KOHLS Corp
Form 4
March 29, 2016

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
SCHEPP RICHARD D

(Last) (First) (Middle)

N56 W17000 RIDGEWOOD DRIVE

(Street)

MENOMONEE FALLS, WI 53051-5660

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
KOHLS Corp [KSS]

3. Date of Earliest Transaction (Month/Day/Year)
03/28/2016

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chief Administrative Officer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	03/28/2016		F		882	D	$ 45.93 (1)	109,402	D	
Common Stock	03/28/2016		F		1,054	D	$ 45.93 (1)	108,348 (2)	D	
Common Stock								1,833	I	Held in Reporting Person's 401(k) account as

of March
24, 2016.

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474
(9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Own Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
SCHEPP RICHARD D N56 W17000 RIDGEWOOD DRIVE MENOMONEE FALLS, WI 53051-5660			Chief Administrative Officer	

Signatures

(Jason J. Kelroy P.O.A.)	03/29/2016
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Represents shares used to satisfy tax withholding obligation upon vesting of restricted stock under the Company's 2010 Long Term Compensation Plan.

(2) Includes 56,186 unvested shares of restricted stock.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. **(17)** 25 **8**

Dividends paid to noncontrolling shareholders

(150) **(150)**

Dividends paid

(1,667) **(1,667)** **(1,667)**

Share-based payment arrangements

71 **71** **71**

Delivery of shares

(8) 82 **74** **74**

Call options

13 **13** **13**

Replacement options issued in connection with acquisition

2 **2** **2**

Other

(2) **(2)** **(2)**

Balance at December 31, 2013

1,750 **19,186** **(431)** **7** **(1,610)** **22** **(2,012)** **(246)** **18,678** **530** **19,208**

See accompanying Notes to the Consolidated Financial Statements

F-9

Table of Contents

Note 1 The Company

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 has a global integrated risk management process. Once a year, the Board of Directors of ABB Ltd performs a risk assessment in accordance with the Company's risk management processes and discusses appropriate actions, if necessary.

Note 2 Significant accounting policies

The following is a summary of significant accounting policies followed in the preparation of these Consolidated Financial Statements.

Basis of presentation

The Consolidated Financial Statements are prepared in accordance with United States of America (United States or U.S.) generally accepted accounting principles (U.S. GAAP) and are presented in United States dollars ($ or USD) unless otherwise stated. The par value of capital stock is denominated in Swiss francs.

Scope of consolidation

The Consolidated Financial Statements include the accounts of ABB Ltd and companies which are directly or indirectly controlled by ABB Ltd. Additionally, the Company consolidates variable interest entities if it has determined that it is the primary beneficiary. Intercompany accounts and transactions are eliminated. Investments in joint ventures and affiliated companies in which the Company has the ability to exercise significant influence over operating and financial policies (generally through direct or indirect ownership of 20 percent to 50 percent of the voting rights), are recorded in the Consolidated Financial Statements using the equity method of accounting.

Reclassifications

Certain amounts reported for prior years in the Consolidated Financial Statements and Notes have been reclassified to conform to the current year's presentation. These changes primarily relate to current liabilities, where amounts previously reported in "Employee and other payables" and "Accrued expenses" have been reclassified to "Other provisions" and "Other current liabilities".

Operating cycle

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.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make assumptions and estimates that directly affect the amounts reported in the Consolidated Financial

Table of Contents

Note 2 Significant accounting policies (Continued)

Statements and the accompanying Notes. The most significant, difficult and subjective of such accounting assumptions and estimates include:

- assumptions and projections, principally related to future material, labor and project-related overhead costs, used in determining the percentage-of-completion on projects,

- estimates of loss contingencies associated with litigation or threatened litigation and other claims and inquiries, environmental damages, product warranties, regulatory and other proceedings,

- assumptions used in the calculation of pension and postretirement benefits and the fair value of pension plan assets,

- recognition and measurement of current and deferred income tax assets and liabilities (including the measurement of uncertain tax positions),

- growth rates, discount rates and other assumptions used in testing goodwill for impairment,

- assumptions used in determining inventory obsolescence and net realizable value,

- estimates and assumptions used in determining the fair values of assets and liabilities assumed in business combinations,

- growth rates, discount rates and other assumptions used to determine impairment of long-lived assets, and

- assessment of the allowance for doubtful accounts.

