Q1 2015
Financial Information

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Financial Information

Key Figures

($ in millions, unless otherwise indicated)	Q1 2015	Q1 2014	Change US$	Change Like-for-like[1]
Orders	10,404	10,358	0%	+15%
Revenues	8,555	9,471	-10%	+3%
Operational EBITA[2]	949	1,039	-9%	+5%
as % of operational revenues[1]	11.1%	11.0%	+0.1 pts	
Net income	564	544	+4%	
Basic earnings per share ($)	0.25	0.24		
Operational earnings per share[1] ($) (constant currency basis)	0.31	0.29		
Cash flow from operating activities	53	(45)	n.a.	

[1] For a reconciliation of non-GAAP measures see Supplemental Reconciliations and Definitions on page 29.
[2] For a reconciliation of Operational EBITA to Income from continuing operations before taxes see Note 11 to the Interim Consolidated Financial Information (unaudited) on page 26.

($ in millions, unless otherwise indicated)		Q1 2015	Q1 2014	Change US$	Change Local	Change Like-for-like
Orders	**ABB Group**	**10,404**	**10,358**	**0%**	**13%**	**15%**
	Discrete Automation and Motion	2,569	2,816	-9%	-1%	-1%
	Low Voltage Products	1,703	1,975	-14%	-4%	2%
	Process Automation	1,921	2,004	-4%	10%	16%
	Power Products	2,656	2,725	-3%	7%	7%
	Power Systems	2,394	1,490	61%	90%	90%
	Corporate and Other (incl. inter-division eliminations)	(839)	(652)			
Revenues	**ABB Group**	**8,555**	**9,471**	**-10%**	**0%**	**3%**
	Discrete Automation and Motion	2,271	2,381	-5%	4%	4%
	Low Voltage Products	1,555	1,882	-17%	-8%	-1%
	Process Automation	1,579	1,943	-19%	-8%	-4%
	Power Products	2,275	2,391	-5%	4%	4%
	Power Systems	1,472	1,608	-8%	4%	4%
	Corporate and Other (incl. inter-division eliminations)	(597)	(734)			
Operational EBITA	**ABB Group**	**949**	**1,039**	**-9%**	**1%**	**5%**
	Discrete Automation and Motion	318	352	-10%	0%	0%
	Low Voltage Products	243	299	-19%	-8%	1%
	Process Automation	192	245	-22%	-13%	-11%
	Power Products	253	304	-17%	-7%	-7%
	Power Systems	33	(54)	n.a.	n.a.	n.a.
	Corporate and Other (incl. inter-division eliminations)	(90)	(107)			
Operational EBITA %	**ABB Group**	**11.1%**	**11.0%**			
	Discrete Automation and Motion	14.2%	14.8%			
	Low Voltage Products	15.6%	15.9%			
	Process Automation	12.2%	12.6%			
	Power Products	11.2%	12.7%			
	Power Systems	2.2%	-3.3%			
Income from operations	**ABB Group**	**859**	**855**			
	Discrete Automation and Motion	300	326			
	Low Voltage Products	217	256			
	Process Automation	186	219			
	Power Products	240	272			
	Power Systems	4	(102)			
	Corporate and Other (incl. inter-division eliminations)	(88)	(116)			
Income from operations %	**ABB Group**	**10.0%**	**9.0%**			
	Discrete Automation and Motion	13.2%	13.7%			
	Low Voltage Products	14.0%	13.6%			
	Process Automation	11.8%	11.3%			
	Power Products	10.5%	11.4%			
	Power Systems	0.3%	-6.3%			

Operational EBITA

($ in millions, unless otherwise indicated)	ABB		Discrete Automation and Motion		Low Voltage Products		Process Automation		Power Products		Power Systems	
	Q1 15	Q1 14	Q1 15	Q1 14	Q1 15	Q1 14	Q1 15	Q1 14	Q1 15	Q1 14	Q1 15	Q1 14
Revenues	8,555	9,471	2,271	2,381	1,555	1,882	1,579	1,943	2,275	2,391	1,472	1,608
FX/commodity timing differences in total revenues	(37)	5	(34)	(6)	4	1	(7)	(4)	(17)	(4)	16	19
Operational revenues	8,518	9,476	2,237	2,375	1,559	1,883	1,572	1,939	2,258	2,387	1,488	1,627
Income (loss) from operations	859	855	300	326	217	256	186	219	240	272	4	(102)
Acquisition-related amortization	83	101	32	34	25	30	3	4	3	5	14	22
Restructuring and restructuring-related expenses	26	47	3	1	6	8	1	20	11	8	4	8
Gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items	11	11	–	(3)	1	4	(1)	1	1	5	–	1
FX/commodity timing differences in income from operations	(30)	25	(17)	(6)	(6)	1	3	1	(2)	14	11	17
Operational EBITA	949	1,039	318	352	243	299	192	245	253	304	33	(54)
Operational EBITA margin (%)	11.1	11.0	14.2	14.8	15.6	15.9	12.2	12.6	11.2	12.7	2.2	-3.3

Orders received and revenues by region

($ in millions, unless otherwise indicated)	Orders received		*Change*			Revenues		*Change*		
	Q1 15	Q1 14	*US$*	*Local*	*Like-for-like*	Q1 15	Q1 14	*US$*	*Local*	*Like-for-like*
Europe	3,962	3,891	2%	25%	27%	2,804	3,375	-17%	0%	2%
The Americas	2,739	2,763	-1%	4%	9%	2,652	2,732	-3%	2%	8%
Asia, Middle East and Africa	3,703	3,704	0%	7%	8%	3,099	3,364	-8%	-2%	0%
ABB Group	**10,404**	**10,358**	**0%**	**13%**	**15%**	**8,555**	**9,471**	**-10%**	**0%**	**3%**

Interim Consolidated Financial Information

ABB Ltd Interim Consolidated Income Statements (unaudited)

	Three months ended	
($ in millions, except per share data in $)	Mar. 31, 2015	Mar. 31, 2014
Sales of products	7,130	7,937
Sales of services	1,425	1,534
Total revenues	**8,555**	**9,471**
Cost of products	(5,194)	(5,794)
Cost of services	(860)	(950)
Total cost of sales	**(6,054)**	**(6,744)**
Gross profit	**2,501**	**2,727**
Selling, general and administrative expenses	(1,309)	(1,507)
Non-order related research and development expenses	(330)	(365)
Other income (expense), net	(3)	–
Income from operations	**859**	**855**
Interest and dividend income	19	17
Interest and other finance expense	(71)	(84)
Income from continuing operations before taxes	**807**	**788**
Provision for taxes	(230)	(225)
Income from continuing operations, net of tax	**577**	**563**
Income (loss) from discontinued operations, net of tax	4	(1)
Net income	**581**	**562**
Net income attributable to noncontrolling interests	(17)	(18)
Net income attributable to ABB	**564**	**544**
Amounts attributable to ABB shareholders:		
Income from continuing operations, net of tax	560	545
Net income	564	544
Basic earnings per share attributable to ABB shareholders:		
Income from continuing operations, net of tax	0.25	0.24
Net income	0.25	0.24
Diluted earnings per share attributable to ABB shareholders:		
Income from continuing operations, net of tax	0.25	0.24
Net income	0.25	0.24
Weighted-average number of shares outstanding (in millions) used to compute:		
Basic earnings per share attributable to ABB shareholders	2,251	2,301
Diluted earnings per share attributable to ABB shareholders	2,256	2,311

See Notes to the Interim Consolidated Financial Information

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

	Three months ended	
($ in millions)	Mar. 31, 2015	Mar. 31, 2014
Total comprehensive income (loss), net of tax	**(84)**	**489**
Total comprehensive income attributable to noncontrolling interests, net of tax	(17)	(15)
Total comprehensive income (loss) attributable to ABB shareholders, net of tax	**(101)**	**474**

See Notes to the Interim Consolidated Financial Information

ABB Ltd Interim Consolidated Balance Sheets (unaudited)

($ in millions, except share data)	Mar. 31, 2015	Dec. 31, 2014
Cash and equivalents	4,471	5,443
Marketable securities and short-term investments	1,684	1,325
Receivables, net	10,599	11,078
Inventories, net	5,346	5,376
Prepaid expenses	289	218
Deferred taxes	843	902
Other current assets	767	644
Total current assets	**23,999**	**24,986**
Property, plant and equipment, net	5,298	5,652
Goodwill	9,789	10,053
Other intangible assets, net	2,582	2,702
Prepaid pension and other employee benefits	68	70
Investments in equity-accounted companies	176	177
Deferred taxes	469	511
Other non-current assets	754	727
Total assets	**43,135**	**44,878**
Accounts payable, trade	4,473	4,765
Billings in excess of sales	1,396	1,455
Short-term debt and current maturities of long-term debt	506	353
Advances from customers	1,503	1,624
Deferred taxes	243	289
Provisions for warranties	1,063	1,148
Other provisions	1,560	1,689
Other current liabilities	3,917	4,257
Total current liabilities	**14,661**	**15,580**
Long-term debt	7,203	7,338
Pension and other employee benefits	2,234	2,394
Deferred taxes	1,187	1,165
Other non-current liabilities	1,568	1,586
Total liabilities	**26,853**	**28,063**
Commitments and contingencies		
Stockholders' equity:		
Capital stock and additional paid-in capital		
(2,314,743,264 issued shares at March 31, 2015, and December 31, 2014)	1,792	1,777
Retained earnings	20,503	19,939
Accumulated other comprehensive loss	(4,906)	(4,241)
Treasury stock, at cost		
(77,326,466 and 55,843,639 shares at March 31, 2015, and December 31, 2014, respectively)	(1,658)	(1,206)
Total ABB stockholders' equity	**15,731**	**16,269**
Noncontrolling interests	551	546
Total stockholders' equity	**16,282**	**16,815**
Total liabilities and stockholders' equity	**43,135**	**44,878**

See Notes to the Interim Consolidated Financial Information

ABB Ltd Interim Consolidated Statements of Cash Flows (unaudited)

	Three months ended	
($ in millions)	Mar. 31, 2015	Mar. 31, 2014
Operating activities:		
Net income	581	562
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	295	333
Pension and other employee benefits	14	(28)
Deferred taxes	31	(13)
Net loss (gain) from sale of property, plant and equipment	(10)	(8)
Net loss (gain) from sale of businesses	(4)	–
Net loss (gain) from derivatives and foreign exchange	(4)	54
Other	26	15
Changes in operating assets and liabilities:		
Trade receivables, net	(101)	(102)
Inventories, net	(360)	(223)
Trade payables	(21)	(191)
Accrued liabilities	(185)	(217)
Billings in excess of sales	15	(158)
Provisions, net	(73)	(99)
Advances from customers	(45)	59
Income taxes payable and receivable	(51)	48
Other assets and liabilities, net	(55)	(77)
Net cash provided by (used in) operating activities	**53**	**(45)**
Investing activities:		
Purchases of marketable securities (available-for-sale)	(469)	(84)
Purchases of short-term investments	(459)	(438)
Purchases of property, plant and equipment and intangible assets	(176)	(203)
Acquisition of businesses (net of cash acquired) and increases in cost- and equity-accounted companies	(36)	(3)
Proceeds from sales of marketable securities (available-for-sale)	12	14
Proceeds from maturity of marketable securities (available-for-sale)	275	68
Proceeds from short-term investments	176	23
Proceeds from sales of property, plant and equipment	6	10
Proceeds from sales of businesses (net of transaction costs and cash disposed) and cost- and equity-accounted companies	–	2
Other investing activities	98	62
Net cash used in investing activities	**(573)**	**(549)**
Financing activities:		
Net changes in debt with original maturities of 90 days or less	164	988
Increase in debt	40	3
Repayment of debt	(14)	(13)
Delivery of shares	–	1
Purchases of treasury stock	(401)	–
Dividends paid to noncontrolling shareholders	(13)	(7)
Other financing activities	7	9
Net cash provided by (used in) financing activities	**(217)**	**981**
Effects of exchange rate changes on cash and equivalents	(235)	(6)
Net change in cash and equivalents – continuing operations	**(972)**	**381**
Cash and equivalents, beginning of period	5,443	6,021
Cash and equivalents, end of period	**4,471**	**6,402**
Supplementary disclosure of cash flow information:		
Interest paid	53	67
Taxes paid	256	198

See Notes to the Interim Consolidated Financial Information

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

			Accumulated other comprehensive loss								
($ in millions)	Capital stock and additional paid-in capital	Retained earnings	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 accumulated other comprehensive loss**	Treasury stock	**Total ABB stockholders' equity**	Noncontrolling interests	**Total stockholders' equity**
Balance at January 1, 2014	**1,750**	**19,186**	**(431)**	**7**	**(1,610)**	**22**	**(2,012)**	**(246)**	**18,678**	**530**	**19,208**
Comprehensive income:											
Net income		544							**544**	18	**562**
Foreign currency translation adjustments, net of tax of $(3)			(73)				**(73)**		**(73)**	(3)	**(76)**
Effect of change in fair value of available-for-sale securities, net of tax of $0				2			**2**		**2**		**2**
Unrecognized income (expense) related to pensions and other postretirement plans, net of tax of $6					13		**13**		**13**		**13**
Change in derivatives qualifying as cash flow hedges, net of tax of $(4)						(12)	**(12)**		**(12)**		**(12)**
Total comprehensive income (loss)									**474**	**15**	**489**
Dividends paid to noncontrolling shareholders									**–**	(12)	**(12)**
Share-based payment arrangements	20								**20**		**20**
Delivery of shares	(9)							10	**1**		**1**
Balance at March 31, 2014	**1,761**	**19,730**	**(504)**	**9**	**(1,597)**	**10**	**(2,082)**	**(236)**	**19,173**	**533**	**19,706**
Balance at January 1, 2015	**1,777**	**19,939**	**(2,102)**	**13**	**(2,131)**	**(21)**	**(4,241)**	**(1,206)**	**16,269**	**546**	**16,815**
Comprehensive income:											
Net income		564							**564**	17	**581**
Foreign currency translation adjustments, net of tax of $(1)			(831)				**(831)**		**(831)**		**(831)**
Effect of change in fair value of available-for-sale securities, net of tax of $0				3			**3**		**3**		**3**
Unrecognized income (expense) related to pensions and other postretirement plans, net of tax of $59					174		**174**		**174**		**174**
Change in derivatives qualifying as cash flow hedges, net of tax of $(3)						(11)	**(11)**		**(11)**		**(11)**
Total comprehensive income (loss)									**(101)**	**17**	**(84)**
Dividends paid to noncontrolling shareholders									**–**	(12)	**(12)**
Share-based payment arrangements	15								**15**		**15**
Purchases of treasury stock								(452)	**(452)**		**(452)**
Balance at March 31, 2015	**1,792**	**20,503**	**(2,933)**	**16**	**(1,957)**	**(32)**	**(4,906)**	**(1,658)**	**15,731**	**551**	**16,282**

See Notes to the Interim Consolidated Financial Information

Notes to the Interim Consolidated Financial Information (unaudited)

Note 1
The Company and basis of presentation

ABB Ltd and its subsidiaries (collectively, the Company) together form a 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, 2014.

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, envi ronmental 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 in the Consolidated Statements of Cash Flows reported for prior periods in the Interim Consolidated Financial Information have been reclassified to conform to the current period presentation. These reclassifications were within Net cash provided by operating activities.

Note 2
Recent accounting pronouncements
Applicable for future periods

Revenue from contracts with customers

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

The update is effective for the Company for annual and interim periods beginning January 1, 2017, and is to be applied either (i) retrospectively to each prior reporting period presented, with the option to elect certain defined practical expedients, or (ii) retrospectively with the cumulative effect of initially applying the update recognized at the date of adoption in retained earnings (with additional disclosure as to the impact on individual financial statement lines affected). The Company is currently evaluating the impact of this update on its consolidated financial statements.

Note 2
Recent accounting pronouncements, continued

Simplifying the presentation of debt issuance costs

In April 2015, an accounting standard update was issued to simplify the presentation of debt issuance costs. Under the update, the Company would present debt issuance costs related to a recognized debt liability in the balance sheet as a direct deduction from the carrying amount of that debt liability rather than as a non-current asset. The existing recognition and measurement guidance for debt issuance costs is not affected by this accounting standard update which is effective for the Company for annual and interim periods beginning January 1, 2016, and is applicable retrospectively. Early adoption is permitted for financial statements that have not been previously issued. The Company does not believe that this update will have a material impact on its consolidated financial statements.

Note 3
Cash and equivalents, marketable securities and short-term investments

Current assets

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

	March 31, 2015					
($ in millions)	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value	Cash and equivalents	Marketable securities and short-term investments
Cash	1,617			1,617	1,617	–
Time deposits	3,189			3,189	2,768	421
Other short-term investments	227			227	–	227
Debt securities available-for-sale:						
U.S. government obligations	135	3	(1)	137	–	137
Other government obligations	2	–	–	2	–	2
Corporate	658	4	–	662	86	576
Equity securities available-for-sale	308	13	–	321	–	321
Total	**6,136**	**20**	**(1)**	**6,155**	**4,471**	**1,684**

	December 31, 2014					
($ in millions)	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value	Cash and equivalents	Marketable securities and short-term investments
Cash	2,218			2,218	2,218	–
Time deposits	3,340			3,340	3,140	200
Other short-term investments	225			225	–	225
Debt securities available-for-sale:						
U.S. government obligations	135	2	(1)	136	–	136
Other government obligations	2	–	–	2	–	2
Corporate	734	4	(1)	737	85	652
Equity securities available-for-sale	98	12	–	110	–	110
Total	**6,752**	**18**	**(2)**	**6,768**	**5,443**	**1,325**

Included in Other short-term investments at March 31, 2015, and December 31, 2014, are receivables of $220 million and $219 million, respectively, representing reverse repurchase agreements. These collateralized lendings, made to a financial institution, have maturity dates of less than one year.

Non-current assets

Included in “Other non-current assets” are certain held-to-maturity marketable securities. At March 31, 2015, the amortized cost, gross unrecognized gain and fair value (based on quoted market prices) of these securities were $86 million, $25 million and $111 million, respectively. At December 31, 2014, the amortized cost, gross unrecognized gain and fair value (based on quoted market prices) of these securities were $95 million, $14 million and $109 million, respectively. These securities are pledged as security for certain outstanding deposit liabilities and the funds received at the respective maturity dates of the securities will only be available to the Company for repayment of these obligations.

Note 4
Derivative financial instruments

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

Currency risk

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

Commodity risk

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

Interest rate risk

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

Equity risk

The Company is exposed to fluctuations in the fair value of its warrant appreciation rights (WARs) issued under its management incentive plan. A WAR gives its holder the right to receive cash equal to the market price of an equivalent listed warrant on the date of exercise. To eliminate such risk, the Company has purchased cash-settled call options 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)	March 31, 2015	December 31, 2014	March 31, 2014
Foreign exchange contracts	17,871	18,564	19,060
Embedded foreign exchange derivatives	2,972	3,013	2,958
Interest rate contracts	4,057	2,242	6,702

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		
		March 31, 2015	December 31, 2014	March 31, 2014
Copper swaps	metric tonnes	53,237	46,520	43,866
Aluminum swaps	metric tonnes	5,225	3,846	3,873
Nickel swaps	metric tonnes	–	–	12
Lead swaps	metric tonnes	14,325	6,550	5,175
Zinc swaps	metric tonnes	125	200	275
Silver swaps	ounces	1,707,460	1,996,845	1,813,511
Crude oil swaps	barrels	150,700	128,000	142,000

Equity derivatives

At March 31, 2015, December 31, 2014, and March 31, 2014, the Company held 59 million, 61 million and 66 million cash-settled call options indexed to ABB Ltd shares (conversion ratio 5:1) with a total fair value of $26 million, $33 million and $50 million, respectively.

Note 4
Derivative financial instruments, continued
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 March 31, 2015, and December 31, 2014, "Accumulated other comprehensive loss" included net unrealized losses of $32 million and $21 million, respectively, net of tax, on derivatives designated as cash flow hedges. Of the amount at March 31, 2015, net losses of $22 million are expected to be reclassified to earnings in the following 12 months. At March 31, 2015, the longest maturity of a derivative classified as a cash flow hedge was 54 months.

The amount of gains or losses, net of tax, reclassified into earnings due to the discontinuance of cash flow hedge accounting and the amount of ineffectiveness in cash flow hedge relationships directly recognized in earnings were not significant in the three months ended March 31, 2015 and 2014.

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:

	Three months ended March 31, 2015				
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	(13)	Total revenues	–
		Total cost of sales	5	Total cost of sales	–
Commodity contracts	(2)	Total cost of sales	(3)	Total cost of sales	–
Cash-settled call options	(4)	SG&A expenses[1]	(3)	SG&A expenses[1]	–
Total	**(28)**		**(14)**		**–**

	Three months ended March 31, 2014				
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	(6)	Total revenues	1	Total revenues	–
		Total cost of sales	3	Total cost of sales	–
Commodity contracts	(4)	Total cost of sales	(1)	Total cost of sales	–
Cash-settled call options	(4)	SG&A expenses[1]	(1)	SG&A expenses[1]	–
Total	**(14)**		**2**		**–**

[1] SG&A expenses represent "Selling, general and administrative expenses".

Net derivative losses of $11 million and net derivative gains of $1 million, both net of tax, respectively, were reclassified from "Accumulated other comprehensive loss" to earnings during the three months ended March 31, 2015 and 2014, respectively.

Note 4
Derivative financial instruments, continued

Fair value hedges

To reduce its interest rate exposure arising primarily from its debt issuance activities, the Company uses interest rate swaps. Where such instruments are designated as fair value hedges, the changes in the fair value of these instruments, as well as the changes in the fair value of the risk component of the underlying debt being hedged, are recorded as offsetting gains and losses in “Interest and other finance expense”. Hedge ineffectiveness of instruments designated as fair value hedges for the three months ended March 31, 2015 and 2014, was not significant.

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

	Three months ended March 31, 2015			
	Gains (losses) recognized in income on derivatives designated as fair value hedges		Gains (losses) recognized in income on hedged item	
Type of derivative designated as a fair value hedge	Location	($ in millions)	Location	($ in millions)
Interest rate contracts	Interest and other finance expense	31	Interest and other finance expense	(31)

	Three months ended March 31, 2014			
	Gains (losses) recognized in income on derivatives designated as fair value hedges		Gains (losses) recognized in income on hedged item	
Type of derivative designated as a fair value hedge	Location	($ in millions)	Location	($ in millions)
Interest rate contracts	Interest and other finance expense	22	Interest and other finance expense	(22)

Derivatives not designated in hedge relationships

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

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

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

Type of derivative not designated as a hedge	Gains (losses) recognized in income		
		Three months ended March 31,	
($ in millions)	Location	2015	2014
Foreign exchange contracts	Total revenues	(78)	(23)
	Total cost of sales	(66)	(10)
	SG&A expenses[1]	12	1
	Interest and other finance expense	177	4
	Non-order related research and development	(1)	–
Embedded foreign exchange contracts	Total revenues	27	10
	Total cost of sales	(17)	–
Commodity contracts	Total cost of sales	(1)	(22)
Interest rate contracts	Interest and other finance expense	(1)	–
Total		**52**	**(40)**

[1] SG&A expenses represent “Selling, general and administrative expenses”.

Note 4
Derivative financial instruments, continued

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

	March 31, 2015			
	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	7	10	22	19
Commodity contracts	–	–	3	–
Interest rate contracts	–	116	–	–
Cash-settled call options	17	8	–	–
Total	**24**	**134**	**25**	**19**
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	322	65	488	103
Commodity contracts	13	1	18	3
Cash-settled call options	1	–	–	–
Embedded foreign exchange derivatives	130	49	52	35
Total	**466**	**115**	**558**	**141**
Total fair value	**490**	**249**	**583**	**160**

	December 31, 2014			
	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	9	9	20	16
Commodity contracts	–	–	3	–
Interest rate contracts	–	85	–	–
Cash-settled call options	21	11	–	–
Total	**30**	**105**	**23**	**16**
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	156	25	369	72
Commodity contracts	4	–	19	3
Cash-settled call options	1	1	–	–
Embedded foreign exchange derivatives	98	58	27	17
Total	**259**	**84**	**415**	**92**
Total fair value	**289**	**189**	**438**	**108**

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 March 31, 2015, and December 31, 2014, have been presented on a gross basis.

The Company's netting agreements and other similar arrangements allow net settlements under certain conditions. As of March 31, 2015, and December 31, 2014, information related to these offsetting arrangements was as follows:

($ in millions)	March 31, 2015				
Type of agreement or similar arrangement	Gross amount of recognized assets	Derivative liabilities eligible for set-off in case of default	Cash collateral received	Non-cash collateral received	Net asset exposure
Derivatives	560	(383)	–	–	177
Reverse repurchase agreements	220	–	–	(220)	–
Total	**780**	**(383)**	**–**	**(220)**	**177**

($ in millions)	March 31, 2015				
Type of agreement or similar arrangement	Gross amount of recognized liabilities	Derivative liabilities eligible for set-off in case of default	Cash collateral pledged	Non-cash collateral pledged	Net liability exposure
Derivatives	656	(383)	(2)	–	271
Total	**656**	**(383)**	**(2)**	**–**	**271**

($ in millions)	December 31, 2014				
Type of agreement or similar arrangement	Gross amount of recognized assets	Derivative liabilities eligible for set-off in case of default	Cash collateral received	Non-cash collateral received	Net asset exposure
Derivatives	322	(216)	–	–	106
Reverse repurchase agreements	219	–	–	(219)	–
Total	**541**	**(216)**	**–**	**(219)**	**106**

($ in millions)	December 31, 2014				
Type of agreement or similar arrangement	Gross amount of recognized liabilities	Derivative liabilities eligible for set-off in case of default	Cash collateral pledged	Non-cash collateral pledged	Net liability exposure
Derivatives	502	(216)	(3)	–	283
Total	**502**	**(216)**	**(3)**	**–**	**283**

Note 5 Fair values

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

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

The levels of the fair value hierarchy are as follows:

Level 1: Valuation inputs consist of quoted prices in an active market for identical assets or liabilities (observable quoted prices). Assets and liabilities valued using Level 1 inputs include listed derivatives which are actively traded such as commodity futures, interest rate futures and certain actively-traded debt securities.

Level 2: Valuation inputs consist of observable inputs (other than Level 1 inputs) such as actively-quoted prices for similar assets, quoted prices in inactive markets and inputs other than quoted prices such as interest rate yield curves, credit spreads, or inputs derived from other observable data by interpolation, correlation, regression or other means. The adjustments applied to quoted prices or the inputs used in valuation models may be both observable and unobservable. In these cases, the fair value measurement is classified as Level 2 unless the unobservable portion of the adjustment or the unobservable input to the valuation model is significant, in which case the fair value measurement would be classified as Level 3. Assets and liabilities valued or disclosed using Level 2 inputs include investments in certain funds, reverse repurchase agreements, certain debt securities that are not actively traded, interest rate swaps, commodity swaps, cash-settled call options, forward foreign exchange contracts, foreign exchange swaps and forward rate agreements, time deposits, as well as financing receivables and debt.

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

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

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

Note 5
Fair values, continued

Recurring fair value measures

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

	March 31, 2015			
($ in millions)	Level 1	Level 2	Level 3	Total fair value
Assets				
Available-for-sale securities in “Cash and equivalents”:				
Debt securities—Corporate	–	86	–	**86**
Available-for-sale securities in “Marketable securities and short-term investments”:				
Equity securities	–	321	–	**321**
Debt securities—U.S. government obligations	137	–	–	**137**
Debt securities—Other government obligations	–	2	–	**2**
Debt securities—Corporate	–	576	–	**576**
Derivative assets—current in “Other current assets”	–	490	–	**490**
Derivative assets—non-current in “Other non-current assets”	–	249	–	**249**
Total	**137**	**1,724**	**–**	**1,861**
Liabilities				
Derivative liabilities—current in “Other current liabilities”	–	583	–	**583**
Derivative liabilities—non-current in “Other non-current liabilities”	–	160	–	**160**
Total	**–**	**743**	**–**	**743**

	December 31, 2014			
($ in millions)	Level 1	Level 2	Level 3	Total fair value
Assets				
Available-for-sale securities in “Cash and equivalents”:				
Debt securities—Corporate	–	85	–	**85**
Available-for-sale securities in “Marketable securities and short-term investments”:				
Equity securities	–	110	–	**110**
Debt securities—U.S. government obligations	136	–	–	**136**
Debt securities—Other government obligations	–	2	–	**2**
Debt securities—Corporate	–	652	–	**652**
Derivative assets—current in “Other current assets”	–	289	–	**289**
Derivative assets—non-current in “Other non-current assets”	–	189	–	**189**
Total	**136**	**1,327**	**–**	**1,463**
Liabilities				
Derivative liabilities—current in “Other current liabilities”	–	438	–	**438**
Derivative liabilities—non-current in “Other non-current liabilities”	–	108	–	**108**
Total	**–**	**546**	**–**	**546**

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

- *Available-for-sale securities in “Cash and equivalents” and “Marketable securities and short-term investments”:* If quoted market prices in active markets for identical assets are available, these are considered Level 1 inputs; however, when markets are not active, these inputs are considered Level 2. If such quoted market prices are not available, fair value is determined using market prices for similar assets or present value techniques, applying an appropriate risk-free interest rate adjusted for nonperformance risk. The inputs used in present value techniques are observable and fall into the Level 2 category.
- *Derivatives:* The fair values of derivative instruments are determined using quoted prices of identical instruments from an active market, if available (Level 1). If quoted prices are not available, price quotes for similar instruments, appropriately adjusted, or present value techniques, based on available market data, or option pricing models are used. Cash-settled call options hedging the Company’s WAR liability are valued based on bid prices of the equivalent listed warrant. The fair values obtained using price quotes for similar instruments or valuation techniques represent a Level 2 input unless significant unobservable inputs are used.

Non-recurring fair value measures

There were no significant non-recurring fair value measurements during the three months ended March 31, 2015 and 2014.

Note 5
Fair values, continued

Disclosure about financial instruments carried on a cost basis

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

	March 31, 2015				
($ 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	1,617	1,617	–	–	1,617
Time deposits	2,768	–	2,768	–	2,768
Marketable securities and short-term investments (excluding available-for-sale securities):					
Time deposits	421	–	421	–	421
Receivables under reverse repurchase agreements	220	–	220	–	220
Other short-term investments	7	7	–	–	7
Other non-current assets:					
Loans granted	38	–	41	–	41
Held-to-maturity securities	86	–	111	–	111
Restricted cash deposits	182	60	137	–	197
Liabilities					
Short-term debt and current maturities of long-term debt (excluding capital lease obligations)	473	107	366	–	473
Long-term debt (excluding capital lease obligations)	7,097	6,004	1,428	–	7,432
Non-current deposit liabilities in “Other non-current liabilities”	206	–	245	–	245

	December 31, 2014				
($ 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	2,218	2,218	–	–	2,218
Time deposits	3,140	–	3,140	–	3,140
Marketable securities and short-term investments (excluding available-for-sale securities):					
Time deposits	200	–	200	–	200
Receivables under reverse repurchase agreements	219	–	219	–	219
Other short-term investments	6	6	–	–	6
Other non-current assets:					
Loans granted	41	–	44	–	44
Held-to-maturity securities	95	–	109	–	109
Restricted cash deposits	198	64	161	–	225
Liabilities					
Short-term debt and current maturities of long-term debt (excluding capital lease obligations)	324	115	209	–	324
Long-term debt (excluding capital lease obligations)	7,224	6,148	1,404	–	7,552
Non-current deposit liabilities in “Other non-current liabilities”	222	–	267	–	267

Note 5
Fair values, continued

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

- *Cash and equivalents (excluding available-for-sale securities with original maturities up to 3 months), and Marketable securities and short-term investments (excluding available-for-sale securities):* The carrying amounts approximate the fair values as the items are short-term in nature.
- *Other non-current assets:* Includes (i) loans granted whose fair values are based on the carrying amount adjusted using a present value technique to reflect a premium or discount based on current market interest rates (Level 2 inputs), (ii) held-to-maturity securities (see Note 3) whose fair values are based on quoted market prices in inactive markets (Level 2 inputs), (iii) restricted cash whose fair values approximate the carrying amounts (Level 1 inputs) and restricted cash deposits pledged in respect of certain non-current deposit liabilities whose fair values are determined using a discounted cash flow methodology based on current market interest rates (Level 2 inputs).
- *Short-term debt and current maturities of long-term debt (excluding capital lease obligations):* Includes commercial paper, bank borrowings and overdrafts. The carrying amounts of short-term debt and current maturities of long-term debt, excluding capital lease obligations, approximate their fair values.
- *Long-term debt (excluding capital lease obligations):* Fair values of outstanding bonds are determined using quoted market prices (Level 1 inputs), if available. For other bonds and other long-term debt, the fair values are determined using a discounted cash flow methodology based upon borrowing rates of similar debt instruments and reflecting appropriate adjustments for non-performance risk (Level 2 inputs).
- *Non-current deposit liabilities in "Other non-current liabilities":* The fair values of non-current deposit liabilities are determined using a discounted cash flow methodology based on risk-adjusted interest rates (Level 2 inputs).

Note 6
Commitments and contingencies
Contingencies—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 amounts 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 companies' 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".

Environmental provisions included in the Company's Consolidated Balance Sheets were as follows:

($ in millions)	March 31, 2015	December 31, 2014
Other provisions	29	37
Other non-current liabilities	108	109
Total	**137**	**146**

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 April 2014, the European Commission announced its decision regarding its investigation of anticompetitive practices in the cables industry and granted the Company full immunity from fines under the European Commission's leniency program. In December 2013, the Company agreed with the Brazilian Antitrust Authority (CADE) to settle its ongoing investigation into the Company's involvement in anticompetitive practices in the cables industry and the Company agreed to pay a fine of approximately 1.5 million Brazilian reals (equivalent to approximately $1 million on date of payment). The Company's cables business remains under investigation for alleged anticompetitive practices in certain other jurisdictions. An informed judgment about the outcome of these remaining investigations or the amount of potential loss or range of loss for the Company, if any, relating to these remaining investigations 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.

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

Note 6
Commitments and contingencies, continued

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

Liabilities recognized
At March 31, 2015, and December 31, 2014, the Company had aggregate liabilities of $144 million and $147 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 outcomes.

Maximum potential payments ($ in millions)	March 31, 2015	December 31, 2014
Performance guarantees	230	232
Financial guarantees	74	72
Indemnification guarantees	50	50
Total	**354**	**354**

The carrying amount of liabilities recorded in the Consolidated Balance Sheets reflects the Company's best estimate of future payments, which it may incur as part of fulfilling its guarantee obligations. In respect of the above guarantees, the carrying amounts of liabilities at March 31, 2015, and December 31, 2014, 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 at both March 31, 2015, and December 31, 2014. 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 both March 31, 2015, and December 31, 2014, the maximum potential amount payable under these guarantees as a result of third-party non-performance was $156 million.

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 March 31, 2015, and December 31, 2014, the Company had a maximum potential amount payable of $74 million and $72 million, respectively, under financial guarantees outstanding. Of these amounts, $12 million at both March 31, 2015, and December 31, 2014, 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. There have been no significant amounts reimbursed to financial institutions under these types of arrangements in the three months ended March 31, 2015 and 2014.

Note 6
Commitments and contingencies, continued

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 March 31, 2015, and December 31, 2014, was $50 million.

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)	2015	2014
Balance at January 1,	**1,148**	**1,362**
Claims paid in cash or in kind	(70)	(79)
Net increase in provision for changes in estimates, warranties issued and warranties expired	45	29
Exchange rate differences	(60)	(5)
Balance at March 31,	**1,063**	**1,307**

Note 7
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 and several of the plans are not required to be funded according to local government and tax requirements.

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

($ in millions)	Defined pension benefits		Other postretirement benefits	
Three months ended March 31,	**2015**	**2014**	**2015**	**2014**
Service cost	66	64	–	–
Interest cost	75	105	2	2
Expected return on plan assets	(113)	(124)	–	–
Amortization of prior service cost (credit)	9	7	(2)	(2)
Amortization of net actuarial loss	28	26	–	–
Net periodic benefit cost	**65**	**78**	**–**	**–**

Employer contributions were as follows:

($ in millions)	Defined pension benefits		Other postretirement benefits	
Three months ended March 31,	**2015**	**2014**	**2015**	**2014**
Total contributions to defined benefit pension and other postretirement benefit plans	49	131	4	3
Of which, discretionary contributions to defined benefit pension plans	–	75	–	–

During the three months ended March 31, 2014, discretionary contributions included available-for-sale debt securities, having a fair value at the contribution date of $25 million, to certain of the Company’s pension plans in the United Kingdom.

The Company expects to make contributions totaling approximately $220 million and $17 million to its defined benefit pension plans and other postretirement benefit plans, respectively, for the full year 2015.

Note 8 Stockholders' equity

In September 2014, the Company announced a share buyback program for the purchase of up to $4 billion of its own shares over a period ending no later than September 2016. The Company intends that approximately three quarters of the shares to be purchased will be held for cancellation (after approval from shareholders) and the remainder will be purchased to be available for delivery to employees under its employee share programs. Shares acquired for cancellation are acquired through a separate trading line on the SIX Swiss Exchange (on which only the Company can purchase shares), while shares acquired for delivery under employee share programs are acquired through the ordinary trading line.

In the three months ended March 31, 2015, under the announced share buyback program, the Company purchased 17.4 million shares for cancellation and 4.1 million shares to support its employee share programs. These transactions resulted in an increase in "Treasury stock" of $452 million.

As of March 31, 2015, under this program, the Company has purchased a total of approximately 43 million shares for cancellation and approximately 11 million shares to support its employee share programs.

Note 9 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

	Three months ended March 31,	
($ in millions, except per share data in $)	**2015**	**2014**
Amounts attributable to ABB shareholders:		
Income from continuing operations, net of tax	560	545
Income (loss) from discontinued operations, net of tax	4	(1)
Net income	**564**	**544**
Weighted-average number of shares outstanding (in millions)	**2,251**	**2,301**
Basic earnings per share attributable to ABB shareholders:		
Income from continuing operations, net of tax	0.25	0.24
Income (loss) from discontinued operations, net of tax	–	–
Net income	**0.25**	**0.24**

Diluted earnings per share

	Three months ended March 31,	
($ in millions, except per share data in $)	**2015**	**2014**
Amounts attributable to ABB shareholders:		
Income from continuing operations, net of tax	560	545
Income (loss) from discontinued operations, net of tax	4	(1)
Net income	**564**	**544**
Weighted-average number of shares outstanding (in millions)	2,251	2,301
Effect of dilutive securities:		
Call options and shares	5	10
Adjusted weighted-average number of shares outstanding (in millions)	**2,256**	**2,311**
Diluted earnings per share attributable to ABB shareholders:		
Income from continuing operations, net of tax	0.25	0.24
Income (loss) from discontinued operations, net of tax	–	–
Net income	**0.25**	**0.24**

Note 10 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 post-retirement plan adjustments	Unrealized gains (losses) of cash flow hedge derivatives	Total OCI
Balance at January 1, 2014	**(431)**	**7**	**(1,610)**	**22**	**(2,012)**
Other comprehensive (loss) income before reclassifications	(76)	3	(10)	(11)	**(94)**
Amounts reclassified from OCI	–	(1)	23	(1)	**21**
Total other comprehensive (loss) income	**(76)**	**2**	**13**	**(12)**	**(73)**
Less:					
Amounts attributable to noncontrolling interests	(3)	–	–	–	**(3)**
Balance at March 31, 2014	**(504)**	**9**	**(1,597)**	**10**	**(2,082)**

($ in millions)	Foreign currency translation adjustments	Unrealized gains (losses) on available-for-sale securities	Pension and other post-retirement plan adjustments	Unrealized gains (losses) of cash flow hedge derivatives	Total OCI
Balance at January 1, 2015	**(2,102)**	**13**	**(2,131)**	**(21)**	**(4,241)**
Other comprehensive (loss) income before reclassifications	(831)	3	147	(22)	**(703)**
Amounts reclassified from OCI	–	–	27	11	**38**
Total other comprehensive (loss) income	**(831)**	**3**	**174**	**(11)**	**(665)**
Less:					
Amounts attributable to noncontrolling interests	–	–	–	–	**–**
Balance at March 31, 2015	**(2,933)**	**16**	**(1,957)**	**(32)**	**(4,906)**

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

($ in millions)		Three months ended March 31,	
Details about OCI components	**Location of (gains) losses reclassified from OCI**	**2015**	**2014**
Pension and other postretirement plan adjustments:			
Amortization of prior service cost	Net periodic benefit cost[1]	7	5
Amortization of net actuarial loss	Net periodic benefit cost[1]	28	26
Total before tax		**35**	**31**
Tax	Provision for taxes	(8)	(8)
Amounts reclassified from OCI		**27**	**23**

[1] These components are included in the computation of net periodic benefit cost (see Note 7).

The amounts in respect of unrealized gains (losses) on available-for-sale securities and unrealized gains (losses) of cash flow hedge derivatives were not significant for the three months ended March 31, 2015 and 2014.

Note 11
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 and sells 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 a wide range of products across voltage levels, including circuit breakers, switchgears, capacitors, instrument transformers, power, distribution and traction transformers for electrical and other infrastructure utilities, as well as 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, for power generation, transmission and distribution utilities, other infrastructure utilities, as well as other industrial and commercial enterprises.

- Corporate and Other: includes headquarters, central research and development, the Company's real estate activities, Group Treasury Operations and other minor business activities.

Effective January 1, 2015, the Company changed its primary measure of segment performance from Operational EBITDA to Operational EBITA, which represents income from operations excluding amortization expense on intangibles arising upon acquisitions (acquisition-related amortization), restructuring and restructuring-related expenses, gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items, as well as foreign exchange/commodity timing differences in income from operations consisting of: (i) unrealized gains and losses on derivatives (foreign exchange, commodities, embedded derivatives), (ii) realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized, and (iii) unrealized foreign exchange movements on receivables/payables (and related assets/liabilities).

The segment performance for the three months ended March 31, 2014, has been restated to reflect this change.

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

The following tables present segment revenues, Operational EBITA, and the reconciliations of consolidated Operational EBITA to income from continuing operations before taxes for the three months ended March 31, 2015 and 2014, as well as total assets at March 31, 2015, and December 31, 2014.

Note 11
Operating segment data,
continued

	Three months ended March 31, 2015		
($ in millions)	Third-party revenues	Intersegment revenues	Total revenues
Discrete Automation and Motion	2,146	125	2,271
Low Voltage Products	1,476	79	1,555
Process Automation	1,543	36	1,579
Power Products	1,961	314	2,275
Power Systems	1,418	54	1,472
Corporate and Other	11	346	357
Intersegment elimination	–	(954)	(954)
Consolidated	**8,555**	**–**	**8,555**

	Three months ended March 31, 2014		
($ in millions)	Third-party revenues	Intersegment revenues	Total revenues
Discrete Automation and Motion	2,194	187	2,381
Low Voltage Products	1,784	98	1,882
Process Automation	1,891	52	1,943
Power Products	1,996	395	2,391
Power Systems	1,532	76	1,608
Corporate and Other	74	411	485
Intersegment elimination	–	(1,219)	(1,219)
Consolidated	**9,471**	**–**	**9,471**

	Three months ended March 31,	
($ in millions)	2015	2014
Operational EBITA:		
Discrete Automation and Motion	318	352
Low Voltage Products	243	299
Process Automation	192	245
Power Products	253	304
Power Systems	33	(54)
Corporate and Other and Intersegment elimination	(90)	(107)
Consolidated Operational EBITA	**949**	**1,039**
Acquisition-related amortization	(83)	(101)
Restructuring and restructuring-related expenses	(26)	(47)
Gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items	(11)	(11)
Foreign exchange/commodity timing differences in income from operations:		
Unrealized gains and losses on derivatives (foreign exchange, commodities, embedded derivatives)	(16)	(55)
Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized	(8)	17
Unrealized foreign exchange movements on receivables/payables (and related assets/liabilities)	54	13
Income from operations	**859**	**855**
Interest and dividend income	19	17
Interest and other finance expense	(71)	(84)
Income from continuing operations before taxes	**807**	**788**

	Total assets[1]	
($ in millions)	March 31, 2015	December 31, 2014
Discrete Automation and Motion	9,846	10,123
Low Voltage Products	7,682	7,978
Process Automation	4,049	4,268
Power Products	7,105	7,396
Power Systems	6,558	6,855
Corporate and Other	7,895	8,258
Consolidated	**43,135**	**44,878**

[1] Total assets are after intersegment eliminations and therefore reflect third-party assets only.


ABB

The following reconciliations and definitions include measures which ABB uses to supplement its Interim Consolidated Financial Information (unaudited) which is prepared in accordance with United States generally accepted accounting principles (U.S. GAAP). Certain of these financial measures are, or may be, considered non-GAAP financial measures as defined in the rules of the U.S. Securities and Exchange Commission (SEC).

While ABB's management believes that the non-GAAP financial measures herein are useful in evaluating ABB's operating results, this information should be considered as supplemental in nature and not as a substitute for the related financial information prepared in accordance with U.S. GAAP. Therefore these measures should not be viewed in isolation but considered together with the Interim Consolidated Financial Information (unaudited) prepared in accordance with U.S. GAAP as of and for the three months ended March 31, 2015.

Like-for-like growth rates

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

Like-for-like growth rates also adjust for changes in our business portfolio. The adjustment for portfolio changes is calculated as follows: where the results of any business acquired or divested have not been consolidated and reported for the entire duration of both the current and comparable periods, the reported key figures of such business are adjusted to exclude the relevant key figures of any corresponding quarters which are not comparable when computing the like-for-like growth rate. In addition, certain other adjustments, which affect the business portfolio but do not qualify as a divestment, are treated in a similar manner to a divestment. We do not adjust for portfolio changes where the business acquired or divested has annual revenues of less than $50 million.

The following tables provide reconciliations of reported growth of certain key figures to their respective like-for-like growth rate.

Divisional like-for-like growth rate reconciliation

	Q1 2015 compared to Q1 2014							
	Order growth rate				Revenue growth rate			
Division	US$ (as reported)	Foreign exchange impact	Acquisitions and divestments	Like-for-like	US$ (as reported)	Foreign exchange impact	Acquisitions and divestments	Like-for-like
Discrete Automation and Motion	**-9%**	8%	0%	**-1%**	**-5%**	9%	0%	**4%**
Low Voltage Products	**-14%**	10%	6%	**2%**	**-17%**	9%	7%	**-1%**
Process Automation	**-4%**	14%	6%	**16%**	**-19%**	11%	4%	**-4%**
Power Products	**-3%**	10%	0%	**7%**	**-5%**	9%	0%	**4%**
Power Systems	**61%**	29%	0%	**90%**	**-8%**	12%	0%	**4%**
ABB Group	**0%**	**13%**	**2%**	**15%**	**-10%**	**10%**	**3%**	**3%**

Regional like-for-like growth rate reconciliation

	Q1 2015 compared to Q1 2014							
	Order growth rate				Revenue growth rate			
Region	US$ (as reported)	Foreign exchange impact	Acquisitions and divestments	Like-for-like	US$ (as reported)	Foreign exchange impact	Acquisitions and divestments	Like-for-like
Europe	**2%**	23%	2%	**27%**	**-17%**	17%	2%	**2%**
The Americas	**-1%**	5%	5%	**9%**	**-3%**	5%	6%	**8%**
Asia, Middle East and Africa	**0%**	7%	1%	**8%**	**-8%**	6%	2%	**0%**
ABB Group	**0%**	**13%**	**2%**	**15%**	**-10%**	**10%**	**3%**	**3%**

Order backlog growth rate reconciliation

	March 31, 2015 compared to March 31, 2014			
	US$ (as reported)	**Foreign exchange impact**	**Acquisitions and divestments**	**Like-for-like**
Discrete Automation and Motion	**-5%**	11%	0%	**6%**
Low Voltage Products	**-14%**	11%	9%	**6%**
Process Automation	**-3%**	20%	2%	**19%**
Power Products	**-5%**	12%	0%	**7%**
Power Systems	**-6%**	17%	0%	**11%**
ABB Group	**-5%**	**14%**	**1%**	**10%**

Operational EBITA growth rate reconciliation

	Q1 2015 compared to Q1 2014			
	US$ (as reported)	**Foreign exchange impact**	**Acquisitions and divestments**	**Like-for-like**
Discrete Automation and Motion	**-10%**	10%	0%	**0%**
Low Voltage Products	**-19%**	11%	9%	**1%**
Process Automation	**-22%**	9%	2%	**-11%**
Power Products	**-17%**	10%	0%	**-7%**
Power Systems	**n.a.**	n.a.	n.a.	**n.a.**
ABB Group	**-9%**	**10%**	**4%**	**5%**

Other growth rate reconciliations

	Q1 2015 compared to Q1 2014			
	US$ (as reported)	**Foreign exchange impact**	**Acquisitions and divestments**	**Like-for-like**
Large orders	**91%**	38%	0%	**129%**
Base orders	**-12%**	9%	3%	**0%**
Service orders	**-13%**	10%	4%	**1%**
Service revenues	**-7%**	9%	4%	**6%**

Operational EBITA margin

In line with the updated financial targets of ABB's Next Level strategy, effective from January 1, 2015, ABB changed its measure of segment profit from Operational EBITDA to Operational EBITA.

Definition

Operational EBITA margin

Operational EBITA margin is Operational EBITA as a percentage of Operational revenues.

Operational EBITA

Operational earnings before interest, taxes and acquisition-related amortization (Operational EBITA) represents Income from operations excluding acquisition-related amortization (as defined below), restructuring and restructuring-related expenses, gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items, as well as foreign exchange/commodity timing differences in income from operations consisting of: (i) unrealized gains and losses on derivatives (foreign exchange, commodities, embedded derivatives), (ii) realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized, and (iii) unrealized foreign exchange movements on receivables/payables (and related assets/liabilities).

Acquisition-related amortization

Amortization expense on intangibles arising upon acquisitions.

Operational revenues

Operational revenues are total revenues adjusted for foreign exchange/commodity timing differences in total revenues of: (i) unrealized gains and losses on derivatives, (ii) realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized, and (iii) unrealized foreign exchange movements on receivables (and related assets).

($ in millions, unless otherwise indicated)	Three months ended March 31, 2015 Discrete Automation and Motion	Low Voltage Products	Process Automation	Power Products	Power Systems	Corporate and Other and Intersegment elimination	Consolidated
Total revenues	**2,271**	**1,555**	**1,579**	**2,275**	**1,472**	**(597)**	**8,555**
Foreign exchange/commodity timing differences in total revenues:							
Unrealized gains and losses on derivatives	(13)	7	(12)	(17)	16	1	**(18)**
Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized	(29)	–	17	11	16	–	**15**
Unrealized foreign exchange movements on receivables (and related assets)	8	(3)	(12)	(11)	(16)	–	**(34)**
Operational revenues	**2,237**	**1,559**	**1,572**	**2,258**	**1,488**	**(596)**	**8,518**
Income (loss) from operations	**300**	**217**	**186**	**240**	**4**	**(88)**	**859**
Acquisition-related amortization	32	25	3	3	14	6	**83**
Restructuring and restructuring-related expenses	3	6	1	11	4	1	**26**
Gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items	–	1	(1)	1	–	10	**11**
Foreign exchange/commodity timing differences in income from operations:							
Unrealized gains and losses on derivatives (foreign exchange, commodities, embedded derivatives)	7	8	2	3	15	(19)	**16**
Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized	(29)	–	12	14	11	–	**8**
Unrealized foreign exchange movements on receivables/payables (and related assets/liabilities)	5	(14)	(11)	(19)	(15)	–	**(54)**
Operational EBITA	**318**	**243**	**192**	**253**	**33**	**(90)**	**949**
Operational EBITA margin (%)	**14.2%**	**15.6%**	**12.2%**	**11.2%**	**2.2%**	**n.a.**	**11.1%**

($ in millions, unless otherwise indicated)	Discrete Automation and Motion	Low Voltage Products	Process Automation	Power Products	Power Systems	Corporate and Other and Intersegment elimination	Consolidated
	Three months ended March 31, 2014						
Total revenues	**2,381**	**1,882**	**1,943**	**2,391**	**1,608**	**(734)**	**9,471**
Foreign exchange/commodity timing differences in total revenues:							
Unrealized gains and losses on derivatives	(1)	1	(7)	(7)	35	(1)	**20**
Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized	–	–	–	(1)	(10)	–	**(11)**
Unrealized foreign exchange movements on receivables (and related assets)	(5)	–	3	4	(6)	–	**(4)**
Operational revenues	**2,375**	**1,883**	**1,939**	**2,387**	**1,627**	**(735)**	**9,476**
Income (loss) from operations	**326**	**256**	**219**	**272**	**(102)**	**(116)**	**855**
Acquisition-related amortization	34	30	4	5	22	6	**101**
Restructuring and restructuring-related expenses	1	8	20	8	8	2	**47**
Gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items	(3)	4	1	5	1	3	**11**
Foreign exchange/commodity timing differences in income from operations:							
Unrealized gains and losses on derivatives (foreign exchange, commodities, embedded derivatives)	1	1	1	16	38	(2)	**55**
Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized	(1)	–	–	(2)	(14)	–	**(17)**
Unrealized foreign exchange movements on receivables/payables (and related assets/liabilities)	(6)	–	–	–	(7)	–	**(13)**
Operational EBITA	**352**	**299**	**245**	**304**	**(54)**	**(107)**	**1,039**
Operational EBITA margin (%)	**14.8%**	**15.9%**	**12.6%**	**12.7%**	**-3.3%**	**n.a.**	**11.0%**

Operational EPS

Definition

Operational EPS

Operational EPS is calculated as Operational net income divided by the weighted-average number of shares used in determining basic earnings per share.

Operational net income

Operational net income is calculated as Net income attributable to ABB adjusted for the net-of-tax impact of:

(i) restructuring and restructuring-related expenses,

(ii) gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items,

(iii) foreign exchange/commodity timing differences in income from operations consisting of: (a) unrealized gains and losses on derivatives (foreign exchange, commodities, embedded derivatives), (b) realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized, and (c) unrealized foreign exchange movements on receivables/payables (and related assets/liabilities), and

(iv) acquisition-related amortization.

Acquisition-related amortization

Amortization expense on intangibles arising upon acquisitions.

Adjusted Group effective tax rate

The Adjusted Group effective tax rate is computed by dividing the provision for income taxes by income from continuing operations before taxes. The calculation excludes the amount of gains and losses from sale of businesses and the related provision for income taxes.

Constant currency Operational EPS adjustment

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

Reconciliation

	Three months ended March 31,			
($ in millions, except per share data in $)	2015		2014	
		EPS[1]		EPS[1]
Net income (attributable to ABB)	**564**	**0.25**	**544**	**0.24**
Restructuring and restructuring-related expenses[2]	19	0.01	34	0.01
Gains and losses from sale of businesses, acquisition-related expenses and certain non-operational items[3]	8	0.00	8	0.00
FX/commodity timing differences in income from operations[2]	(21)	(0.01)	18	0.01
Acquisition-related amortization[2]	59	0.03	72	0.03
Operational net income	**629**	**0.28**	**676**	**0.29**
Constant currency Operational EPS adjustment		0.03		–
Operational EPS (constant currency basis)		**0.31**		**0.29**

[1] EPS amounts are computed individually, therefore the sum of the per share amounts shown may not equal to the total.
[2] Net of tax at the Adjusted Group effective tax rate.
[3] Net of tax at the Adjusted Group effective tax rate, except for gains and losses from sale of businesses which are net of the actual related provision for taxes.

Net debt / (Net cash)

Definition

Net debt / (Net cash)

Net debt / (Net cash) is defined as Total debt less Cash and marketable securities.

Total debt

Total debt is the sum of Short-term debt and current maturities of long-term debt, and Long-term debt.

Cash and marketable securities

Cash and marketable securities is the sum of Cash and equivalents, and Marketable securities and short-term investments.

Reconciliation

($ in millions)	March 31, 2015	December 31, 2014
Short-term debt and current maturities of long-term debt	506	353
Long-term debt	7,203	7,338
Total debt	**7,709**	**7,691**
Cash and equivalents	4,471	5,443
Marketable securities and short-term investments	1,684	1,325
Cash and marketable securities	**6,155**	**6,768**
Net debt / (Net cash)	**1,554**	**923**

Net working capital as a percentage of revenues

Definition

Net working capital as a percentage of revenues

Net working capital as a percentage of revenues is calculated as Net working capital divided by Adjusted revenues for the trailing twelve months.

Net working capital

Net working capital is the sum of (i) receivables, net, (ii) inventories, net, and (iii) prepaid expenses; less (iv) accounts payable, trade, (v) billings in excess of sales, (vi) advances from customers, and (vii) other current liabilities (excluding primarily: (a) income taxes payable, (b) current derivative liabilities, (c) pension and other employee benefits, and (d) payables under the share buyback program); and including the amounts related to these accounts which have been presented as either assets or liabilities held for sale.

Adjusted revenues for the trailing twelve months

Adjusted revenues for the trailing twelve months includes total revenues recorded by ABB in the twelve months preceding the relevant balance sheet date adjusted to eliminate revenues of divested businesses and the estimated impact of annualizing revenues of certain acquisitions which were completed in the same trailing twelve-month period.

Reconciliation

($ in millions, unless otherwise indicated)	March 31, 2015	March 31, 2014
Net working capital:		
Receivables, net	10,599	12,215
Inventories, net	5,346	6,201
Prepaid expenses	289	305
Accounts payable, trade	(4,473)	(4,872)
Billings in excess of sales	(1,396)	(1,539)
Advances from customers	(1,503)	(1,780)
Other current liabilities[1]	(2,900)	(3,307)
Net working capital	**5,962**	**7,223**
Total revenues for the three months ended:		
March 31, 2015 / 2014	8,555	9,471
December 31, 2014 / 2013	10,346	11,373
September 30, 2014 / 2013	9,823	10,535
June 30, 2014 / 2013	10,190	10,225
Adjustment to annualize/eliminate revenues of certain acquisitions/divestments	(372)	204
Adjusted revenues for the trailing twelve months	**38,542**	**41,808**
Net working capital as a percentage of revenues (%)	**15%**	**17%**

[1] Amounts exclude $1,017 million and $710 million at March 31, 2015 and 2014, respectively, related primarily to (a) income taxes payable, (b) current derivative liabilities, (c) pension and other employee benefits, and (d) payables under the share buyback program.

Finance net

Definition

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

Reconciliation

	Three months ended March 31,	
($ in millions)	2015	2014
Interest and dividend income	19	17
Interest and other finance expense	(71)	(84)
Finance net	**(52)**	**(67)**

Book-to-bill ratio

Definition

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

Reconciliation

	Three months ended March 31,	
($ in millions, unless otherwise indicated)	2015	2014
Orders received	10,404	10,358
Total revenues	8,555	9,471
Book-to-bill ratio	**1.22**	**1.09**

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