11%                           | -1%                  | -6%         | -6%                      | 11%                           | 1%                   | 6%         |
| <b>ABB Group</b>               | <b>-22%</b>                 | <b>10%</b>                    | <b>0%</b>            | <b>-12%</b> | <b>-13%</b>              | <b>10%</b>                    | <b>1%</b>            | <b>-2%</b> |

| Division                       | 9M 2015 compared to 9M 2014 |                               |                      |            |                          |                               |                      |            |
|--------------------------------|-----------------------------|-------------------------------|----------------------|------------|--------------------------|-------------------------------|----------------------|------------|
|                                | Order growth rate           |                               |                      |            | Revenue growth rate      |                               |                      |            |
|                                | US\$<br>(as<br>reported)    | Foreign<br>exchange<br>impact | Portfolio<br>changes | Comparable | US\$<br>(as<br>reported) | Foreign<br>exchange<br>impact | Portfolio<br>changes | Comparable |
| Electrification Products       | -10%                        | 10%                           | 0%                   | 0%         | -10%                     | 11%                           | 0%                   | 1%         |
| Discrete Automation and Motion | -12%                        | 9%                            | 0%                   | -3%        | -10%                     | 9%                            | 0%                   | -1%        |
| Process Automation             | -22%                        | 12%                           | 0%                   | -10%       | -16%                     | 12%                           | 0%                   | -4%        |
| Power Grids                    | -4%                         | 13%                           | 0%                   | 9%         | -7%                      | 11%                           | 0%                   | 4%         |
| <b>ABB Group</b>               | <b>-12%</b>                 | <b>10%</b>                    | <b>2%</b>            | <b>0%</b>  | <b>-11%</b>              | <b>10%</b>                    | <b>2%</b>            | <b>1%</b>  |

**Adjusted services and software revenues as a percentage of total revenues**

Adjusted services and software revenues as a percentage of total revenues is calculated as Sales of services and software divided by Total revenues, after reducing both amounts by the amount of revenues recorded for businesses which have subsequently been divested. Total revenues are also adjusted when we have exited certain business activities or customer markets as if the relevant business was divested in the period when the decision to cease business activities was taken. We do not adjust for portfolio changes where the relevant business has annualized revenues of less than \$50 million.

|  | Three months ended September 30, |              |
|--|----------------------------------|--------------|
|  | 2016                             | 2015         |
| (\$ in millions, unless otherwise indicated)                                     |                                  |              |
| <b>Adjusted services and software revenues as a percentage of total revenues</b> |                                  |              |
| Sales of services and software   | 1,453                            | 1,403        |
| <b>Adjusted services and software revenues</b>                                   | <b>1,453</b>                     | <b>1,403</b> |
| Total revenues   | 8,255                            | 8,519        |
| Total revenues in divested/exited businesses                                     | -                                | (139)        |
| <b>Adjusted total revenues</b>   | <b>8,255</b>                     | <b>8,380</b> |
| <b>Adjusted services and software revenues as a percentage of total revenues</b> | <b>17.6%</b>                     | <b>16.7%</b> |

**Operational EBITA margin****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). Operational EBITA is our measure of segment profit but is also used by management to evaluate the profitability of the Company as a whole.

**Acquisition-related amortization**

Amortization expense on intangibles arising upon acquisitions.

**Operational revenues**

The Company presents Operational revenues solely for the purpose of allowing the computation of Operational EBITA margin. 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). Operational revenues are not intended to be an alternative measure to *Total Revenues*, which represent our revenues measured in accordance with U.S. GAAP.

**Reconciliation**

The following tables provide reconciliations of consolidated Operational EBITA to Net Income and Operational EBITA Margin by division.