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

Cash and equivalents

Cash and equivalents include highly liquid investments with maturities of three months or less at the date of acquisition.

Currency and other local regulatory limitations related to the transfer of funds exist in a number of countries where the Company operates. Funds, other than regular dividends, fees or loan repayments, cannot be readily transferred abroad from these countries and are therefore deposited and used for working capital needs locally. These funds are included in cash and equivalents as they are not considered restricted.

Marketable securities and short-term investments

Management determines the appropriate classification of held-to-maturity and available-for-sale securities at the time of purchase. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost, adjusted for accretion of discounts or amortization of premiums to maturity computed under the effective interest method. Such accretion or amortization is included in "Interest and dividend income". Marketable debt securities not classified as held-to-maturity and equity securities that have readily determinable fair values are classified as available-for-sale and reported at fair value.

Unrealized gains and losses on available-for-sale securities are excluded from the determination of earnings and are instead recognized in the "Accumulated other comprehensive loss" component of stockholders' equity, net of tax, until realized. Realized gains and losses on available-for-sale securities are computed based upon the historical cost of these securities, using the specific identification method.

F-11

Table of Contents

Note 2 Significant accounting policies (Continued)

Marketable debt securities are generally classified as either "Cash and equivalents" or "Marketable securities and short-term investments" according to their maturity at the time of acquisition.

Marketable equity securities are generally classified as "Marketable securities and short-term investments", however any marketable securities held as a long-term investment rather than as an investment of excess liquidity, are classified as "Other non-current assets".

The Company performs a periodic review of its debt and equity securities to determine whether an other-than-temporary impairment has occurred. Generally, when an individual security has been in an unrealized loss position for an extended period of time, the Company evaluates whether an impairment has occurred. The evaluation is based on specific facts and circumstances at the time of assessment, which include general market conditions, and the duration and extent to which the fair value is below cost.

If the fair value of a debt security is less than its amortized cost, then an other-than-temporary impairment for the difference is recognized if (i) the Company has the intent to sell the security, (ii) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost base or (iii) a credit loss exists insofar as the Company does not expect to recover the entire recognized amortized cost of the security. Such impairment charges are generally recognized in "Interest and other finance expense". If the impairment is due to factors other than credit losses, and the Company does not intend to sell the security and it is not more likely than not that it will be required to sell the security before recovery of the security's amortized cost, such impairment charges are recorded in "Accumulated other comprehensive loss".

In addition, for equity securities, the Company assesses whether the cost value will recover within the near-term and whether the Company has the intent and ability to hold that equity security until such recovery occurs. If an other-than-temporary impairment is identified, the security is written down to its fair value and the related losses are recognized in "Interest and other finance expense", unless the impairment relates to equity securities classified as "Other non-current assets", in which case the impairment is reported in "Other income (expense), net".

Accounts receivable and allowance for doubtful accounts

Accounts receivable are recorded at the invoiced amount. The Company has a group-wide policy on the management of credit risk. The policy includes a credit assessment methodology to assess the creditworthiness of customers and assign to those customers a risk category. Third-party agencies' ratings are considered, if available. For customers where agency ratings are not available, the customer's most recent financial statements, payment history and other relevant information are considered in the assignment to a risk category. Customers are assessed at least annually or more frequently when information on significant changes in the customers' financial position becomes known. In addition to the assignment to a risk ctegory, a credit limit per customer is set.

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

The Company, in its normal course of business, transfers receivables to third parties, generally without recourse. The transfer is accounted for as a sale when the Company has surrendered control over the receivables. Control is deemed to have been surrendered when (i) the transferred receivables

Table of Contents

Note 2 Significant accounting policies (Continued)

have been put presumptively beyond the reach of the Company and its creditors, even in bankruptcy or other receivership, (ii) the third-party transferees have the right to pledge or exchange the transferred receivables, and (iii) the Company has relinquished effective control over the transferred receivables and does not retain the ability or obligation to repurchase or redeem the transferred receivables. At the time of sale, the sold receivables are removed from the Consolidated Balance Sheets and the related cash inflows are classified as operating activities in the Consolidated Statements of Cash Flows. Costs associated with the sale of receivables, including the related gains and losses from the sales, are included in "Interest and other finance expense". Transfers of receivables that do not meet the requirements for treatment as sales are accounted for as secured borrowings and the related cash flows are classified as financing activities in the Consolidated Statements of Cash Flows.

