Note 1. The Company and basis of presentation

ABB Ltd and its subsidiaries (collectively, the Company) together form a leading global company in power and automation technologies that enable utility and industry customers to improve their performance while lowering environmental impact. The Company works with customers to engineer and install networks, facilities and plants with particular emphasis on enhancing efficiency, reliability and productivity for customers who generate, convert, transmit, distribute and consume energy.

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, 2012.

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, regulatory and other proceedings,
- assumptions used in the calculation of pension and postretirement benefits and the fair value of pension plan assets,
- 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 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. Certain amounts reported for prior periods in the Interim Consolidated Financial Information have been reclassified to conform to the current period's presentation. These changes primarily relate to current liabilities, where amounts previously reported in “Employee and other payables” and “Accrued expenses” have been reclassified to “Other provisions” and “Other current liabilities”.

Note 2. Recent accounting pronouncements

Applicable in current period

Disclosures about offsetting assets and liabilities
As of January 2013, the Company adopted two accounting standard updates regarding disclosures about amounts of certain financial and derivative instruments recognized in the statement of financial position that are either (i) offset or (ii) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset. The scope of these updates covers derivatives (including bifurcated embedded derivatives), repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending arrangements. These updates are applicable retrospectively and did not have a significant impact on the consolidated financial statements.

Reporting of amounts reclassified out of accumulated other comprehensive income
As of January 2013, the Company adopted an accounting standard update regarding the presentation of amounts reclassified out of accumulated other comprehensive income. Under the update, the Company is required to present, either in a single note or parenthetically on the face of the financial statements, significant amounts reclassified out of accumulated other comprehensive income by the respective income statement line item (if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the reporting period). If a component is not required to be reclassified to net income in its entirety, the Company would instead cross-reference to other U.S. GAAP required disclosures that provide additional information about the amounts. This update is applicable prospectively and resulted in the Company presenting, in a single note, significant reclassifications out of accumulated other comprehensive income (see Note 13).

Applicable for future periods

Parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity
In March 2013, an accounting standard update was issued regarding the release of cumulative translation adjustments of a parent when it ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity (for the Company, a foreign entity is an entity having a functional currency other than U.S. dollars). Under the update, the Company would recognize cumulative translation adjustments in net income when it ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. For foreign equity-accounted companies, a pro rata portion of the cumulative translation adjustment would be recognized in net income upon a partial sale of the equity-accounted company. This update is effective for the Company for annual and interim periods beginning January 1, 2014, and is applicable prospectively. The impact of this update on the consolidated financial statements is dependent on future transactions resulting in derecognition of foreign assets, subsidiaries or foreign equity-accounted companies completed on or after adoption.

Presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists
In July 2013, an accounting standard update was issued regarding the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. Under the update, the Company would present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except in certain defined circumstances. This update is effective for the Company for annual and interim periods beginning January 1, 2014, and is applicable prospectively. The Company is currently evaluating the impact of this update on its consolidated financial statements.

Note 3. Acquisitions

Acquisitions were as follows:

($ in millions, except number of acquired businesses)(1)	Six months ended June 30,		Three months ended June 30,	
	2013	2012	2013	2012
Acquisitions (net of cash acquired)(2)	14	3,578	-	3,414
Aggregate excess of purchase price over fair value of net assets acquired(3)	(60)	3,260	(74)	3,168
Number of acquired businesses	1	4	-	3

(1) Amounts for the six and three months ended June 30, 2012, relate primarily to the acquisition of Thomas & Betts.
For all periods presented, amounts include adjustments arising during the measurement period of acquisitions. In the six and three months ended June 30, 2013, adjustments included in "Aggregate excess of purchase price over fair value of net assets acquired" amounted to $73 million and $74 million, respectively, primarily in respect of a reduction in certain deferred tax liabilities related to Thomas & Betts. In the six and three months ended June 30, 2012, adjustments included in "Aggregate excess of purchase price over fair value of net assets acquired" amounted to $27 million and $30 million, respectively.
(2) Excluding changes in cost and equity investments but including $5 million (in the six and three months ended June 30, 2012) representing the fair value of replacement vested stock options issued to Thomas & Betts employees at the acquisition date.
(3) Recorded as goodwill.

Acquisitions of controlling interests have been accounted for under the acquisition method and have been included in the Company's Interim Consolidated Financial Information since the date of acquisition.

While the Company uses its best estimates and assumptions as part of the purchase price allocation process to value assets acquired and liabilities assumed at the acquisition date, the purchase price allocation for acquisitions is preliminary for up to 12 months after the acquisition date and is subject to refinement as more detailed analyses are completed and additional information about the fair values of the assets and liabilities becomes available.

On May 16, 2012, the Company acquired all outstanding shares of Thomas & Betts Corporation (Thomas & Betts) for $72 per share in cash. The resulting cash outflows for the Company amounted to $3,700 million, representing $3,282 million for the purchase of the shares (net of cash acquired of $521 million), $94 million related to cash settlement of Thomas & Betts options held at acquisition date and $324 million for the repayment of debt assumed upon acquisition. Thomas & Betts designs, manufactures and markets components used to manage the connection, distribution, transmission and reliability of electrical power in industrial, construction and utility applications. The acquisition of Thomas & Betts supports the Company's strategy of expanding its Low Voltage Products operating segment into new geographies, sectors and products, and consequently the goodwill acquired represents the future benefits associated with the expansion of market access and product scope.

The final allocation of the purchase consideration for Thomas & Betts is as follows:

($ in millions)	**Allocated amounts**	**Weighted-average useful life**
Customer relationships	1,169	18 years
Technology	179	5 years
Trade names	155	10 years
Order backlog	12	7.5 months
Intangible assets	**1,515**	**15 years**
Fixed assets	458	
Debt acquired	(619)	
Deferred tax liabilities	(971)	
Inventories	300	
Other assets and liabilities, net(1)	49	
Goodwill(2)	2,649	
Total consideration (net of cash acquired)(3)	**3,381**	

(1) Gross receivables from the acquisition totaled $387 million; the fair value of which was $344 million after rebates and allowance for estimated uncollectable receivables.
(2) Goodwill recognized is not deductible for income tax purposes.
(3) Cash acquired in the acquisition totaled $521 million. Additional consideration included $94 million related to the cash settlement of stock options held by Thomas & Betts employees at the acquisition date and $5 million representing the fair value of replacement vested stock options issued to Thomas & Betts employees at the acquisition date. The fair value of these stock options was estimated using a Black-Scholes model.

The Company's Consolidated Income Statements for both the six and three months ended June 30, 2012, include total revenues of $313 million and a net loss (including acquisition-related charges) of $38 million, related to Thomas & Betts since the date of acquisition.

The unaudited pro forma financial information in the table below summarizes the combined pro forma results of the Company and Thomas & Betts for the six and three months ended June 30, 2012, as if Thomas & Betts had been acquired on January 1, 2011.

($ in millions)	**Six months ended June 30, 2012**	**Three months ended June 30, 2012**
Total revenues	19,485	9,971
Income from continuing operations, net of tax	1,485	726

The unaudited pro forma results above include certain adjustments related to the Thomas & Betts acquisition. The table below summarizes the adjustments necessary to present the pro forma financial information of the Company and Thomas & Betts combined, as if Thomas & Betts had been acquired on January 1, 2011.

($ in millions)	Adjustments Six months ended June 30, 2012	 Three months ended June 30, 2012
Impact on cost of sales from additional amortization of intangible assets (excluding order backlog capitalized upon acquisition)	(26)	(9)
Impact on cost of sales from amortization of order backlog capitalized upon acquisition	2	2
Impact on cost of sales from fair valuing acquired inventory	15	15
Impact on cost of sales from additional depreciation of fixed assets	(12)	(4)
Interest expense on Thomas & Betts debt	5	1
Impact on selling, general and administrative expenses from Thomas & Betts stock-option plans adjustments	16	16
Impact on selling, general and administrative expenses from acquisition-related costs	54	45
Impact on interest and other finance expense from bridging facility costs	13	11
Other	(5)	-
Income taxes	-	(7)
Total pro forma adjustments	**62**	**70**

The pro forma results are for information purposes only and do not include any anticipated cost synergies or other effects of the planned integration of Thomas & Betts. Accordingly, such pro forma amounts are not necessarily indicative of the results that would have occurred had the acquisition been completed on the date indicated, nor are they indicative of the future operating results of the combined company.

Changes in total goodwill were as follows:

($ in millions)	Total goodwill
Balance at January 1, 2012	**7,269**
Additions during the period(1)	2,873
Measurement period adjustments related to prior year acquisitions	22
Exchange rate differences	62
Balance at December 31, 2012	**10,226**
Additions during the period	13
Measurement period adjustments related to prior year acquisitions	(73)
Exchange rate differences	(138)
Balance at June 30, 2013	**10,028**

(1) Includes primarily goodwill of $2,723 million in respect of Thomas & Betts, acquired in May 2012, which has been allocated to the Low Voltage Products operating segment and goodwill in respect of Newave, acquired in February 2012, which has been allocated to the Discrete Automation and Motion operating segment.

ABB to acquire Power-One, Inc.

On April 22, 2013, the Company announced that it had reached an agreement to acquire Power-One, Inc. Power-One is a provider of renewable energy and energy-efficient power conversion and power management solutions and a designer and manufacturer of photovoltaic inverters. The anticipated cash outflows for the Company upon closing the transaction amount to approximately $1 billion, based on a purchase price of $6.35 per share. Shareholder and regulatory approvals have been received and the transaction is expected to close in the third quarter of 2013.

Note 4. Cash and equivalents, marketable securities and short-term investments

Current assets

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

	June 30, 2013					
($ in millions)	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value	Cash and equivalents	Marketable securities and short-term investments
Cash	2,589			2,589	2,589	-
Time deposits	1,560			1,560	1,559	1
Other short-term investments	8			8	-	8
Debt securities available-for-sale:						
– U.S. government obligations	102	3	(1)	104	-	104
– European government obligations	131	-	-	131	-	131
– Other government obligations	2	-	-	2	-	2
– Corporate	138	4	-	142	-	142
Equity securities available-for-sale	150	9	(4)	155	-	155
Total	**4,680**	**16**	**(5)**	**4,691**	**4,148**	**543**

	December 31, 2012					
($ in millions)	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value	Cash and equivalents	Marketable securities and short-term investments
Cash	2,784			2,784	2,784	-
Time deposits	3,993			3,993	3,963	30
Other short-term investments	15			15	-	15
Debt securities available-for-sale:						
– U.S. government obligations	152	8	(1)	159	-	159
– Other government obligations	3	-	-	3	-	3
– Corporate	236	9	-	245	128	117
Equity securities available-for-sale	1,271	12	(1)	1,282	-	1,282
Total	**8,454**	**29**	**(2)**	**8,481**	**6,875**	**1,606**

Non-current assets

Included in “Other non-current assets” are certain held-to-maturity marketable securities pledged in respect of a certain non-current deposit liability. At June 30, 2013, the amortized cost, gross unrecognized gain and fair value (based on quoted market prices) of these securities were $100 million, $20 million and $120 million, respectively. At December 31, 2012, the amortized cost, gross unrecognized gain and fair value (based on quoted market prices) of these securities were $97 million, $27 million and $124 million, respectively. The maturity dates of these securities range from 2014 to 2021.

Note 5. 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 exposure, 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 other than electricity, 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). In certain locations where the price of electricity is hedged, up to a maximum of 90 percent of the forecasted electricity needs, depending on the length of the forecasted exposures, are hedged. Swap and futures 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 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 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	Total notional amounts		
($ in millions)	June 30, 2013	December 31, 2012	June 30, 2012
Foreign exchange contracts	18,814	19,724	19,431
Embedded foreign exchange derivatives	3,414	3,572	3,548
Interest rate contracts	1,289	3,983	2,646

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		
		June 30, 2013	December 31, 2012	June 30, 2012
Copper swaps	metric tonnes	46,222	45,222	43,307
Aluminum swaps	metric tonnes	5,886	5,495	8,211
Nickel swaps	metric tonnes	12	21	12
Lead swaps	metric tonnes	9,900	13,025	13,025
Zinc swaps	metric tonnes	325	225	125
Silver swaps	ounces	2,037,511	1,415,322	1,758,485
Electricity futures	megawatt hours	380,898	334,445	409,500
Crude oil swaps	barrels	119,450	135,471	177,476

Equity derivatives:
At June 30, 2013, December 31, 2012, and June 30, 2012, the Company held 75 million, 67 million and 70 million cash-settled call options on ABB Ltd shares with a total fair value of $42 million, $26 million and $16 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 June 30, 2013, and December 31, 2012, "Accumulated other comprehensive loss" included net unrealized gains of $18 million and $37 million, respectively, net of tax, on derivatives designated as cash flow hedges. Of the amount at June 30, 2013, net gains of $15 million are expected to be reclassified to earnings in the following 12 months. At June 30, 2013, the longest maturity of a derivative classified as a cash flow hedge was 72 months.

The amounts of gains or losses, net of tax, reclassified into earnings due to the discontinuance of cash flow hedge accounting and recognized in earnings due to ineffectiveness in cash flow hedge relationships were not significant in the six and three months ended June 30, 2013 and 2012.

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:

Six months ended June 30, 2013

Type of derivative designated as a cash flow hedge	Gains (losses) recognized in OCI on derivatives (effective portion)	Gains (losses) reclassified from OCI into income (effective portion)		Gains (losses) recognized in income (ineffective portion and amount excluded from effectiveness testing)	
	($ in millions)	Location	($ in millions)	Location	($ in millions)
Foreign exchange contracts	-	Total revenues	24	Total revenues	-
		Total cost of sales	(6)	Total cost of sales	-
Commodity contracts	(13)	Total cost of sales	(1)	Total cost of sales	-
Cash-settled call options	7	SG&A expenses(1)	2	SG&A expenses(1)	-
Total	**(6)**		**19**		**-**

Six months ended June 30, 2012

Type of derivative designated as a cash flow hedge	Gains (losses) recognized in OCI on derivatives (effective portion)	Gains (losses) reclassified from OCI into income (effective portion)		Gains (losses) recognized in income (ineffective portion and amount excluded from effectiveness testing)	
	($ in millions)	Location	($ in millions)	Location	($ in millions)
Foreign exchange contracts	20	Total revenues	27	Total revenues	-
		Total cost of sales	(2)	Total cost of sales	-
Commodity contracts	2	Total cost of sales	(2)	Total cost of sales	-
Cash-settled call options	(13)	SG&A expenses(1)	(11)	SG&A expenses(1)	-
Total	**9**		**12**		**-**

Three months ended June 30, 2013

Type of derivative designated as a cash flow hedge	Gains (losses) recognized in OCI on derivatives (effective portion)	Gains (losses) reclassified from OCI into income (effective portion)		Gains (losses) recognized in income (ineffective portion and amount excluded from effectiveness testing)	
	($ in millions)	Location	($ in millions)	Location	($ in millions)
Foreign exchange contracts	(17)	Total revenues	13	Total revenues	-
		Total cost of sales	(2)	Total cost of sales	-
Commodity contracts	(11)	Total cost of sales	(2)	Total cost of sales	-
Cash-settled call options	-	SG&A expenses(1)	-	SG&A expenses(1)	-
Total	**(28)**		**9**		**-**

Three months ended June 30, 2012

Type of derivative designated as a cash flow hedge	Gains (losses) recognized in OCI on derivatives (effective portion)	Gains (losses) reclassified from OCI into income (effective portion)		Gains (losses) recognized in income (ineffective portion and amount excluded from effectiveness testing)	
	($ in millions)	Location	($ in millions)	Location	($ in millions)
Foreign exchange contracts	(12)	Total revenues	16	Total revenues	1
		Total cost of sales	(1)	Total cost of sales	-
Commodity contracts	(7)	Total cost of sales	-	Total cost of sales	-
Cash-settled call options	(11)	SG&A expenses(1)	(8)	SG&A expenses(1)	-
Total	**(30)**		**7**		**1**

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

Derivative gains of $16 million and $6 million, both net of tax, were reclassified from “Accumulated other comprehensive loss” to earnings during the six months ended June 30, 2013 and 2012, respectively. During the three months ended June 30, 2013 and 2012, derivative gains of $7 million and $3 million, both net of tax, were reclassified from “Accumulated other comprehensive loss” to earnings respectively.

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 fair value of these instruments, as well as the changes in 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 six and three months ended June 30, 2013 and 2012, was not significant.

The effect of derivative instruments, designated and qualifying as fair value hedges, on the Consolidated Income Statements was as follows:

Six months ended June 30, 2013

Type of derivative designated as a fair value hedge	Gains (losses) recognized in income on derivatives designated as fair value hedges		Gains (losses) recognized in income on hedged item	
	Location	($ in millions)	Location	($ in millions)
Interest rate contracts	Interest and other finance expense	(40)	Interest and other finance expense	40

Six months ended June 30, 2012

Type of derivative designated as a fair value hedge	Gains (losses) recognized in income on derivatives designated as fair value hedges		Gains (losses) recognized in income on hedged item	
	Location	($ in millions)	Location	($ in millions)
Interest rate contracts	Interest and other finance expense	10	Interest and other finance expense	(10)

Three months ended June 30, 2013

Type of derivative designated as a fair value hedge	Gains (losses) recognized in income on derivatives designated as fair value hedges		Gains (losses) recognized in income on hedged item	
	Location	($ in millions)	Location	($ in millions)
Interest rate contracts	Interest and other finance expense	(22)	Interest and other finance expense	23

Three months ended June 30, 2012

Type of derivative designated as a fair value hedge	Gains (losses) recognized in income on derivatives designated as fair value hedges		Gains (losses) recognized in income on hedged item	
	Location	($ in millions)	Location	($ in millions)
Interest rate contracts	Interest and other finance expense	3	Interest and other finance expense	(3)

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:

($ in millions)	Gains (losses) recognized in income				
		Six months ended June 30,		Three months ended June 30,	
Type of derivative not designated as a hedge	Location	2013	2012	2013	2012
Foreign exchange contracts	Total revenues	(206)	52	(214)	(120)
	Total cost of sales	70	(85)	152	(21)
	SG&A expenses(1)	(2)	(1)	1	(1)
	Interest and other finance expense	(37)	(53)	106	(165)
Embedded foreign exchange contracts	Total revenues	73	(63)	86	10
	Total cost of sales	(9)	10	(11)	(5)
Commodity contracts	Total cost of sales	(67)	(3)	(54)	(28)
	Interest and other finance expense	1	(1)	1	(1)
Interest rate contracts	Interest and other finance expense	-	1	-	(1)
Total		**(177)**	**(143)**	**67**	**(332)**

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

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

	June 30, 2013			
	Derivative assets		Derivative liabilities	
($ in millions)	Current in "Other current assets"	Non-current in "Other non-current assets"	Current in "Other current liabilities"	Non-current in "Other non-current liabilities"
Derivatives designated as hedging instruments:				
Foreign exchange contracts	14	12	10	4
Commodity contracts	-	-	7	-
Interest rate contracts	-	8	-	5
Cash-settled call options	11	29	-	-
Total	**25**	**49**	**17**	**9**
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	161	40	167	40
Commodity contracts	2	1	51	2
Cash-settled call options	-	2	-	-
Embedded foreign exchange derivatives	54	25	41	18
Total	**217**	**68**	**259**	**60**
Total fair value	**242**	**117**	**276**	**69**
Thereof, subject to close-out netting agreements	**158**	**59**	**200**	**48**

	December 31, 2012			
	Derivative assets		Derivative liabilities	
($ in millions)	Current in "Other current assets"	Non-current in "Other non-current assets"	Current in "Other current liabilities"	Non-current in "Other non-current liabilities"
Derivatives designated as hedging instruments:				
Foreign exchange contracts	34	20	14	6
Commodity contracts	1	-	1	-
Interest rate contracts	15	31	-	2
Cash-settled call options	9	16	-	-
Total	**59**	**67**	**15**	**8**
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	204	62	84	20
Commodity contracts	7	1	11	1
Cash-settled call options	-	1	-	-
Embedded foreign exchange derivatives	26	13	86	40
Total	**237**	**77**	**181**	**61**
Total fair value	**296**	**144**	**196**	**69**
Thereof, subject to close-out netting agreements	**245**	**113**	**93**	**28**

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 June 30, 2013, and December 31, 2012, have been presented on a gross basis.

Note 6. 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 exchange-traded equity securities, listed derivatives which are actively traded such as commodity futures and 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 using Level 2 inputs include investments in certain funds, certain debt securities that are not actively traded, interest rate swaps, commodity swaps, cash-settled call options, foreign exchange forward contracts and foreign exchange swaps, as well as financing receivables and debt.

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

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:

	June 30, 2013			
($ in millions)	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Assets				
Available-for-sale securities in "Cash and equivalents"				
Debt securities—Corporate	-	-	-	-
Available-for-sale securities in "Marketable securities and short-term investments"				
Equity securities	-	155	-	155
Debt securities—U.S. government obligations	104	-	-	104
Debt securities—European government obligations	131	-	-	131
Debt securities—Other government obligations	-	2	-	2
Debt securities—Corporate	-	142	-	142
Available-for-sale securities in "Other non-current assets"				
Equity securities	7	-	-	7
Derivative assets—current in "Other current assets"	-	242	-	242
Derivative assets—non-current in "Other non-current assets"	-	117	-	117
Liabilities				
Derivative liabilities—current in "Other current liabilities"	4	272	-	276
Derivative liabilities—non-current in "Other non-current liabilities"	-	69	-	69

($ in millions)	December 31, 2012 Level 1	Level 2	Level 3	Total fair value
Assets				
Available-for-sale securities in "Cash and equivalents"				
Debt securities—Corporate	-	128	-	128
Available-for-sale securities in "Marketable securities and short-term investments"				
Equity securities	3	1,279	-	1,282
Debt securities—U.S. government obligations	159	-	-	159
Debt securities—Other government obligations	-	3	-	3
Debt securities—European government obligations	-	-	-	-
Debt securities—Corporate	-	117	-	117
Available-for-sale securities in "Other non-current assets"				
Equity securities	2	-	-	2
Derivative assets—current in "Other current assets"	-	296	-	296
Derivative assets—non-current in "Other non-current assets"	-	144	-	144
Liabilities				
Derivative liabilities—current in "Other current liabilities"	4	192	-	196
Derivative liabilities—non-current in "Other non-current liabilities"	-	69	-	69

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", "Marketable securities and short-term investments" and "Other non-current assets":* If quoted market prices in active markets for identical assets are available, these are considered Level 1 inputs; however, when markets are not active, then 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 six and three months ended June 30, 2013 and 2012.

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

	June 30, 2013				
($ in millions)	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Assets					
Cash and equivalents (excluding available-for-sale securities with original maturities up to 3 months)					
Cash	2,589	2,589	-	-	2,589
Time deposits	1,559	-	1,559	-	1,559
Marketable securities and short-term investments (excluding available-for-sale securities)					
Time deposits	1	-	1	-	1
Other short-term investments	8	8	-	-	8
Short-term loans in “Receivables, net”	7	-	7	-	7
Other non-current assets					
Loans granted	63	-	64	-	64
Held-to-maturity securities	100	-	120	-	120
Restricted cash and cash deposits	256	75	214	-	289
Liabilities					
Short-term debt and current maturities of long-term debt, excluding finance lease liabilities	686	112	574	-	686
Long-term debt, excluding finance lease liabilities	7,316	7,414	35	-	7,449

	December 31, 2012				
($ in millions)	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Assets					
Cash and equivalents (excluding available-for-sale securities with original maturities up to 3 months)					
Cash	2,784	2,784	-	-	2,784
Time deposits	3,963	-	3,963	-	3,963
Marketable securities and short-term investments (excluding available-for-sale securities)					
Time deposits	30	-	30	-	30
Other short-term investments	15	15	-	-	15
Short-term loans in “Receivables, net”	7	-	7	-	7
Other non-current assets					
Loans granted	58	-	59	-	59
Held-to-maturity securities	97	-	124	-	124
Restricted cash and cash deposits	271	80	230	-	310
Liabilities					
Short-term debt and current maturities of long-term debt, excluding finance lease liabilities	2,512	1,328	1,184	-	2,512
Long-term debt, excluding finance lease liabilities	7,449	7,870	39	-	7,909

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 debt securities with original maturities up to 3 months), Marketable securities and short-term investments (excluding available-for-sale securities), and Short-term loans in "Receivables, net":* The carrying amounts approximate the fair values, as the items are short-term in nature.

- *Other non-current assets:* Includes financing receivables (including 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). Includes held-to-maturity securities (see Note 4) whose fair values are based on quoted market prices in inactive markets (Level 2 inputs). Includes restricted cash whose fair values approximates the carrying amounts and a cash deposit pledged in respect of a certain non-current deposit liability whose fair value is determined using a discounted cash flow methodology based on current market rates (Level 2 inputs).

- *Short-term debt and current maturities of long-term debt, excluding finance lease liabilities:* Includes commercial paper, bank borrowings and overdrafts as well as bonds maturing in the next 12 months. The carrying amounts of short-term debt and current maturities of long-term debt, excluding finance lease liabilities, approximate their fair values.

- *Long-term debt excluding finance lease liabilities:* Fair values of outstanding bonds are determined using quoted market prices (Level 1 inputs). The fair values of other debt 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).

Note 7. Credit quality of receivables

Accounts receivable and allowance for doubtful accounts
Accounts receivable are recorded at the invoiced amount. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in existing accounts receivable. The Company determines the allowance based on historical write-off experience and customer specific data. If an amount has not been settled within its contractual payment term then it is considered past due. The Company reviews the allowance for doubtful accounts regularly and past due balances are reviewed for collectability. Accounts receivable balances are charged off against the related allowance when the Company believes that the amount will not be recovered.

The Company has a group-wide policy on the management of credit risk. The policy includes a credit assessment methodology to assess the creditworthiness of customers and assign to those customers a risk category on a scale from "A" (lowest likelihood of loss) to "E" (highest likelihood of loss), as shown in the following table:

Risk category:	**Equivalent Standard & Poor's rating**
A	AAA to AA-
B	A+ to BBB-
C	BB+ to BB-
D	B+ to CCC-
E	CC+ to D

Third-party agencies' ratings are considered, if available. For customers where agency ratings are not available, the customer's most recent financial statements, payment history and other relevant information are considered in the assignment to a risk category. Customers are assessed at least annually or more frequently when information on significant changes in the customer's financial position becomes known. In addition to the assignment to a risk category, a credit limit per customer is set.

Information on the credit quality of trade receivables (excluding those with a contractual maturity of one year or less) and other financing receivables is presented below.

Receivables classified as current assets

The gross amounts of trade receivables (excluding those with a contractual maturity of one year or less), the related allowance for doubtful accounts, and other receivables (excluding tax and other receivables which are not considered to be of a financing nature), recorded in receivables, net, were as follows:

	June 30, 2013		
($ in millions)	**Trade receivables (excluding those with a contractual maturity of one year or less)**	**Other receivables**	**Total**
Recorded gross amount:			
- Individually evaluated for impairment	359	122	481
- Collectively evaluated for impairment	316	83	399
Total	**675**	**205**	**880**
Allowance for doubtful accounts:			
- From individual impairment evaluation	(39)	(1)	(40)
- From collective impairment evaluation	(11)	(1)	(12)
Total	**(50)**	**(2)**	**(52)**
Recorded net amount	**625**	**203**	**828**

	December 31, 2012		
($ in millions)	**Trade receivables (excluding those with a contractual maturity of one year or less)**	**Other receivables**	**Total**
Recorded gross amount:			
- Individually evaluated for impairment	335	128	463
- Collectively evaluated for impairment	326	87	413
Total	**661**	**215**	**876**
Allowance for doubtful accounts:			
- From individual impairment evaluation	(42)	(5)	(47)
- From collective impairment evaluation	(11)	-	(11)
Total	**(53)**	**(5)**	**(58)**
Recorded net amount	**608**	**210**	**818**

Changes in the trade receivables' allowance for doubtful accounts (excluding those with a contractual maturity of one year or less) were as follows:

($ in millions)	Six months ended June 30, 2013	Six months ended June 30, 2012
Balance at January 1,	53	50
Reversal of allowance	(5)	(6)
Additions to allowance	5	4
Amounts written off	-	-
Exchange rate differences	(3)	(6)
Balance at June 30,	**50**	**42**

($ in millions)	Three months ended June 30, 2013	Three months ended June 30, 2012
Balance at April 1,	53	47
Reversal of allowance	(2)	(4)
Additions to allowance	2	1
Amounts written off	-	-
Exchange rate differences	(3)	(2)
Balance at June 30,	**50**	**42**

Changes in the allowance for doubtful accounts for other receivables during the six and three months ended June 30, 2013 and 2012, were not significant.

The following table shows the credit risk profile, on a gross basis, of trade receivables (excluding those with a contractual maturity of one year or less) and other receivables (excluding tax and other receivables which are not considered to be of a financing nature) based on the internal credit risk categories which are used as a credit quality indicator:

	June 30, 2013		
($ in millions)	**Trade receivables (excluding those with a contractual maturity of one year or less)**	**Other receivables**	**Total**
Risk category:			
A	246	164	410
B	273	8	281
C	101	30	131
D	45	1	46
E	10	2	12
Total gross amount	**675**	**205**	**880**

($ in millions)	December 31, 2012 Trade receivables (excluding those with a contractual maturity of one year or less)	Other receivables	Total
Risk category:			
A	279	156	435
B	238	27	265
C	90	30	120
D	48	1	49
E	6	1	7
Total gross amount	**661**	**215**	**876**

The following table shows an aging analysis, on a gross basis, of trade receivables (excluding those with a contractual maturity of one year or less) and other receivables (excluding tax and other receivables which are not considered to be of a financing nature):

	June 30, 2013						
	Past due						
($ in millions)	0 – 30 days	30 – 60 days	60 – 90 days	> 90 days and not accruing interest	> 90 days and accruing interest	Not due at June 30, 2013(1)	Total
Trade receivables (excluding those with a contractual maturity of one year or less)	37	1	3	57	12	565	675
Other receivables	2	4	2	12	2	183	205
Total gross amount	**39**	**5**	**5**	**69**	**14**	**748**	**880**

	December 31, 2012						
	Past due						
($ in millions)	0 – 30 days	30 – 60 days	60 – 90 days	> 90 days and not accruing interest	> 90 days and accruing interest	Not due at December 31, 2012(1)	Total
Trade receivables (excluding those with a contractual maturity of one year or less)	83	3	4	38	14	519	661
Other receivables	3	3	2	10	1	196	215
Total gross amount	**86**	**6**	**6**	**48**	**15**	**715**	**876**

(1) Trade receivables (excluding those with a contractual maturity of one year or less) principally represent contractual retention amounts that will become due subsequent to the completion of the long-term contract.

Receivables classified as non-current assets

At June 30, 2013, and December 31, 2012, the net recorded amounts of loans granted were $63 million and $58 million, respectively, and were included in other non-current assets (see Note 6). The related allowance for doubtful accounts was not significant at both dates. The changes in such allowance were not significant during the six and three months ended June 30, 2013 and 2012.

Note 8. Debt

The Company's total debt at June 30, 2013, and December 31, 2012, amounted to $8,129 million and $10,071 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)	June 30, 2013	December 31, 2012
Short-term debt	685	1,531
Current maturities of long-term debt	27	1,006
Total	**712**	**2,537**

Short-term debt primarily represents issued commercial paper and short-term loans from various banks.

In June 2013, the Company repaid at maturity the EUR 700 million 4.625% bonds.

Long-term debt
The Company's long-term debt at June 30, 2013, and December 31, 2012, amounted to $7,417 million and $7,534 million, respectively.

Note 9. Commitments and contingencies

Contingencies—Environmental

The Company is engaged in environmental clean-up activities at certain sites arising under various United States and other environmental protection laws and under certain agreements with third parties. In some cases, these environmental remediation actions are subject to legal proceedings, investigations or claims, and it is uncertain to what extent the Company is actually obligated to perform. Provisions for these unresolved matters have been set up if it is probable that the Company has incurred a liability and the amount of loss can be reasonably estimated. If a provision has been recognized for any of these matters the Company records an asset when it is probable that it will recover a portion of the costs expected to be incurred to settle them. Management is of the opinion, based upon information presently available, that the resolution of any such obligation and non-collection of recoverable costs would not have a further material adverse effect on the Company's consolidated financial statements.

The Company is involved in the remediation of environmental contamination at present or former facilities, primarily in the United States. The clean-up of these sites involves primarily soil and groundwater contamination. A significant portion of the provisions in respect of these contingencies reflects the provisions of acquired companies. A portion of one of the acquired entities' remediation liability is indemnified by a prior owner. Accordingly, an asset equal to that portion of the remediation liability is included in "Other non-current assets".

The total effect of the above environmental obligations on the Company's Consolidated Balance Sheets was as follows:

($ in millions)	June 30, 2013	December 31, 2012
Environmental provisions included in:		
Other provisions	42	33
Other non-current liabilities	85	73
	127	**106**

Provisions for the above estimated losses have not been discounted as the timing of payments cannot be reasonably estimated.

Contingencies—Regulatory, Compliance and Legal

Antitrust
In January 2007, the European Commission granted the Company full immunity from fines under its leniency program for the Company's involvement in anti-competitive practices in the Gas Insulated Switchgear (GIS) business. The Company's GIS business remains under investigation for alleged anti-competitive practices in certain other jurisdictions, including Brazil. 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.

In October 2009, the European Commission fined the Company euro 33.75 million (equivalent to $49 million on date of payment) for its involvement in anti-competitive practices in the power transformers business. In September 2012, the German Antitrust Authority (Bundeskartellamt) fined one of the Company's German subsidiaries euro 8.7 million (equivalent to approximately $11 million on date of payment) for its involvement in anti-competitive practices in the German power transformers business. The Company did not appeal either decision and it paid both fines in full.

The Company's cables business is under investigation for alleged anti-competitive practices in a number of jurisdictions, including the European Union and Brazil. The Company has received the European Commission's Statement of Objections concerning its investigation into the cables business and in June 2012 participated in the related Oral Hearing before the European Commission. The Company has also received an initial summary of the Brazilian Antitrust Authority's (CADE) allegations regarding its investigation into the cables business. 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, except, with respect to the Brazilian investigation, where the Company expects an unfavorable outcome.

In May 2012, the Brazilian Antitrust Authority opened an investigation into certain power businesses of the Company, including its FACTS and power transformers business. An informed judgment about the outcome of this investigation or the amount of potential loss or range of loss for the Company, if any, relating to this investigation cannot be made at this stage.

With respect to the foregoing matters which are still ongoing, management is cooperating fully with the antitrust authorities.

Suspect payments
In April 2005, the Company voluntarily disclosed to the United States Department of Justice (DoJ) and the United States Securities and Exchange Commission (SEC) certain suspect payments in its network management unit in the United States. Subsequently, the Company made additional voluntary disclosures to the DoJ and the SEC regarding suspect payments made by other Company subsidiaries in a number of countries in the Middle East, Asia, South America and Europe (including to an employee of an Italian power generation company) as well as by its former Lummus business. These payments were discovered by the Company as a result of the Company's internal audit program and compliance reviews.

In September 2010, the Company reached settlements with the DoJ and the SEC regarding their investigations into these matters and into suspect payments involving certain of the Company's subsidiaries in the United Nations Oil-for-Food Program. In connection with these settlements, the Company agreed to make payments to the DoJ and SEC totaling $58 million, which were settled in the fourth quarter of 2010. One subsidiary of the Company pled guilty to one count of conspiracy to violate the anti-bribery provisions of the U.S. Foreign Corrupt Practices Act and one count of violating those provisions. The Company entered into a deferred prosecution agreement and settled civil charges brought by the SEC. These settlements resolved the foregoing investigations. In lieu of an external compliance monitor, the DoJ and SEC have agreed to allow the Company to report on its continuing compliance efforts and the results of the review of its internal processes through September 2013.

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 anti-competitive 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 June 30, 2013, and December 31, 2012, the Company had aggregate liabilities of $189 million and $211 million, respectively, included in "Other provisions" and "Other non-current liabilities", for the above regulatory, compliance and legal contingencies. 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 results. 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.

	Maximum potential payments	
($ in millions)	**June 30, 2013**	**December 31, 2012**
Performance guarantees	147	149
Financial guarantees	78	83
Indemnification guarantees	50	190
Total	**275**	**422**

In respect of the above guarantees, the carrying amounts of liabilities at June 30, 2013, and December 31, 2012, were not significant.

Performance guarantees
Performance guarantees represent obligations where the Company guarantees the performance of a third party's product or service according to the terms of a contract. 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. Performance guarantees include surety bonds, advance payment guarantees and standby letters of credit. The significant performance guarantees are described below.

The Company retained obligations for guarantees related to the Power Generation business contributed in mid-1999 to the former ABB Alstom Power NV joint venture (Alstom Power NV). The guarantees primarily consist of performance guarantees and other miscellaneous guarantees under certain contracts such as indemnification for personal injuries and property damages, taxes and compliance with labor laws, environmental laws and patents. The guarantees are related to projects which are expected to be completed by 2013 but in some cases have no definite expiration date. In May 2000, the Company sold its interest in Alstom Power NV to Alstom SA (Alstom). As a result, Alstom and its subsidiaries have primary responsibility for performing the obligations that are the subject of the guarantees. Further, Alstom, the parent company and Alstom Power NV, have undertaken jointly and severally to fully indemnify and hold harmless the Company against any claims arising under such guarantees. Management's best estimate of the total maximum potential amount payable of quantifiable guarantees issued by the Company on behalf of its former Power Generation business was $65 million and $78 million at June 30, 2013, and December 31, 2012, respectively, and is subject to foreign exchange fluctuations. The Company has not experienced any losses related to guarantees issued on behalf of the former Power Generation business.

The Company is engaged in executing a number of projects as a member of consortia that include third parties. In certain of these cases, the Company guarantees not only its own performance but also the work of third parties. The original maturity dates of these guarantees range from one to six years. At June 30, 2013, and December 31, 2012, the maximum potential amount payable under these guarantees as a result of third-party non-performance was $69 million and $57 million, respectively.

Financial guarantees
Financial guarantees represent irrevocable assurances that the Company will make payment to a beneficiary in the event that a third party fails to fulfill its financial obligations and the beneficiary under the guarantee incurs a loss due to that failure.

At June 30, 2013, and December 31, 2012, the Company had a maximum potential amount payable of $78 million and $83 million, respectively, under financial guarantees outstanding. Of each of these amounts, $15 million and $19 million, respectively, was in respect of guarantees issued on behalf of companies in which the Company formerly had or has an equity interest. The guarantees outstanding have various maturity dates up to 2020.

Indemnification guarantees
The Company has indemnified certain purchasers of divested businesses for potential claims arising from the operations of the divested businesses. To the extent the maximum potential loss related to such indemnifications could not be calculated, no amounts have been included under maximum potential payments in the table above. Indemnifications for which maximum potential losses could not be calculated include indemnifications for legal claims. The significant indemnification guarantees for which maximum potential losses could be calculated are described below.

The Company issued, to the purchasers of Lummus Global, guarantees related to assets and liabilities divested in 2007. The maximum potential amount payable relating to this business, pursuant to the sales agreement, at each of June 30, 2013, and December 31, 2012, was $50 million.

The Company issued, to the purchasers of its interest in Jorf Lasfar, guarantees related to assets and liabilities divested in 2007. The maximum potential amount payable under such guarantees was $140 million at December 31, 2012. During the second quarter of 2013, a settlement agreement was reached and the Company has no further obligations with respect to these guarantees at June 30, 2013.

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)	**2013**	**2012**
Balance at January 1,	1,291	1,324
Warranties assumed through acquisitions	-	4
Claims paid in cash or in kind	(126)	(86)
Net increase in provision for changes in estimates, warranties issued and warranties expired	87	30
Exchange rate differences	(33)	(17)
Balance at June 30,	**1,219**	**1,255**

Note 10. Employee benefits

The Company operates defined benefit and 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. The Company also has several pension plans that are not required to be funded by 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:

	Six months ended June 30,			
	2013	2012	2013	2012
($ in millions)	Defined pension benefits		Other postretirement benefits	
Service cost	124	109	1	1
Interest cost	184	187	4	5
Expected return on plan assets	(237)	(235)	-	-
Amortization of prior service cost	16	20	(4)	(4)
Amortization of net actuarial loss	63	41	2	2
Net periodic benefit cost	**150**	**122**	**3**	**4**

	Three months ended June 30,			
	2013	2012	2013	2012
($ in millions)	Defined pension benefits		Other postretirement benefits	
Service cost	62	52	1	1
Interest cost	92	91	2	2
Expected return on plan assets	(119)	(115)	-	-
Amortization of prior service cost	8	10	(2)	(2)
Amortization of net actuarial loss	30	20	1	1
Net periodic benefit cost	**73**	**58**	**2**	**2**

Employer contributions were as follows:

	Six months ended June 30,			
	2013	2012	2013	2012
($ in millions)	Defined pension benefits		Other postretirement benefits	
Total contributions to defined benefit pension and other postretirement benefit plans	123	171	7	9
Of which, discretionary contributions to defined benefit pension plans	-	39	-	-

	Three months ended June 30,			
	2013	2012	2013	2012
($ in millions)	Defined pension benefits		Other postretirement benefits	
Total contributions to defined benefit pension and other postretirement benefit plans	63	87	3	5
Of which, discretionary contributions to defined benefit pension plans	-	7	-	-

The Company expects to make contributions totaling approximately $387 million and $18 million to its defined benefit pension plans and other postretirement benefit plans, respectively, for the full year 2013.

Note 11. Stockholders' equity

At the Annual General Meeting of Shareholders in April 2013, shareholders approved the payment of a dividend of 0.68 Swiss francs per share. The dividend was paid in May 2013 and amounted to $1,667 million.

Note 12. 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

	Six months ended June 30,		**Three months ended June 30,**	
($ in millions, except per share data in $)	**2013**	**2012**	**2013**	**2012**
Amounts attributable to ABB shareholders:				
Income from continuing operations, net of tax	1,439	1,336	771	651
Income (loss) from discontinued operations, net of tax	(12)	5	(8)	5
Net income	**1,427**	**1,341**	**763**	**656**
Weighted-average number of shares outstanding (in millions)	**2,296**	**2,293**	**2,297**	**2,293**
Basic earnings per share attributable to ABB shareholders:				
Income from continuing operations, net of tax	0.63	0.58	0.34	0.28
Income (loss) from discontinued operations, net of tax	(0.01)	-	(0.01)	0.01
Net income	**0.62**	**0.58**	**0.33**	**0.29**

Diluted earnings per share

	Six months ended June 30,		**Three months ended June 30,**	
($ in millions, except per share data in $)	**2013**	**2012**	**2013**	**2012**
Amounts attributable to ABB shareholders:				
Income from continuing operations, net of tax	1,439	1,336	771	651
Income (loss) from discontinued operations, net of tax	(12)	5	(8)	5
Net income	**1,427**	**1,341**	**763**	**656**
Weighted-average number of shares outstanding (in millions)	2,296	2,293	2,297	2,293
Effect of dilutive securities:				
Call options and shares	7	1	7	1
Dilutive weighted-average number of shares outstanding	**2,303**	**2,294**	**2,304**	**2,294**
Diluted earnings per share attributable to ABB shareholders:				
Income from continuing operations, net of tax	0.62	0.58	0.33	0.28
Income (loss) from discontinued operations, net of tax	-	-	-	0.01
Net income	**0.62**	**0.58**	**0.33**	**0.29**

Note 13. 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 translation adjustments	Unrealized gains (losses) on available-for-sale securities	Pension and other postretirement plan adjustments	Unrealized gains (losses) of cash flow hedge derivatives	Total OCI
Balance at January 1, 2013	**(580)**	**24**	**(2,004)**	**37**	**(2,523)**
Other comprehensive (loss) income before reclassifications	(490)	(4)	49	(3)	(448)
Amounts reclassified from OCI	-	(7)	54	(16)	31
Total other comprehensive (loss) income	(490)	(11)	103	(19)	(417)
Less:					
Amounts attributable to noncontrolling interests	(8)	-	1	-	(7)
Balance at June 30, 2013	**(1,062)**	**13**	**(1,902)**	**18**	**(2,933)**

The amounts reclassified out of OCI in respect of Unrealized gains (losses) on available-for-sale securities and Unrealized gains (losses) of cash flow hedge derivatives are not significant for the six and three months ended June 30, 2013. The following table shows details of amounts reclassified out of OCI in respect of Pension and other postretirement plan adjustments:

($ in millions) Details about OCI components	Location of (gains) losses reclassified from OCI	Six months ended June 30, 2013	Three months ended June 30, 2013
Pension and other postretirement plan adjustments:			
Amortization of prior service costs	Net periodic benefit cost(1)	12	6
Amortization of net actuarial losses	Net periodic benefit cost(1)	65	31
Total before tax		77	37
Tax	Provision for taxes	(23)	(12)
Amounts reclassified from OCI		**54**	**25**

(1) These components are included in the computation of net periodic benefit cost (see Note 10).

Note 14. 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 Discrete Automation and Motion, Low Voltage Products, Process Automation, Power Products and Power Systems. The remaining operations of the Company are included in Corporate and Other.

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

- **Discrete Automation and Motion:** manufactures and sells motors, generators, variable speed drives, rectifiers, excitation systems, robotics, programmable logic controllers, and related services for a wide range of applications in factory automation, process industries, and utilities.

- **Low Voltage Products:** manufactures products and systems that provide protection, control and measurement for electrical installations, as well as enclosures, switchboards, electronics and electromechanical devices for industrial machines, plants and related service. In addition the segment manufactures products for wiring and cable management, cable protection systems, power connection and safety. The segment also makes intelligent building control systems for home and building automation.

- **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 Products:** manufactures and sells high- and medium- voltage switchgear and apparatus, circuit breakers for all current and voltage levels, power and distribution transformers and sensors for electric, gas and water utilities and for industrial and commercial customers.

- **Power Systems:** designs, installs and upgrades high-efficiency transmission and distribution systems and power plant automation and electrification solutions, including monitoring and control products, software and services and incorporating components manufactured by both the Company and by third parties.

- **Corporate and Other:** includes headquarters, central research and development, the Company's real estate activities, Group treasury operations and other minor activities.

The Company evaluates the profitability of its segments based on Operational EBITDA, which represents income from operations excluding depreciation and amortization, restructuring and restructuring-related expenses, and 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 EBITDA. 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 EBITDA, the reconciliations of consolidated Operational EBITDA to income from continuing operations before taxes for the six and three months ended June 30, 2013 and 2012, as well as total assets at June 30, 2013, and December 31, 2012.

	Six months ended June 30, 2013		
($ in millions)	**Third-party revenues**	**Intersegment revenues**	**Total revenues**
Discrete Automation and Motion	4,207	482	4,689
Low Voltage Products	3,518	188	3,706
Process Automation	3,998	110	4,108
Power Products	4,321	949	5,270
Power Systems	3,837	176	4,013
Corporate and Other	59	782	841
Intersegment elimination	-	(2,687)	(2,687)
Consolidated	**19,940**	**-**	**19,940**

	Six months ended June 30, 2012		
($ in millions)	**Third-party revenues**	**Intersegment revenues**	**Total revenues**
Discrete Automation and Motion	4,177	433	4,610
Low Voltage Products	2,613	175	2,788
Process Automation	3,917	105	4,022
Power Products	4,284	839	5,123
Power Systems	3,556	123	3,679
Corporate and Other	23	748	771
Intersegment elimination	-	(2,423)	(2,423)
Consolidated	**18,570**	**-**	**18,570**

	Three months ended June 30, 2013		
($ in millions)	**Third-party revenues**	**Intersegment revenues**	**Total revenues**
Discrete Automation and Motion	2,122	240	2,362
Low Voltage Products	1,837	92	1,929
Process Automation	2,077	53	2,130
Power Products	2,287	494	2,781
Power Systems	1,870	92	1,962
Corporate and Other	32	385	417
Intersegment elimination	-	(1,356)	(1,356)
Consolidated	**10,225**	**-**	**10,225**

	Three months ended June 30, 2012		
($ in millions)	**Third-party revenues**	**Intersegment revenues**	**Total revenues**
Discrete Automation and Motion	2,134	234	2,368
Low Voltage Products	1,504	92	1,596
Process Automation	2,002	50	2,052
Power Products	2,191	419	2,610
Power Systems	1,806	66	1,872
Corporate and Other	26	379	405
Intersegment elimination	-	(1,240)	(1,240)
Consolidated	**9,663**	**-**	**9,663**

($ in millions)	Six months ended June 30, 2013	Six months ended June 30, 2012	Three months ended June 30, 2013	Three months ended June 30, 2012
Operational EBITDA:				
Discrete Automation and Motion	844	863	428	446
Low Voltage Products	687	483	367	286
Process Automation	511	511	252	268
Power Products	781	750	409	387
Power Systems	328	236	159	119
Corporate and Other and Intersegment elimination	(132)	(144)	(54)	(35)
Consolidated Operational EBITDA	**3,019**	**2,699**	**1,561**	**1,471**
Depreciation and amortization	(639)	(534)	(318)	(281)
Restructuring and restructuring-related expenses	(54)	(34)	(35)	(17)
Acquisition-related expenses and certain non-operational items	(32)	(71)	(28)	(90)
Foreign exchange/commodity timing differences in income from operations:				
Unrealized gains and losses on derivatives (foreign exchange, commodities, embedded derivatives)	(77)	16	12	(113)
Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized	(11)	(26)	(3)	(14)
Unrealized foreign exchange movements on receivables/payables (and related assets/liabilities)	34	(1)	(1)	45
Income from operations	**2,240**	**2,049**	**1,188**	**1,001**
Interest and dividend income	35	38	17	19
Interest and other finance expense	(177)	(144)	(80)	(87)
Income from continuing operations before taxes	**2,098**	**1,943**	**1,125**	**933**

($ in millions)	Total assets[1] June 30, 2013	Total assets[1] December 31, 2012
Discrete Automation and Motion	9,565	9,416
Low Voltage Products	9,023	9,534
Process Automation	4,873	4,847
Power Products	7,848	7,701
Power Systems	7,940	8,083
Corporate and Other	6,264	9,489
Consolidated	**45,513**	**49,070**

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