**Reconciliation of consolidated  
Operational EBITA to Net Income**

| (\$ in millions)   | Nine months ended September 30, |              | Three months ended September 30, |              |
|--|---------------------------------|--------------|----------------------------------|--------------|
|  | 2016                            | 2015         | 2016                             | 2015         |
| <b>Operational EBITA</b>   | <b>3,095</b>                    | <b>3,088</b> | <b>1,046</b>                     | <b>1,081</b> |
| Acquisition-related amortization   | (212)                           | (237)        | (70)                             | (74)         |
| Restructuring and restructuring-related expenses <sup>(1)</sup>  | (475)                           | (143)        | (39)                             | (59)         |
| Gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items   | (46)                            | (44)         | (35)                             | 6            |
| <i>Foreign exchange/commodity timing differences in income from operations:</i>                            |                                 |              |                                  |              |
| Unrealized gains and losses on derivatives (foreign exchange, commodities, embedded derivatives)           | (43)                            | 80           | (8)                              | (64)         |
| Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized | 11                              | (50)         | (3)                              | (22)         |
| Unrealized foreign exchange movements on receivables/payables (and related assets/liabilities)             | (21)                            | 8            | (13)                             | 14           |
| <b>Income from operations</b>  | <b>2,309</b>                    | <b>2,702</b> | <b>878</b>                       | <b>882</b>   |
| Interest and dividend income   | 54                              | 56           | 16                               | 18           |
| Interest and other finance expense   | (230)                           | (223)        | (84)                             | (64)         |
| <b>Income from continuing operations before taxes</b>  | <b>2,133</b>                    | <b>2,535</b> | <b>810</b>                       | <b>836</b>   |
| Provision for taxes  | (587)                           | (722)        | (237)                            | (229)        |
| <b>Income from continuing operations, net of tax</b>   | <b>1,546</b>                    | <b>1,813</b> | <b>573</b>                       | <b>607</b>   |
| Income from discontinued operations, net of tax  | 14                              | 2            | 16                               | -            |
| <b>Net income</b>  | <b>1,560</b>                    | <b>1,815</b> | <b>589</b>                       | <b>607</b>   |

(1) Amounts also include the incremental implementation costs in relation to the White Collar Productivity program.

Reconciliation of Operational  
EBITA margin by division

Nine months ended September 30, 2016

|  | Electrification<br>Products | Discrete<br>Automation<br>and Motion | Process<br>Automation | Power<br>Grids | Corporate and<br>Other and<br>Intersegment<br>elimination | Consolidated  |
|--|-----------------------------|--------------------------------------|-----------------------|----------------|---|---------------|
| (\$ in millions, unless otherwise indicated)   |                             |                                      |                       |                |   |               |
| <b>Total revenues</b>  | <b>6,830</b>                | <b>6,503</b>                         | <b>4,861</b>          | <b>7,933</b>   | <b>(1,292)</b>  | <b>24,835</b> |
| Foreign exchange/commodity timing<br>differences in total revenues:  |                             |                                      |                       |                |   |               |
| Unrealized gains and losses<br>on derivatives  | 2                           | (5)                                  | 12                    | 33             | -   | 42            |
| Realized gains and losses on derivatives<br>where the underlying hedged<br>transaction has not yet been realized | (4)                         | -                                    | 7                     | (5)            | -   | (2)           |
| Unrealized foreign exchange movements<br>on receivables (and related assets)                                     | 2                           | 3                                    | 13                    | 2              | 1   | 21            |
| <b>Operational revenues</b>  | <b>6,830</b>                | <b>6,501</b>                         | <b>4,893</b>          | <b>7,963</b>   | <b>(1,291)</b>  | <b>24,896</b> |
| <b>Income (loss) from operations</b>   | <b>1,016</b>                | <b>742</b>                           | <b>452</b>            | <b>554</b>     | <b>(455)</b>  | <b>2,309</b>  |
| Acquisition-related amortization   | 72                          | 91                                   | 9                     | 27             | 13  | 212           |
| Restructuring and<br>restructuring-related expenses <sup>(1)</sup>   | 48                          | 57                                   | 100                   | 106            | 164   | 475           |
| Gains and losses from sale of businesses,<br>acquisition-related expenses and certain<br>non-operational items   | 1                           | 4                                    | -                     | 6              | 35  | 46            |
| Foreign exchange/commodity timing<br>differences in income from operations:                                      |                             |                                      |                       |                |   |               |
| Unrealized gains and losses on derivatives<br>(foreign exchange, commodities,<br>embedded derivatives)           | 10                          | -                                    | 16                    | 16             | 1   | 43            |
| Realized gains and losses on derivatives<br>where the underlying hedged<br>transaction has not yet been realized | (3)                         | -                                    | -                     | (8)            | -   | (11)          |
| Unrealized foreign exchange movements<br>on receivables/payables<br>(and related assets/liabilities)             | (1)                         | 2                                    | 16                    | 5              | (1)   | 21            |
| <b>Operational EBITA</b>   | <b>1,143</b>                | <b>896</b>                           | <b>593</b>            | <b>706</b>     | <b>(243)</b>  | <b>3,095</b>  |
| <b>Operational EBITA margin (%)</b>  | <b>16.7%</b>                | <b>13.8%</b>                         | <b>12.1%</b>          | <b>8.9%</b>    | <b>n.a.</b>   | <b>12.4%</b>  |

(1) Amounts also include the incremental implementation costs in relation to the White Collar Productivity program.

Nine months ended September 30, 2015

| (\$ in millions, unless otherwise indicated)   | Electrification<br>Products | Discrete<br>Automation<br>and Motion | Process<br>Automation | Power<br>Grids | Corporate and<br>Other and<br>Intersegment<br>elimination | Consolidated  |
|--|-----------------------------|--------------------------------------|-----------------------|----------------|---|---------------|
| <b>Total revenues</b>  | <b>7,088</b>                | <b>6,839</b>                         | <b>5,298</b>          | <b>8,514</b>   | <b>(1,500)</b>  | <b>26,239</b> |
| Foreign exchange/commodity timing differences in total revenues:   |                             |                                      |                       |                |   |               |
| Unrealized gains and losses on derivatives   | (15)                        | 20                                   | (4)                   | (55)           | –   | <b>(54)</b>   |
| Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized | 6                           | (28)                                 | 28                    | 57             | –   | <b>63</b>     |
| Unrealized foreign exchange movements on receivables (and related assets)                                  | 2                           | 8                                    | (24)                  | (19)           | –   | <b>(33)</b>   |
| <b>Operational revenues</b>  | <b>7,081</b>                | <b>6,839</b>                         | <b>5,298</b>          | <b>8,497</b>   | <b>(1,500)</b>  | <b>26,215</b> |
| <b>Income (loss) from operations</b>   | <b>1,089</b>                | <b>857</b>                           | <b>580</b>            | <b>468</b>     | <b>(292)</b>  | <b>2,702</b>  |
| Acquisition-related amortization   | 76                          | 96                                   | 9                     | 42             | 14  | <b>237</b>    |
| Restructuring and restructuring-related expenses <sup>(1)</sup>  | 20                          | 44                                   | 24                    | 38             | 17  | <b>143</b>    |
| Gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items   | –                           | –                                    | 19                    | 38             | (13)  | <b>44</b>     |
| Foreign exchange/commodity timing differences in income from operations:                                   |                             |                                      |                       |                |   |               |
| Unrealized gains and losses on derivatives (foreign exchange, commodities, embedded derivatives)           | (30)                        | 9                                    | (12)                  | (49)           | 2   | <b>(80)</b>   |
| Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized | 5                           | (26)                                 | 17                    | 54             | –   | <b>50</b>     |
| Unrealized foreign exchange movements on receivables/payables (and related assets/liabilities)             | 1                           | 12                                   | (13)                  | (10)           | 2   | <b>(8)</b>    |
| <b>Operational EBITA</b>   | <b>1,161</b>                | <b>992</b>                           | <b>624</b>            | <b>581</b>     | <b>(270)</b>  | <b>3,088</b>  |
| <b>Operational EBITA margin (%)</b>  | <b>16.4%</b>                | <b>14.5%</b>                         | <b>11.8%</b>          | <b>6.8%</b>    | <b>n.a.</b>   | <b>11.8%</b>  |

(1) Amounts also include the incremental implementation costs in relation to the White Collar Productivity program.

Three months ended September 30, 2016

|  | Electrification<br>Products | Discrete<br>Automation<br>and Motion | Process<br>Automation | Power<br>Grids | Corporate and<br>Other and<br>Intersegment<br>elimination | Consolidated |
|--|-----------------------------|--------------------------------------|-----------------------|----------------|---|--------------|
| (\$ in millions, unless otherwise indicated)   |                             |                                      |                       |                |   |              |
| <b>Total revenues</b>  | <b>2,308</b>                | <b>2,203</b>                         | <b>1,523</b>          | <b>2,636</b>   | <b>(415)</b>  | <b>8,255</b> |
| Foreign exchange/commodity timing differences in total revenues:   |                             |                                      |                       |                |   |              |
| Unrealized gains and losses on derivatives   | 6                           | 2                                    | 6                     | 20             | -   | 34           |
| Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized | (2)                         | -                                    | (1)                   | 6              | -   | 3            |
| Unrealized foreign exchange movements on receivables (and related assets)                                  | 1                           | 2                                    | 3                     | (1)            | 1   | 6            |
| <b>Operational revenues</b>  | <b>2,313</b>                | <b>2,207</b>                         | <b>1,531</b>          | <b>2,661</b>   | <b>(414)</b>  | <b>8,298</b> |
| <b>Income (loss) from operations</b>   | <b>389</b>                  | <b>276</b>                           | <b>170</b>            | <b>222</b>     | <b>(179)</b>  | <b>878</b>   |
| Acquisition-related amortization   | 24                          | 30                                   | 3                     | 9              | 4   | 70           |
| Restructuring and restructuring-related expenses <sup>(1)</sup>  | (7)                         | (4)                                  | 7                     | 12             | 31  | 39           |
| Gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items   | 1                           | 4                                    | -                     | 2              | 28  | 35           |
| Foreign exchange/commodity timing differences in income from operations:                                   |                             |                                      |                       |                |   |              |
| Unrealized gains and losses on derivatives (foreign exchange, commodities, embedded derivatives)           | 3                           | 2                                    | (1)                   | 4              | -   | 8            |
| Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized | (2)                         | 1                                    | 2                     | 2              | -   | 3            |
| Unrealized foreign exchange movements on receivables/payables (and related assets/liabilities)             | 3                           | 2                                    | 6                     | 3              | (1)   | 13           |
| <b>Operational EBITA</b>   | <b>411</b>                  | <b>311</b>                           | <b>187</b>            | <b>254</b>     | <b>(117)</b>  | <b>1,046</b> |
| <b>Operational EBITA margin (%)</b>  | <b>17.8%</b>                | <b>14.1%</b>                         | <b>12.2%</b>          | <b>9.5%</b>    | <b>n.a.</b>   | <b>12.6%</b> |

(1) Amounts also include the incremental implementation costs in relation to the White Collar Productivity program.

Three months ended September 30, 2015

|  | Electrification<br>Products | Discrete<br>Automation<br>and Motion | Process<br>Automation | Power<br>Grids | Corporate and<br>Other and<br>Intersegment<br>elimination | Consolidated |
|--|-----------------------------|--------------------------------------|-----------------------|----------------|---|--------------|
| (\$ in millions, unless otherwise indicated)   |                             |                                      |                       |                |   |              |
| <b>Total revenues</b>  | <b>2,353</b>                | <b>2,220</b>                         | <b>1,659</b>          | <b>2,791</b>   | <b>(504)</b>  | <b>8,519</b> |
| Foreign exchange/commodity timing differences in total revenues:   |                             |                                      |                       |                |   |              |
| Unrealized gains and losses on derivatives   | -                           | 41                                   | 27                    | 52             | 1   | <b>121</b>   |
| Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized | 3                           | 1                                    | 9                     | 13             | -   | <b>26</b>    |
| Unrealized foreign exchange movements on receivables (and related assets)                                  | (3)                         | (5)                                  | (4)                   | (22)           | -   | <b>(34)</b>  |
| <b>Operational revenues</b>  | <b>2,353</b>                | <b>2,257</b>                         | <b>1,691</b>          | <b>2,834</b>   | <b>(503)</b>  | <b>8,632</b> |
| <b>Income (loss) from operations</b>   | <b>390</b>                  | <b>264</b>                           | <b>159</b>            | <b>159</b>     | <b>(90)</b>   | <b>882</b>   |
| Acquisition-related amortization   | 25                          | 31                                   | 3                     | 10             | 5   | <b>74</b>    |
| Restructuring and restructuring-related expenses <sup>(1)</sup>  | 10                          | 16                                   | 3                     | 13             | 17  | <b>59</b>    |
| Gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items   | (1)                         | -                                    | 1                     | 5              | (11)  | <b>(6)</b>   |
| Foreign exchange/commodity timing differences in income from operations:                                   |                             |                                      |                       |                |   |              |
| Unrealized gains and losses on derivatives (foreign exchange, commodities, embedded derivatives)           | (18)                        | 26                                   | 8                     | 33             | 15  | <b>64</b>    |
| Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized | 3                           | 3                                    | 6                     | 10             | -   | <b>22</b>    |
| Unrealized foreign exchange movements on receivables/payables (and related assets/liabilities)             | 1                           | (5)                                  | 1                     | (9)            | (2)   | <b>(14)</b>  |
| <b>Operational EBITA</b>   | <b>410</b>                  | <b>335</b>                           | <b>181</b>            | <b>221</b>     | <b>(66)</b>   | <b>1,081</b> |
| <b>Operational EBITA margin (%)</b>  | <b>17.4%</b>                | <b>14.8%</b>                         | <b>10.7%</b>          | <b>7.8%</b>    | <b>n.a.</b>   | <b>12.5%</b> |

(1) Amounts also include the incremental implementation costs in relation to the White Collar Productivity program.

## Operational EPS

### Definition

#### Operational EPS

Operational EPS is calculated as Operational net income divided by the weighted-average number of shares outstanding 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) acquisition-related amortization,
- (ii) restructuring and restructuring-related expenses,
- (iii) gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items, and
- (iv) 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).

#### 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 an adjusted provision for taxes by an adjusted income from continuing operations before taxes. Certain amounts recorded in income from continuing operations before taxes and the related provision for taxes (primarily gains and losses from sale of businesses), as well as certain other amounts included solely in provision for taxes, are excluded from the computation.

#### Constant currency Operational EPS adjustment and Operational EPS growth rate (constant currency)

In connection with ABB's 2015-2020 targets, Operational EPS growth is measured assuming 2014 as the base year and uses constant exchange rates. We compute the constant currency operational net income for all periods using the relevant monthly exchange rates which were in effect during 2014 and any difference in computed Operational net income is divided by the relevant weighted-average number of shares outstanding to identify the constant currency Operational EPS adjustment.

## Reconciliation

| (\$ in millions, except per share data in \$)  | Nine months ended September 30, |              |                       |
|--|---------------------------------|--------------|-----------------------|
|  | 2016                            | 2015         | Growth <sup>(1)</sup> |
| <b>Net income (attributable to ABB)</b>  | <b>1,474</b>                    | <b>1,729</b> |                       |
| Operational adjustments:   |                                 |              |                       |
| Acquisition-related amortization   | 212                             | 237          |                       |
| Restructuring and restructuring-related expenses <sup>(2)</sup>  | 475                             | 143          |                       |
| Gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items | 46                              | 44           |                       |
| FX/commodity timing differences in income from operations  | 53                              | (38)         |                       |
| Tax on operational adjustments <sup>(3)</sup>  | (216)                           | (99)         |                       |
| <b>Operational net income</b>  | <b>2,044</b>                    | <b>2,016</b> | <b>1%</b>             |
| <b>Weighted-average number of shares outstanding (in millions)</b>                                       | <b>2,155</b>                    | <b>2,234</b> |                       |
| <b>Operational EPS</b>   | <b>0.95</b>                     | <b>0.90</b>  | <b>5%</b>             |
| Constant currency Operational EPS adjustment   | 0.11                            | 0.09         |                       |
| <b>Operational EPS (constant currency basis - 2014 exchange rates)</b>                                   | <b>1.06</b>                     | <b>0.99</b>  | <b>7%</b>             |

(1) Growth is computed using unrounded EPS amounts.

(2) Amounts also include the incremental implementation costs in relation to the White Collar Productivity program.

(3) Tax amount is computed by applying the Adjusted Group effective tax rate to the operational adjustments, except for gains and losses from sale of businesses for which the actual provision for taxes resulting from the gain or loss has been computed.



| (\$ in millions, except per share data in \$)   | Three months ended September 30, |              |                       |
|---|----------------------------------|--------------|-----------------------|
|   | 2016                             | 2015         | Growth <sup>(1)</sup> |
| <b>Net income (attributable to ABB)</b>   | <b>568</b>                       | <b>577</b>   |                       |
| Operational adjustments:  |                                  |              |                       |
| Acquisition-related amortization  | 70                               | 74           |                       |
| Restructuring and restructuring-related expenses <sup>(2)</sup>   | 39                               | 59           |                       |
| Gains and losses from sale of businesses,<br>acquisition-related expenses and certain non-operational items | 35                               | (6)          |                       |
| FX/commodity timing differences in income from operations   | 24                               | 72           |                       |
| Tax on operational adjustments <sup>(3)</sup>   | (53)                             | (57)         |                       |
| <b>Operational net income</b>   | <b>683</b>                       | <b>719</b>   | <b>-5%</b>            |
| <b>Weighted-average number of shares outstanding (in millions)</b>  | <b>2,135</b>                     | <b>2,219</b> |                       |
| <b>Operational EPS</b>  | <b>0.32</b>                      | <b>0.32</b>  | <b>-1%</b>            |
| Constant currency Operational EPS adjustment  | 0.03                             | 0.03         |                       |
| <b>Operational EPS (constant currency basis - 2014 exchange rates)</b>                                      | <b>0.35</b>                      | <b>0.35</b>  | <b>0%</b>             |

(1) Growth is computed using unrounded EPS amounts.

(2) Amounts also include the incremental implementation costs in relation to the White Collar Productivity program.

(3) Tax amount is computed by applying the Adjusted Group effective tax rate to the operational adjustments, except for gains and losses from sale of businesses for which the actual provision for taxes resulting from the gain or loss has been computed.

#### Net debt

#### Definition

##### Net debt

Net debt 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)   | September 30, 2016 | December 31, 2015 |
|--|--------------------|-------------------|
| Short-term debt and current maturities of long-term debt | 1,402              | 1,454             |
| Long-term debt   | 6,319              | 5,985             |
| <b>Total debt</b>  | <b>7,721</b>       | <b>7,439</b>      |
| Cash and equivalents                                     | 3,538              | 4,565             |
| Marketable securities and short-term investments         | 1,827              | 1,633             |
| <b>Cash and marketable securities</b>                    | <b>5,365</b>       | <b>6,198</b>      |
| <b>Net debt</b>  | <b>2,356</b>       | <b>1,241</b>      |

**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, (c) pension and other employee benefits, and (d) payables under the share buyback program); 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)                                   | Sep 30, 2016  | Jun 30, 2016  | Mar 31, 2016  | Dec 31, 2015  | Sep 30, 2015  | Jun 30, 2015  | Mar 31, 2015  | Dec 31, 2014  | Sep 30, 2014  | Jun 30, 2014  | Mar 31, 2014  | Dec 31, 2013  |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Net working capital:</b>  |               |               |               |               |               |               |               |               |               |               |               |               |
| Receivables, net   | 10,155        | 10,384        | 10,131        | 10,061        | 10,564        | 11,071        | 10,599        | 11,078        | 11,788        | 12,106        | 12,215        | 12,146        |
| Inventories, net   | 5,017         | 5,045         | 5,104         | 4,757         | 5,410         | 5,458         | 5,346         | 5,376         | 5,961         | 6,210         | 6,201         | 6,004         |
| Prepaid expenses   | 242           | 246           | 268           | 225           | 286           | 304           | 289           | 218           | 307           | 306           | 305           | 252           |
| Accounts payable, trade  | (4,458)       | (4,536)       | (4,323)       | (4,342)       | (4,405)       | (4,564)       | (4,473)       | (4,765)       | (4,820)       | (4,950)       | (4,872)       | (5,112)       |
| Billings in excess of sales  | (1,330)       | (1,377)       | (1,331)       | (1,375)       | (1,440)       | (1,505)       | (1,396)       | (1,455)       | (1,560)       | (1,499)       | (1,539)       | (1,714)       |
| Advances from customers  | (1,591)       | (1,612)       | (1,601)       | (1,598)       | (1,497)       | (1,512)       | (1,503)       | (1,624)       | (1,628)       | (1,705)       | (1,780)       | (1,726)       |
| Other current liabilities  | (3,153)       | (3,002)       | (2,949)       | (3,127)       | (3,103)       | (3,030)       | (2,900)       | (3,286)       | (3,380)       | (3,381)       | (3,307)       | (3,541)       |
| excluding: <sup>(1)</sup>  | 744           | 2,505         | 803           | 690           | 802           | 1,201         | 1,017         | 971           | 1,260         | 774           | 710           | 701           |
| Net working capital in assets and liabilities held for sale                    | (46)          | -             | -             | -             | -             | 1             | -             | -             | (8)           | 27            | -             | -             |
| <b>Net working capital</b>   | <b>4,836</b>  | <b>5,148</b>  | <b>5,299</b>  | <b>4,601</b>  | <b>5,815</b>  | <b>6,223</b>  | <b>5,962</b>  | <b>5,542</b>  | <b>6,660</b>  | <b>7,114</b>  | <b>7,223</b>  | <b>6,309</b>  |
| <b>Total revenues for the three months ended:</b>                              |               |               |               |               |               |               |               |               |               |               |               |               |
| September 30, 2016 / 2015 / 2014 / 2013  | 8,255         | 8,519         | 8,519         | 8,519         | 8,519         | 9,823         | 9,823         | 9,823         | 9,823         | 10,535        | 10,535        | 10,535        |
| June 30, 2016 / 2015 / 2014 / 2013   | 8,677         | 8,677         | 9,165         | 9,165         | 9,165         | 9,165         | 10,190        | 10,190        | 10,190        | 10,190        | 10,225        | 10,225        |
| March 31, 2016 / 2015 / 2014 / 2013  | 7,903         | 7,903         | 7,903         | 8,555         | 8,555         | 8,555         | 8,555         | 9,471         | 9,471         | 9,471         | 9,471         | 9,715         |
| December 31, 2015 / 2014 / 2013  | 9,242         | 9,242         | 9,242         | 9,242         | 10,346        | 10,346        | 10,346        | 10,346        | 11,373        | 11,373        | 11,373        | 11,373        |
| <b>Total revenues for the trailing twelve months</b>                           | <b>34,077</b> | <b>34,341</b> | <b>34,829</b> | <b>35,481</b> | <b>36,585</b> | <b>37,889</b> | <b>38,914</b> | <b>39,830</b> | <b>40,857</b> | <b>41,569</b> | <b>41,604</b> | <b>41,848</b> |
| Adjustment to annualize/eliminate revenues of certain acquisitions/divestments | -             | -             | -             | -             | (64)          | (144)         | (372)         | (613)         | (633)         | (212)         | 204           | 460           |
| <b>Adjusted revenues for the trailing twelve months</b>                        | <b>34,077</b> | <b>34,341</b> | <b>34,829</b> | <b>35,481</b> | <b>36,521</b> | <b>37,745</b> | <b>38,542</b> | <b>39,217</b> | <b>40,224</b> | <b>41,357</b> | <b>41,808</b> | <b>42,308</b> |
| <b>Net working capital as a percentage of revenues (%)</b>                     | <b>14.2%</b>  | <b>15.0%</b>  | <b>15.2%</b>  | <b>13.0%</b>  | <b>15.9%</b>  | <b>16.5%</b>  | <b>15.5%</b>  | <b>14.1%</b>  | <b>16.6%</b>  | <b>17.2%</b>  | <b>17.3%</b>  | <b>14.9%</b>  |

(1) The amounts excluded from Other current liabilities 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.

**Free cash flow conversion to net income****Definition**

Free cash flow conversion to net income

Free cash flow conversion to net income is calculated as Free cash flow divided by Net income attributable to ABB.

Free cash flow (FCF)

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).

Free cash flow for the trailing twelve months

Free cash flow for the trailing twelve months includes free cash flow recorded by ABB in the twelve months preceding the relevant balance sheet date.

Net income for the trailing twelve months

Net income for the trailing twelve months includes net income recorded by ABB in the twelve months preceding the relevant balance sheet date.

**Free cash flow conversion to net income**

| (\$ in millions, unless otherwise indicated)                       | Twelve months to   |                   |
|--|--------------------|-------------------|
|  | September 30, 2016 | December 31, 2015 |
| <b>Net cash provided by operating activities</b>                   | <b>4,409</b>       | <b>3,818</b>      |
| Adjusted for the effects of:                                       |                    |                   |
| Purchases of property, plant and equipment and intangible assets   | (861)              | (876)             |
| Proceeds from sale of property, plant and equipment                | 76                 | 68                |
| Changes in financing receivables and other non-current receivables | (1)                | 9                 |
| <b>Free cash flow</b>  | <b>3,623</b>       | <b>3,019</b>      |
| <b>Net income attributable to ABB</b>                              | <b>1,678</b>       | <b>1,933</b>      |
| <b>Free cash flow conversion to net income</b>                     | <b>216%</b>        | <b>156%</b>       |

**Reconciliation of the trailing twelve months to September 30, 2016**

| (\$ in millions)   | Net cash provided by operating activities | Purchases of property, plant and equipment and intangible assets | Proceeds from sale of property, plant and equipment | Changes in financing receivables and other non-current receivables | Net income attributable to ABB |
|--|---|--|---|--|--------------------------------|
| Q4 2015  | 1,994                                     | (329)  | 24  | 3  | 204                            |
| Q1 2016  | 252                                       | (170)  | 12  | (3)  | 500                            |
| Q2 2016  | 1,082                                     | (178)  | 16  | 2  | 406                            |
| Q3 2016  | 1,081                                     | (184)  | 24  | (3)  | 568                            |
| <b>Total for the trailing twelve months to Sep. 30, 2016</b> | <b>4,409</b>                              | <b>(861)</b>   | <b>76</b>   | <b>(1)</b>   | <b>1,678</b>                   |

**Finance net****Definition**

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

**Reconciliation**

| (\$ in millions)                   | Nine months ended September 30, |              | Three months ended September 30, |             |
|------------------------------------|---------------------------------|--------------|----------------------------------|-------------|
|                                    | 2016                            | 2015         | 2016                             | 2015        |
| Interest and dividend income       | 54                              | 56           | 16                               | 18          |
| Interest and other finance expense | (230)                           | (223)        | (84)                             | (64)        |
| <b>Finance net</b>                 | <b>(176)</b>                    | <b>(167)</b> | <b>(68)</b>                      | <b>(46)</b> |

**Book-to-bill ratio****Definition**

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

**Reconciliation**

| (\$ in millions, unless otherwise indicated) | Nine months ended September 30, |             | Three months ended September 30, |             |
|--|---------------------------------|-------------|----------------------------------|-------------|
|  | 2016                            | 2015        | 2016                             | 2015        |
| Orders received                              | 25,102                          | 28,167      | 7,533                            | 8,767       |
| Total revenues                               | 24,835                          | 26,239      | 8,255                            | 8,519       |
| <b>Book-to-bill ratio</b>                    | <b>1.01</b>                     | <b>1.07</b> | <b>0.91</b>                      | <b>1.03</b> |

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