Concentrations of credit risk

The Company sells a broad range of products, systems and services to a wide range of industrial, commercial and utility customers as well as various government agencies and quasi-governmental agencies throughout the world. Concentrations of credit risk with respect to accounts receivable are limited, as the Company's customer base is comprised of a large number of individual customers. Ongoing credit evaluations of customers' financial positions are performed to determine whether the use of credit support instruments such as guarantees, letters of credit or credit insurance are necessary; collateral is not generally required. The Company maintains reserves for potential credit losses as discussed above in "Accounts receivable and allowance for doubtful accounts". Such losses, in the aggregate, are in line with the Company's expectations.

It is the Company's policy to invest cash in deposits with banks throughout the world with certain minimum credit ratings and in high quality, low risk, liquid investments. The Company actively manages its credit risk by routinely reviewing the creditworthiness of the banks and the investments held, as well as maintaining such investments in time deposits or other liquid investments. The Company has not incurred significant credit losses related to such investments.

The Company's exposure to credit risk on derivative financial instruments is the risk that the counterparty will fail to meet its obligations. To reduce this risk, the Company has credit policies that require the establishment and periodic review of credit limits for individual counterparties. In addition, the Company has entered into close-out netting agreements with most derivative counterparties. 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. In the Consolidated Financial Statements derivative transactions are presented on a gross basis.

Revenue recognition

The Company generally recognizes revenues for the sale of goods when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectability is reasonably assured. With regards to the sale of products, delivery is not considered to have occurred, and therefore no revenues are recognized, until the customer has taken title to the products and assumed the risks and rewards of ownership of the products specified in the purchase order or sales agreement. Generally, the transfer of title and risks and rewards of ownership are governed by the contractually-defined shipping terms. The Company uses various International Commercial shipping terms (as promulgated by the International Chamber of Commerce) in its sales of products to third-party customers, such as Ex Works (EXW), Free Carrier (FCA) and Delivered Duty Paid (DDP).

Table of Contents

Note 2 Significant accounting policies (Continued)

Subsequent to delivery of the products, the Company generally has no further contractual performance obligations that would preclude revenue recognition.

Revenues under long-term construction-type contracts are generally recognized using the percentage-of-completion method of accounting. The Company principally uses the cost-to-cost method to measure progress towards completion on contracts. Under this method, progress of contracts is measured by actual costs incurred in relation to the Company's best estimate of total estimated costs, which are reviewed and updated routinely for contracts in progress. The cumulative effect of any change in estimate is recorded in the period when the change in estimate is determined.

Short-term construction-type contracts, or long-term construction-type contracts for which reasonably dependable estimates cannot be made or for which inherent hazards make estimates difficult, are accounted for under the completed-contract method. Revenues under the completed-contract method are recognized upon substantial completion that is: acceptance by the customer, compliance with performance specifications demonstrated in a factory acceptance test or similar event.

For non construction-type contracts that contain customer acceptance provisions, revenue is deferred until customer acceptance occurs or the Company has demonstrated the customer-specified objective criteria have been met or the contractual acceptance period has lapsed.

Revenues from service transactions are recognized as services are performed. For long-term service contracts, revenues are recognized on a straight-line basis over the term of the contract or, if the performance pattern is other than straight-line, as the services are provided. Service revenues reflect revenues earned from the Company's activities in providing services to customers primarily subsequent to the sale and delivery of a product or complete system. Such revenues consist of maintenance-type contracts, field service activities that include personnel and accompanying spare parts, and installation and commissioning of products as a stand-alone service or as part of a service contract.

Revenues for software license fees are recognized when persuasive evidence of a non-cancelable license agreement exists, delivery has occurred, the license fee is fixed or determinable, and collection is probable. In software arrangements that include rights to multiple software products and/or services, the total arrangement fee is allocated using the residual method. Under this method revenue is allocated to the undelivered elements based on vendor-specific objective evidence (VSOE) of the fair value of such undelivered elements and the residual amounts of revenue are allocated to the delivered elements. Elements included in multiple element arrangements may consist of software licences, maintenance (which includes customer support services and unspecified upgrades), hosting, and consulting services. VSOE is based on the price generally charged when an element is sold separately or, in the case of an element not yet sold separately, the price established by management, if it is probable that the price, once established, will not change once the element is sold separately. If VSOE does not exist for an undelivered element, the total arrangement fee will be recognized as revenue over the life of the contract or upon delivery of the undelivered element.

The Company offers multiple element arrangements to meet its customers' needs. These arrangements may involve the delivery of multiple products and/or performance of services (such as installation and training) and the delivery and/or performance may occur at different points in time or over different periods of time. Deliverables of such multiple element arrangements are evaluated to determine the unit of accounting and if certain criteria are met, the Company allocates revenues to each unit of accounting based on its relative selling price. A hierarchy of selling prices is used to determine the selling price of each specific deliverable that includes VSOE (if available), third-party evidence (if VSOE is not available), or estimated selling price if neither of the first two is available. The estimated selling price reflects the Company's best estimate of what the selling prices of elements

Table of Contents

Note 2 Significant accounting policies (Continued)

would be if the elements were sold on a stand-alone basis. Revenue is allocated between the elements of an arrangement at the inception of the arrangement. Such arrangements generally include industry-specific performance and termination provisions, such as in the event of substantial delays or non-delivery.

Revenues are reported net of customer rebates and similar incentives. Taxes assessed by a governmental authority that are directly imposed on revenue-producing transactions between the Company and its customers, such as sales, use, value-added and some excise taxes, are excluded from revenues.

Contract loss provisions

Losses on contracts are recognized in the period when they are identified and are based upon the anticipated excess of contract costs over the related contract revenues.

Shipping and handling costs

Shipping and handling costs are recorded as a component of cost of sales.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method, the weighted-average cost method, or in certain circumstances (for example, where the completed-contract method of revenue recognition is used) the specific identification method. Inventoried costs are stated at acquisition cost or actual production cost, including direct material and labor and applicable manufacturing overheads. Adjustments to reduce the cost of inventory to its net market value are made, if required, for decreases in sales prices, obsolescence or similar reductions in the estimated net realizable value.

Impairment of long-lived assets

Long-lived assets that are held and used are assessed for impairment when events or circumstances indicate that the carrying amount of the asset may not be recoverable. If the asset's net carrying value exceeds the asset's net undiscounted cash flows expected to be generated over its remaining useful life including net proceeds expected from disposition of the asset, if any, the carrying amount of the asset is reduced to its estimated fair value. The estimated fair value is determined using a market, income and/or cost approach.

Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and is depreciated using the straight-line method. The estimated useful lives of the assets are generally as follows:

factories and office buildings: 30 to 40 years,

other facilities: 15 years,

machinery and equipment: 3 to 15 years,

furniture and office equipment: 3 to 8 years,

leasehold improvements are depreciated over their estimated useful life or, for operating leases, over the lease term, if shorter.

Table of Contents

Note 2 Significant accounting policies (Continued)

Goodwill and other intangible assets

Goodwill is reviewed for impairment annually as of October 1, or more frequently if events or circumstances indicate that the carrying value may not be recoverable.

Goodwill is evaluated for impairment at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment. For the annual impairment review in 2013, the reporting units were the same as the operating segments for Discrete Automation and Motion, Low Voltage Products, Power Products and Power Systems, while for the Process Automation operating segment, the reporting units were determined to be one level below the operating segment.

When evaluating goodwill for impairment, the Company uses either a qualitative or quantitative assessment method for each reporting unit. The qualitative assessment involves determining, based on an evaluation of qualitative factors, if it is more likely than not that the fair value of a reporting unit is less than its carrying value. If, based on this qualitative assessment, it is determined to be more likely than not that the reporting unit's fair value is less than its carrying value, the two-step quantitative impairment test (described below) is performed, otherwise no further analysis is required. If the Company elects not to perform the qualitative assessment for a reporting unit, the two-step quantitative impairment test is performed.

The two-step quantitative impairment test calculates the fair value of a reporting unit (based on the income approach whereby the fair value of a reporting unit is calculated based on the present value of future cash flows) and compares it to the reporting unit's carrying value. If the carrying value of the net assets of a reporting unit exceeds the fair value of the reporting unit then the Company performs the second step of the impairment test to determine the implied fair value of the reporting unit's goodwill. If the carrying value of the reporting unit's goodwill exceeds its implied fair value, the Company records an impairment charge equal to the difference.

The cost of acquired intangible assets with a finite life is amortized using a method of amortization that reflects the pattern of intangible assets' expected contributions to future cash flows. If that pattern cannot be reliably determined, the straight-line method is used. The amortization periods range from 3 to 5 years for software and from 5 to 20 years for customer-, technology- and marketing-related intangibles. Intangible assets with a finite life are tested for impairment upon the occurrence of certain triggering events.

Capitalized software costs

Software for internal use

Costs incurred in the application development stage until the software is substantially complete are capitalized and are amortized on a straight-line basis over the estimated useful life of the software, typically ranging from 3 to 5 years.

Software for sale

Costs incurred after the software has demonstrated its technological feasibility until the product is available for general release to the customers are capitalized and amortized on a straight-line basis over the estimated life of the product. The Company periodically performs an evaluation to determine that the unamortized cost of software to be sold does not exceed the net realizable value. If the unamortized cost of software to be sold exceeds its net realizable value, the Company records an impairment charge equal to the difference.

Table of Contents

Note 2 Significant accounting policies (Continued)

Derivative financial instruments and hedging activities

The Company uses derivative financial instruments to manage currency, commodity, interest rate and equity exposures, arising from its global operating, financing and investing activities (see Note 5).

The Company recognizes all derivatives, other than certain derivatives indexed to the Company's own stock, at fair value in the Consolidated Balance Sheets. Derivatives that are not designated as hedging instruments are reported at fair value with derivative gains and losses reported through earnings and classified consistent with the nature of the underlying transaction.

If the derivatives are designated as a hedge, depending on the nature of the hedge, changes in the fair value of the derivatives will either be offset against the change in fair value of the hedged item attributable to the risk being hedged through earnings (in the case of a fair value hedge) or recognized in "Accumulated other comprehensive loss" until the hedged item is recognized in earnings (in the case of a cash flow hedge). The ineffective portion of a derivative's change in fair value is immediately recognized in earnings consistent with the classification of the hedged item. Where derivative financial instruments have been designated as cash flow hedges of forecasted transactions and such forecasted transactions are no longer probable of occuring, hedge accounting is discontinued and any derivative gain or loss previously included in "Accumulated other comprehensive loss" is reclassified into earnings consistent with the nature of the original forecasted transaction. Gains or losses from derivatives designated as hedging instruments in a fair value hedge are reported through earnings and classified consistent with the nature of the underlying hedged transaction.

Certain commercial contracts may grant rights to the Company or the counterparties, or contain other provisions that are considered to be derivatives. Such embedded derivatives are assessed at inception of the contract and depending on their characteristics, accounted for as separate derivative instruments and shown at their fair value in the balance sheet with changes in their fair value reported in earnings consistent with the nature of the commercial contract to which they relate.

Derivatives are classified in the Consolidated Statements of Cash Flows in the same section as the underlying item. Cash flows from the settlement of undesignated derivatives used to manage the risks of different underlying items on a net basis, are classified within "Net cash provided by operating activities", as the underlying items are primarily operational in nature. Other cash flows on the settlement of derivatives are recorded within "Net cash used in investing activities".

Leases

The Company leases primarily real estate and office equipment. Rental expense for operating leases is recorded on a straight-line basis over the life of the lease term. Lease transactions where substantially all risks and rewards incident to ownership are transferred from the lessor to the lessee are accounted for as capital leases. All other leases are accounted for as operating leases. Amounts due under capital leases are recorded as a liability. The interest in assets acquired under capital leases is recorded as property, plant and equipment. Depreciation and amortization of assets recorded under capital leases is included in depreciation and amortization expense.

Sale-leasebacks

The Company occasionally enters into transactions accounted for as sale-leasebacks, in which fixed assets, generally real estate and/or equipment, are sold to a third party and then leased for use by the Company. Under certain circumstances, the necessary criteria to recognize a sale of these assets may not occur and then the transaction is reflected as a financing transaction, with the proceeds received from the transaction reflected as a borrowing or deposit liability. When the necessary criteria have been

Table of Contents

Note 2 Significant accounting policies (Continued)

met to recognize a sale, gains or losses on the sale of the assets are generally deferred and amortized over the term of the transaction, except in certain limited instances when a portion of the gain or loss may be recognized upon inception. The lease of the asset is accounted for as either an operating lease or a capital lease, depending upon its specific terms.

Translation of foreign currencies and foreign exchange transactions

The functional currency for most of the Company's subsidiaries is the applicable local currency. The translation from the applicable functional currencies into the Company's reporting currency is performed for balance sheet accounts using exchange rates in effect at the balance sheet date and for income statement accounts using average exchange rates prevailing during the year. The resulting translation adjustments are excluded from the determination of earnings and are recognized in "Accumulated other comprehensive loss" until the subsidiary is sold, substantially liquidated or evaluated for impairment in anticipation of disposal.

Foreign currency exchange gains and losses, such as those resulting from foreign currency denominated receivables or payables, are included in the determination of earnings, except as they relate to intercompany loans that are equity-like in nature with no reasonable expectation of repayment, which are recognized in "Accumulated other comprehensive loss". Exchange gains and losses recognized in earnings are included in "Total revenues", "Total cost of sales", "Selling, general and administrative expenses" or "Interest and other finance expense" consistent with the nature of the underlying item.

Income taxes

The Company uses the asset and liability method to account for deferred taxes. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and the tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. The Company records a deferred tax asset when it determines that it is more likely than not that the deduction will be sustained based upon the deduction's technical merit. A valuation allowance is recorded to reduce deferred tax assets to the amount that is more likely than not to be realized.

Deferred taxes are provided on unredeemed retained earnings of the Company's subsidiaries. However, deferred taxes are not provided on such unredeemed retained earnings to the extent it is expected that the earnings are permanently reinvested. Such earnings may become taxable upon the sale or liquidation of these subsidiaries or upon the remittance of dividends.

The Company operates in numerous tax jurisdictions and, as a result, is regularly subject to audit by tax authorities. The Company provides for tax contingencies whenever it is deemed more likely than not that a tax asset has been impaired or a tax liability has been incurred for events such as tax claims or changes in tax laws. Contingency provisions are recorded based on the technical merits of the Company's filing position, considering the applicable tax laws and Organisation for Economic Co-operation and Development (OECD) guidelines and are based on its evaluations of the facts and circumstances as of the end of each reporting period. Changes in the facts and circumstances could result in a material change to the tax accruals.

The Company applies a two-step approach to recognize and measure uncertainty in income taxes. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including

Table of Contents

Note 2 Significant accounting policies (Continued)

resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50 percent likely of being realized upon ultimate settlement.

Expense related to tax penalties is classified in the Consolidated Income Statements as "Provision for taxes", while interest thereon is classified as "Interest and other finance expense".

Research and development

Research and development costs not related to specific customer orders are generally expensed as incurred.

Earnings per share

Basic earnings per share is calculated by dividing income by the weighted-average number of shares outstanding during the year. Diluted earnings per share is calculated by dividing income by the weighted-average number of shares outstanding during the year, assuming that all potentially dilutive securities were exercised, if dilutive. Potentially dilutive securities comprise: outstanding written call options, outstanding options and shares granted subject to certain conditions under the Company's share-based payment arrangements. See further discussion related to earnings per share in Note 20 and of potentially dilutive securities in Note 18.

Share-based payment arrangements

The Company has various share-based payment arrangements for its employees, which are described more fully in Note 18. Such arrangements are accounted for under the fair value method. For awards that are equity-settled, total compensation is measured at grant date, based on the fair value of the award at that date, and recorded in earnings over the period the employees are required to render service. For awards that are cash-settled, compensation is initially measured at grant date and subsequently remeasured at each reporting period, based on the fair value and vesting percentage of the award at each of those dates, with changes in the liability recorded in earnings.

Fair value measures

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

Table of Contents

Note 2 Significant accounting policies (Continued)

the inputs to the valuation technique are observable or unobservable. An observable input is based on market data obtained from independent sources, while an unobservable input reflects the Company's assumptions about market data.

The levels of the fair value hierarchy are as follows:

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

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

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

Disclosures about the Company's fair value measurements of assets and liabilities are included in Note 6.

Contingencies

The Company is subject to proceedings, litigation or threatened litigation and other claims and inquiries, related to environmental, labor, product, regulatory, tax (other than income tax) and other matters, and is required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses. A determination of the provision required, if any, for these contingencies is made after analysis of each individual issue, often with assistance from

Table of Contents

Note 2 Significant accounting policies (Continued)

both internal and external legal counsel and technical experts. The required amount of a provision for a contingency of any type may change in the future due to new developments in the particular matter, including changes in the approach to its resolution.

The Company records a provision for its contingent obligations when it is probable that a loss will be incurred and the amount can be reasonably estimated. Any such provision is generally recognized on an undiscounted basis using the Company's best estimate of the amount of loss incurred or at the lower end of an estimated range when a single best estimate is not determinable. In some cases, the Company may be able to recover a portion of the costs relating to these obligations from insurers or other third parties; however, the Company records such amounts only when it is probable that they will be collected.

The Company provides for anticipated costs for warranties when it recognizes revenues on the related products or contracts. Warranty costs include calculated costs arising from imperfections in design, material and workmanship in the Company's products. The Company makes individual assessments on contracts with risks resulting from order-specific conditions or guarantees and assessments on an overall, statistical basis for similar products sold in larger quantities.

The Company may have legal obligations to perform environmental clean-up activities related to land and buildings as a result of the normal operations of its business. In some cases, the timing or the method of settlement, or both, are conditional upon a future event that may or may not be within the control of the Company, but the underlying obligation itself is unconditional and certain. The Company recognizes a provision for these obligations when it is probable that a liability for the clean-up activity has been incurred and a reasonable estimate of its fair value can be made. The provision is initially recognized at fair value, and subsequently adjusted for accrued interest and changes in estimates. In some cases, a portion of the costs expected to be incurred to settle these matters may be recoverable. An asset is recorded when it is probable that such amounts are recoverable. Provisions for environmental obligations are not discounted to their present value when the timing of payments cannot be reasonably estimated.

Pensions and other postretirement benefits

The Company has a number of defined benefit pension and other postretirement plans. The Company recognizes an asset for such a plan's overfunded status or a liability for such a plan's underfunded status in its Consolidated Balance Sheets. Additionally, the Company measures such a plan's assets and obligations that determine its funded status as of the end of the year and recognizes the changes in the funded status in the year in which the changes occur. Those changes are reported in "Accumulated other comprehensive loss".

The Company uses actuarial valuations to determine its pension and postretirement benefit costs and credits. The amounts calculated depend on a variety of key assumptions, including discount rates and expected return on plan assets. Current market conditions are considered in selecting these assumptions.

The Company's various pension plan assets are assigned to their respective levels in the fair value hierarchy in accordance with the valuation principles described in the "Fair value measures" section above.

See Note 17 for further discussion of the Company's employee benefit plans.

Table of Contents

Note 2 Significant accounting policies (Continued)

Business combinations

The Company accounts for assets acquired and liabilities assumed in business combinations using the acquisition method and records these at their respective fair values. Contingent consideration is recorded at fair value as an element of purchase price with subsequent adjustments recognized in income.

Identifiable intangibles consist of intellectual property such as trademarks and trade names, customer relationships, patented and unpatented technology, in-process research and development, order backlog and capitalized software; these are amortized over their estimated useful lives. Such intangibles are subsequently subject to evaluation for potential impairment if events or circumstances indicate the carrying amount may not be recoverable. See "Goodwill and other intangible assets" above. Acquisition-related costs are recognized separately from the acquisition and expensed as incurred. Upon gaining control of an entity in which an equity method or cost basis investment was held by the Company, the carrying value of that investment is adjusted to fair value with the related gain or loss recorded in income.

Deferred tax assets and liabilities based on temporary differences between the financial reporting and the tax base of assets and liabilities as well as uncertain tax positions and valuation allowances on acquired deferred tax assets assumed in connection with a business combination are initially estimated as of the acquisition date based on facts and circumstances that existed at the acquisition date. These estimates are subject to change within the measurement period (a period of up to 12 months after the acquisition date during which the acquirer may adjust the provisional acquisition amounts) with any adjustments to the preliminary estimates being recorded to goodwill. Changes in deferred taxes, uncertain tax positions and valuation allowances on acquired deferred tax assets that occur after the measurement period are recognized in income.

New accounting pronouncements

Applicable in current period

Disclosures about offsetting assets and liabilities

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

Reporting of amounts reclassified out of accumulated other comprehensive income

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

Table of Contents

Note 2 Significant accounting policies (Continued)

applicable prospectively and resulted in the Company presenting, in a single note, significant reclassifications out of accumulated other comprehensive income (see Note 21).

Applicable for future periods

Parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity

In March 2013, an accounting standard update was issued regarding the release of cumulative translation adjustments of a parent when it ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity (for the Company, a foreign entity is an entity having a functional currency other than U.S. dollars). Under the update, the Company would release into net income the entire amount of a cumulative translation adjustment related to its investment in a foreign entity when a parent no longer has control as a result of selling a part or all of its investment in the foreign entity or otherwise no longer holds a controlling financial interest in a subsidiary or group of assets within the foreign entity. For foreign equity-accounted companies, a pro rata portion of the cumulative translation adjustment would be recognized in net income upon a partial sale of the equity-accounted company. This update is effective for the Company for annual and interim periods beginning January 1, 2014, and is applicable prospectively. The Company does not believe that this update will have a material impact on its Consolidated Financial Statements.

Presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists

In July 2013, an accounting standard update was issued regarding the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. Under the update, the Company would present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except in certain defined circumstances. This update is effective for the Company for annual and interim periods beginning January 1, 2014, and is applicable prospectively. The Company does not believe that this update will have a material impact on its Consolidated Financial Statements.

Note 3 Acquisitions

Acquisitions were as follows:

($ in millions, except number of acquired businesses)	**2013**	**2012**	**2011**
Acquisitions (net of cash acquired)(1)	897	3,643	3,805
Aggregate excess of purchase price over fair value of net assets acquired(2)	525	2,895	3,261
Number of acquired businesses	7	9	10

(1) Excluding changes in cost and equity investments but including $2 million in 2013, $5 million in 2012 and $19 million in 2011, representing the fair value of replacement vested stock options issued to Power-One, Thomas & Betts and Baldor employees, respectively, at the corresponding acquisition dates.

(2) Recorded as goodwill (see Note 11). Includes adjustments of $63 million in 2013 arising during the measurement period of acquisitions, primarily reflecting a reduction in certain deferred tax liabilities related to Thomas & Betts.

Table of Contents

Note 3 Acquisitions (Continued)

In the table above, the "Acquisitions" and "Aggregate excess of purchase price over fair value of net assets acquired" amounts for 2013 relate primarily to the acquisition of Power-One Inc. (Power-One). For 2012, these amounts relate primarily to the acquisition of Thomas & Betts Corporation (Thomas & Betts), while for 2011, these amounts relate mainly to the acquisitions of Baldor Electric Corporation (Baldor) and EAM Software Holdings Pty Ltd (Mincom).

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

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

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

The aggregate preliminary allocation of the purchase consideration for business acquisitions in 2013, was as follows:

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

(1) Excludes measurement period adjustments related to prior year acquisitions.

(2) The Company does not expect the majority of goodwill recognized to be deductible for income tax purposes.

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

Table of Contents

Note 3 Acquisitions (Continued)

The final allocation of the purchase consideration for the Thomas & Betts acquisition in 2012 was as follows:

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

(1) