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 12).

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 release into net income the entire amount of a cumulative translation adjustment related to its investment in a foreign entity when as a parent it either sells a part or all of its investment in the foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets within the foreign entity. 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 Company does not believe that this update will have a material impact on its consolidated financial statements.

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 does not believe that this update will have a material impact on its consolidated financial statements.

Note 3. Acquisitions

Acquisitions were as follows:

($ in millions, except number of acquired businesses)[1]	Year ended December 31,		Three months ended December 31,	
	2013	2012	2013	2012
Acquisitions (net of cash acquired)[2]	897	3,643	24	8
Aggregate excess of purchase price over fair value of net assets acquired[3]	525	2,895	53	(378)
Number of acquired businesses	7	9	1	2

(1) Amounts for the year ended December 31, 2013, relate primarily to the acquisition of Power-One. Amounts for the year ended December 31, 2012, relate primarily to the acquisition of Thomas & Betts.
(2) Excluding changes in cost and equity investments but including $2 million (in the year ended December 31, 2013) and $5 million (in the year ended December 31, 2012) representing the fair value of replacement vested stock options issued to Power-One and Thomas & Betts employees, respectively, at the corresponding acquisition dates.
(3) Recorded as goodwill. For all periods presented, amounts include adjustments arising during the measurement period of acquisitions. In the year ended December 31, 2013, and the three months ended December 31, 2012, adjustments amounted to $63 million and $386 million, respectively, primarily reflecting a reduction in certain deferred tax liabilities related to Thomas & Betts.

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 July 25, 2013, the Company acquired all outstanding shares of Power-One, Inc. (Power-One) for $6.35 per share in cash. The resulting cash outflows for the Company amounted to $737 million, representing $705 million for the purchase of the shares (net of cash acquired) and $32 million related to the cash settlement of Power-One stock options held at the acquisition date. Power-One is a designer and manufacturer of photovoltaic inverters, as well as a provider of renewable energy and energy-efficient power conversion and power management solutions.

The aggregate preliminary allocation of the purchase consideration for business acquisitions in the year ended December 31, 2013, is as follows:

($ in millions)	Allocated amounts[1]	Weighted-average useful life
Intangible assets	206	7 years
Fixed assets	135	
Deferred tax liabilities	(190)	
Other assets and liabilities, net	158	
Goodwill[2]	588	
Total consideration (net of cash acquired)	**897**	

(1) Excludes measurement period adjustments related to prior year acquisitions.
(2) The Company does not expect the majority of goodwill recognized to be deductible for income tax purposes.

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 stock 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 the year and three months ended December 31, 2012, include total revenues of $1,541 million and $603 million, respectively, related to Thomas & Betts since the date of acquisition. After acquisition-related charges, the Company's Consolidated Income Statements for the year and three months ended December 31, 2012, include a net loss of $10 million and $2 million, respectively, 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 year and three months ended December 31, 2012, as if Thomas & Betts had been acquired on January 1, 2011.

($ in millions)	Year ended December 31, 2012	Three months ended December 31, 2012
Total revenues	40,251	11,021
Income from continuing operations, net of tax	2,924	626

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.

	Adjustments	
($ in millions)	**Year ended December 31, 2012**	**Three months ended December 31, 2012**
Impact on cost of sales from additional amortization of intangible assets (excluding order backlog capitalized upon acquisition)	(26)	-
Impact on cost of sales from amortization of order backlog capitalized upon acquisition	11	3
Impact on cost of sales from fair valuing acquired inventory	31	-
Impact on cost of sales from additional depreciation of fixed assets	(12)	-
Interest expense on Thomas & Betts debt	5	-
Impact on selling, general and administrative expenses from Thomas & Betts stock-option plans adjustments	16	-
Impact on selling, general and administrative expenses from acquisition-related costs	56	-
Impact on interest and other finance expense from bridging facility costs	13	-
Other	(5)	-
Income taxes	(7)	(1)
Total pro forma adjustments	**82**	**2**

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)	2,895
Exchange rate differences	62
Balance at December 31, 2012	**10,226**
Additions during the period(1)(3)	525
Goodwill allocated to disposals	(11)
Exchange rate differences	(70)
Balance at December 31, 2013	**10,670**

(1) Includes measurement period adjustments related to prior year acquisitions.
(2) 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.
(3) Includes primarily goodwill in respect of Power-One, acquired in July 2013, which has been allocated to the Discrete Automation and Motion operating segment.

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:

($ in millions)	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value	Cash and equivalents	Marketable securities and short-term investments
	December 31, 2013					
Cash	2,414			2,414	2,414	
Time deposits	3,556			3,556	3,538	18
Other short-term investments	9			9	-	9
Debt securities available-for-sale:						
– U.S. government obligations	103	2	(1)	104	-	104
– European government obligations	24	1	-	25	-	25
– Other government obligations	3	-	-	3	-	3
– Corporate	212	4	(1)	215	69	146
Equity securities available-for-sale	154	9	(4)	159	-	159
Total	**6,475**	**16**	**(6)**	**6,485**	**6,021**	**464**

($ in millions)	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value	Cash and equivalents	Marketable securities and short-term investments
	December 31, 2012					
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. At December 31, 2013, the amortized cost, gross unrecognized gain and fair value (based on quoted market prices) of these securities were $104 million, $17 million and $121 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. 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 5. 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 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)	December 31, 2013	December 31, 2012
Foreign exchange contracts	19,351	19,724
Embedded foreign exchange derivatives	3,049	3,572
Interest rate contracts	4,693	3,983

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	
		December 31, 2013	December 31, 2012
Copper swaps	metric tonnes	42,866	45,222
Aluminum swaps	metric tonnes	3,525	5,495
Nickel swaps	metric tonnes	18	21
Lead swaps	metric tonnes	7,100	13,025
Zinc swaps	metric tonnes	300	225
Silver swaps	ounces	1,936,581	1,415,322
Electricity futures	megawatt hours	279,995	334,445
Crude oil swaps	barrels	113,000	135,471

Equity derivatives:
At December 31, 2013 and 2012, the Company held 67 million and 67 million cash-settled call options indexed to ABB Ltd shares (conversion ratio 5:1) with a total fair value of $56 million and $26 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 December 31, 2013 and 2012, "Accumulated other comprehensive loss" included net unrealized gains of $22 million and $37 million, respectively, net of tax, on derivatives designated as cash flow hedges. Of the amount at December 31, 2013, net gains of $18 million are expected to be reclassified to earnings in the following 12 months. At December 31, 2013, the longest maturity of a derivative classified as a cash flow hedge was 69 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 year and three months ended December 31, 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:

Year ended December 31, 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	22	Total revenues	52	Total revenues	-
		Total cost of sales	(1)	Total cost of sales	-
Commodity contracts	(5)	Total cost of sales	(5)	Total cost of sales	-
Cash-settled call options	16	SG&A expenses(1)	8	SG&A expenses(1)	-
Total	**33**		**54**		**-**

Year ended December 31, 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	74	Total revenues	69	Total revenues	-
		Total cost of sales	(12)	Total cost of sales	-
Commodity contracts	4	Total cost of sales	(4)	Total cost of sales	-
Cash-settled call options	(4)	SG&A expenses(1)	(11)	SG&A expenses(1)	-
Total	**74**		**42**		**-**

Three months ended December 31, 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	(3)	Total revenues	12	Total revenues	-
		Total cost of sales	5	Total cost of sales	-
Commodity contracts	1	Total cost of sales	(2)	Total cost of sales	-
Cash-settled call options	11	SG&A expenses(1)	5	SG&A expenses(1)	-
Total	**9**		**20**		**-**

Three months ended December 31, 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	(1)	Total revenues	22	Total revenues	-
		Total cost of sales	(4)	Total cost of sales	-
Commodity contracts	(5)	Total cost of sales	(2)	Total cost of sales	-
Cash-settled call options	3	SG&A expenses(1)	-	SG&A expenses(1)	-
Total	**(3)**		**16**		**-**

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

Net derivative gains of $43 million and $28 million, both net of tax, were reclassified from "Accumulated other comprehensive loss" to earnings during the year ended December 31, 2013 and 2012, respectively. During the three months ended December 31, 2013 and 2012, net derivative gains of $15 million and $12 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 the 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 year and three months ended December 31, 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:

Year ended December 31, 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	(34)	Interest and other finance expense	35

Year ended December 31, 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	6	Interest and other finance expense	(6)

Three months ended December 31, 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	(18)	Interest and other finance expense	19

Three months ended December 31, 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	(6)	Interest and other finance expense	6

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				
		Year ended December 31,		Three months ended December 31,	
Type of derivative not designated as a hedge	Location	2013	2012	2013	2012
Foreign exchange contracts	Total revenues	(95)	318	(34)	32
	Total cost of sales	80	(193)	30	5
	SG&A expenses[(1)]	(1)	(3)	-	-
	Interest and other finance expense	223	68	111	85
Embedded foreign exchange contracts	Total revenues	101	(148)	25	(1)
	Total cost of sales	(10)	28	(9)	(1)
Commodity contracts	Total cost of sales	(50)	10	(4)	(14)
	Interest and other finance expense	1	1	-	-
Interest rate contracts	Interest and other finance expense	(3)	(1)	-	(3)
Total		**246**	**80**	**119**	**103**

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

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

	December 31, 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	21	8	10	3
Commodity contracts	2	-	1	-
Interest rate contracts	-	14	-	7
Cash-settled call options	14	40	-	-
Total	**37**	**62**	**11**	**10**
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	272	42	121	30
Commodity contracts	6	1	15	1
Cash-settled call options	-	2	-	-
Embedded foreign exchange derivatives	57	21	55	11
Total	**335**	**66**	**191**	**42**
Total fair value	**372**	**128**	**202**	**52**
Thereof, subject to close-out netting agreements	**284**	**63**	**130**	**40**

($ in millions)	December 31, 2012 Derivative assets: Current in "Other current assets"	Derivative assets: Non-current in "Other non-current assets"	Derivative liabilities: Current in "Other current liabilities"	Derivative 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 December 31, 2013 and 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, foreign exchange swaps and forward rate agreements, as well as financing receivables and debt.

Level 3: Valuation inputs are based on the Company's assumptions of relevant market data (unobservable inputs). The impairments of certain equity-method investments were calculated using Level 3 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:

	December 31, 2013			
($ in millions)	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Assets				
Available-for-sale securities in "Cash and equivalents":				
Debt securities—Corporate	-	69	-	69
Available-for-sale securities in "Marketable securities and short-term investments":				
Equity securities	-	159	-	159
Debt securities—U.S. government obligations	104	-	-	104
Debt securities—European government obligations	25	-	-	25
Debt securities—Other government obligations	-	3	-	3
Debt securities—Corporate	-	146	-	146
Derivative assets—current in "Other current assets"	-	372	-	372
Derivative assets—non-current in "Other non-current assets"	-	128	-	128
Liabilities				
Derivative liabilities—current in "Other current liabilities"	3	199	-	202
Derivative liabilities—non-current in "Other non-current liabilities"	-	52	-	52

	December 31, 2012			
($ in millions)	**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—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, 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 in the year and three months ended December 31, 2013. During 2012, impairment charges of $87 million were recorded as an adjustment to the fair value of certain equity-method investments, of which $67 million was recorded during the three months ended December 31, 2012. The non-recurring fair value measures were determined using a discounted cash flow model adjusted for industry and market conditions using Level 3 inputs and the resulting fair value of those assets remeasured during 2012 and still held at December 31, 2012, was not significant. Other non-recurring fair value measurements in 2012 were not significant.

Disclosure about financial instruments carried on a cost basis

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

	December 31, 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	2,414	2,414	-	-	2,414
Time deposits	3,538	-	3,538	-	3,538
Marketable securities and short-term investments (excluding available-for-sale securities):					
Time deposits	18	-	18	-	18
Other short-term investments	9	9	-	-	9
Short-term loans in “Receivables, net”	6	-	6	-	6
Other non-current assets:					
Loans granted	54	-	52	-	52
Held-to-maturity securities	104	-	121	-	121
Restricted cash and cash deposits	276	95	219	-	314
Liabilities					
Short-term debt and current maturities of long-term debt, excluding finance lease liabilities	424	107	317	-	424
Long-term debt, excluding finance lease liabilities	7,475	7,540	34	-	7,574
Non-current deposit liabilities in “Other non-current liabilities”	279	-	338	-	338

	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	242	-	322
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
Non-current deposit liabilities in “Other non-current liabilities”	283	-	359	-	359

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 (i) 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), (ii) held-to-maturity securities (see Note 4) whose fair values are based on quoted market prices in inactive markets (Level 2 inputs), (iii) restricted cash whose fair values approximates the carrying amounts (Level 1) and (iv) 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 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).

- *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 7. Debt

The Company's total debt at December 31, 2013 and 2012, amounted to $8,023 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)	**December 31, 2013**	**December 31, 2012**
Short-term debt	423	1,531
Current maturities of long-term debt	30	1,006
Total	**453**	**2,537**

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

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

At January 31, 2014, the amount of commercial paper outstanding had increased from $100 million at December 31, 2013, to $1,253 million, with a corresponding increase in cash and equivalents.

Long-term debt
The Company's long-term debt at December 31, 2013 and 2012, amounted to $7,570 million and $7,534 million, respectively.

Note 8. 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. The lower end of an estimated range is accrued when a single best estimate is not determinable. The required amount of the provisions may change in the future as developments occur.

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)	**December 31, 2013**	**December 31, 2012**
Environmental provisions included in:		
Other provisions	37	33
Other non-current liabilities	116	73
	153	**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

The Company's cables business is under investigation for alleged anticompetitive practices in a number of jurisdictions, including Brazil and the European Union. In December 2013, the Company agreed with the Brazilian Antitrust Authority (CADE) to settle its ongoing investigation into the Company's involvement in these anticompetitive practices and the Company agreed to pay a fine of approximately 1.5 million Brazilian reals (equivalent to approximately $1 million on date of payment). In the European Union, 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. 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.

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. 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 Italy, one of the Company's recently acquired subsidiaries was raided in October 2013 by the Italian Antitrust Agency for alleged anticompetitive practices. 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.

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 anticompetitive practices in the German power transformers business.

With respect to those aforementioned 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 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. Further to the Fraud Section of the DoJ determining that the Company has fully complied with all its obligations under the deferred prosecution agreement, on October 1, 2013, the competent court in the U.S. agreed to dismiss all criminal charges against the Company in relation to these matters.

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 December 31, 2013 and 2012, the Company had aggregate liabilities of $245 million and $211 million, respectively, 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 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)	**December 31, 2013**	**December 31, 2012**
Performance guarantees	149	149
Financial guarantees	77	83
Indemnification guarantees	50	190
Total	**276**	**422**

In respect of the above guarantees, the carrying amounts of liabilities at December 31, 2013 and 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. These guarantees have no fixed 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 December 31, 2013 and 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 December 31, 2013 and 2012, the maximum potential amount payable under these guarantees as a result of third-party non-performance was $70 million and $57 million, respectively.

Financial guarantees and commercial commitments

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 December 31, 2013 and 2012, the Company had a maximum potential amount payable of $77 million and $83 million, respectively, under financial guarantees outstanding. 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.

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.

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 December 31, 2013 and 2012, was $50 million.

The Company issued, to the purchasers of its interest in Jorf Lasfar Energy Company S.C.A., 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 December 31, 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	111	4
Claims paid in cash or in kind	(294)	(219)
Net increase in provision for changes in estimates, warranties issued and warranties expired	245	149
Exchange rate differences	9	33
Balance at December 31,	**1,362**	**1,291**

Note 9. 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:

	Year ended December 31,			
	2013	**2012**	**2013**	**2012**
($ in millions)	**Defined pension benefits**		**Other postretirement benefits**	
Service cost	249	221	1	1
Interest cost	373	396	9	11
Expected return on plan assets	(479)	(494)	-	-
Amortization of prior service cost	34	42	(9)	(9)
Amortization of net actuarial loss	136	98	4	4
Curtailments, settlements and special termination benefits	1	2	2	-
Net periodic benefit cost	**314**	**265**	**7**	**7**

	Three months ended December 31,			
	2013	**2012**	**2013**	**2012**
($ in millions)	**Defined pension benefits**		**Other postretirement benefits**	
Service cost	61	50	-	-
Interest cost	92	102	2	2
Expected return on plan assets	(118)	(125)	-	-
Amortization of prior service cost	8	11	(2)	(2)
Amortization of net actuarial loss	43	36	1	1
Curtailments, settlements and special termination benefits	1	2	2	-
Net periodic benefit cost	**87**	**76**	**3**	**1**

Employer contributions were as follows:

	Year ended December 31,			
	2013	2012	2013	2012
($ in millions)	Defined pension benefits		Other postretirement benefits	
Total contributions to defined benefit pension and other postretirement benefit plans	403	347	15	15
Of which, discretionary contributions to defined benefit pension plans	164	83	-	-

	Three months ended December 31,			
	2013	2012	2013	2012
($ in millions)	Defined pension benefits		Other postretirement benefits	
Total contributions to defined benefit pension and other postretirement benefit plans	87	98	4	2
Of which, discretionary contributions to defined benefit pension plans	25	25	-	-

In 2013, the discretionary contributions included available-for-sale debt securities having a fair value at the contribution date of $160 million to certain of the Company's pension plans in Germany and the United Kingdom, of which $25 million was contributed to the pension plan in the United Kingdom in the three months ended December 31, 2013. In 2012, the Company contributed available-for-sale securities having a fair value at the contribution date of $42 million to certain of the Company's pension plans in the United Kingdom and the United States, of which $24 million was contributed to the pension plan in the United Kingdom in the three months ended December 31, 2012.

The Company expects to make contributions totaling approximately $310 million and $18 million to its defined benefit pension plans and other postretirement benefit plans, respectively, during 2014.

Note 10. 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.

In the fourth quarter of 2013, the Company delivered 3.7 million shares, from treasury stock, under the Employee Share Acquisition Plan.

Note 11. 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

	Year ended December 31,		**Three months ended December 31,**	
($ in millions, except per share data in $)	**2013**	**2012**	**2013**	**2012**
Amounts attributable to ABB shareholders:				
Income from continuing operations, net of tax	2,824	2,700	547	604
Income (loss) from discontinued operations, net of tax	(37)	4	(22)	-
Net income	**2,787**	**2,704**	**525**	**604**
Weighted-average number of shares outstanding (in millions)	**2,297**	**2,293**	**2,299**	**2,295**
Basic earnings per share attributable to ABB shareholders:				
Income from continuing operations, net of tax	1.23	1.18	0.24	0.26
Income (loss) from discontinued operations, net of tax	(0.02)	-	(0.01)	-
Net income	**1.21**	**1.18**	**0.23**	**0.26**

Diluted earnings per share

	Year ended December 31,		**Three months ended December 31,**	
($ in millions, except per share data in $)	**2013**	**2012**	**2013**	**2012**
Amounts attributable to ABB shareholders:				
Income from continuing operations, net of tax	2,824	2,700	547	604
Income (loss) from discontinued operations, net of tax	(37)	4	(22)	-
Net income	**2,787**	**2,704**	**525**	**604**
Weighted-average number of shares outstanding (in millions)	2,297	2,293	2,299	2,295
Effect of dilutive securities:				
Call options and shares	8	2	9	3
Dilutive weighted-average number of shares outstanding	**2,305**	**2,295**	**2,308**	**2,298**
Diluted earnings per share attributable to ABB shareholders:				
Income from continuing operations, net of tax	1.23	1.18	0.24	0.26
Income (loss) from discontinued operations, net of tax	(0.02)	-	(0.01)	-
Net income	**1.21**	**1.18**	**0.23**	**0.26**

Note 12. 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	141	(4)	275	28	440
Amounts reclassified from OCI	-	(13)	122	(43)	66
Total other comprehensive (loss) income	141	(17)	397	(15)	506
Less:					
Amounts attributable to noncontrolling interests	(8)	-	3	-	(5)
Balance at December 31, 2013	**(431)**	**7**	**(1,610)**	**22**	**(2,012)**

The following table reflects amounts reclassified out of OCI in respect of Pension and other postretirement plan adjustments and Unrealized gains (losses) of cash flow hedge derivatives:

($ in millions) Details about OCI components	Location of (gains) losses reclassified from OCI	Year ended December 31, 2013	Three months ended December 31, 2013
Pension and other postretirement plan adjustments:			
Amortization of prior service costs	Net periodic benefit cost(1)	25	6
Amortization of net actuarial losses	Net periodic benefit cost(1)	140	44
Total before tax		165	50
Tax	Provision for taxes	(43)	(10)
Amounts reclassified from OCI		**122**	**40**
Unrealized gains (losses) of cash flow hedge derivatives:			
Foreign exchange contracts	Total revenues	(52)	(12)
	Total cost of sales	1	(5)
Commodity contracts	Total cost of sales	5	2
Cash-settled call options	SG&A expenses(2)	(8)	(5)
Total before tax		(54)	(20)
Tax	Provision for taxes	11	5
Amounts reclassified from OCI		**(43)**	**(15)**

(1) These components are included in the computation of net periodic benefit cost (see Note 9).
(2) SG&A expenses represent "Selling, general and administrative expenses".

The amounts in respect of Unrealized gains (losses) on available-for-sale securities are not significant for the year and three months ended December 31, 2013.

Note 13. Restructuring and related expenses

In 2013 and 2012, the Company executed minor restructuring-related activities and incurred expenses of $252 million and $180 million, respectively, which were mainly recorded in total cost of sales. Expenses for the three months ended December 31, 2013 and 2012, amounted to $158 million and $125 million, respectively. The amount for the three months ended December 31, 2013, included approximately $50 million of additional restructuring-related charges within the Power Systems segment, while the amount for the three months ended December 31, 2012, included approximately $40 million related to the repositioning of the Power Systems segment (including the closing of engineering, procurement and construction (EPC) operations in more than 10 countries) announced in December 2012.

	Year ended December 31,		Three months ended December 31,	
($ in millions)	**2013**	**2012**	**2013**	**2012**
Employee severance costs	154	92	90	48
Estimated contract settlement, loss order and other costs	78	72	58	63
Inventory and long-lived asset impairments	20	16	10	14
Total	**252**	**180**	**158**	**125**

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, programmable logic controllers, 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.

- **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 business 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, and the reconciliations of consolidated Operational EBITDA to income from continuing operations before taxes for the year and three months ended December 31, 2013 and 2012, as well as total assets at December 31, 2013 and 2012.

	Year ended December 31, 2013		
($ in millions)	**Third-party revenues**	**Intersegment revenues**	**Total revenues**
Discrete Automation and Motion	8,909	1,006	9,915
Low Voltage Products	7,338	391	7,729
Process Automation	8,287	210	8,497
Power Products	9,096	1,936	11,032
Power Systems	8,025	350	8,375
Corporate and Other	193	1,583	1,776
Intersegment elimination	-	(5,476)	(5,476)
Consolidated	**41,848**	**-**	**41,848**

	Year ended December 31, 2012		
($ in millions)	**Third-party revenues**	**Intersegment revenues**	**Total revenues**
Discrete Automation and Motion	8,480	925	9,405
Low Voltage Products	6,276	362	6,638
Process Automation	7,946	210	8,156
Power Products	8,987	1,730	10,717
Power Systems	7,575	277	7,852
Corporate and Other	72	1,505	1,577
Intersegment elimination	-	(5,009)	(5,009)
Consolidated	**39,336**	**-**	**39,336**

	Three months ended December 31, 2013		
($ in millions)	**Third-party revenues**	**Intersegment revenues**	**Total revenues**
Discrete Automation and Motion	2,416	271	2,687
Low Voltage Products	1,910	112	2,022
Process Automation	2,207	54	2,261
Power Products	2,546	524	3,070
Power Systems	2,216	84	2,300
Corporate and Other	78	413	491
Intersegment elimination	-	(1,458)	(1,458)
Consolidated	**11,373**	**-**	**11,373**

Notes to the Interim Consolidated Financial Information (unaudited)

($ in millions)	Three months ended December 31, 2012 Third-party revenues	Intersegment revenues	Total revenues
Discrete Automation and Motion	2,206	283	2,489
Low Voltage Products	1,867	103	1,970
Process Automation	2,173	57	2,230
Power Products	2,561	507	3,068
Power Systems	2,188	84	2,272
Corporate and Other	26	397	423
Intersegment elimination	-	(1,431)	(1,431)
Consolidated	**11,021**	**-**	**11,021**

($ in millions)	Year ended December 31, 2013	Year ended December 31, 2012	Three months ended December 31, 2013	Three months ended December 31, 2012
Operational EBITDA:				
Discrete Automation and Motion	1,783	1,735	463	435
Low Voltage Products	1,468	1,219	386	370
Process Automation	1,096	1,003	296	259
Power Products	1,637	1,585	467	461
Power Systems	419	290	(50)	(55)
Corporate and Other and Intersegment elimination	(328)	(277)	(144)	(97)
Consolidated Operational EBITDA	**6,075**	**5,555**	**1,418**	**1,373**
Depreciation and amortization	(1,318)	(1,182)	(352)	(341)
Restructuring and restructuring-related expenses	(252)	(180)	(158)	(125)
Acquisition-related expenses and certain non-operational items	(181)	(199)	(89)	(79)
Foreign exchange/commodity timing differences in income from operations:				
Unrealized gains and losses on derivatives (foreign exchange, commodities, embedded derivatives)	60	135	(7)	10
Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized	14	(28)	20	22
Unrealized foreign exchange movements on receivables/payables (and related assets/liabilities)	(11)	(43)	(9)	3
Income from operations	**4,387**	**4,058**	**823**	**863**
Interest and dividend income	69	73	19	18
Interest and other finance expense	(390)	(293)	(91)	(55)
Income from continuing operations before taxes	**4,066**	**3,838**	**751**	**826**

($ in millions)	Total assets(1) December 31, 2013	Total assets(1) December 31, 2012
Discrete Automation and Motion	10,931	9,416
Low Voltage Products	9,389	9,534
Process Automation	4,537	4,847
Power Products	7,669	7,701
Power Systems	7,905	8,083
Corporate and Other	7,633	9,489
Consolidated	**48,064**	**49,070**

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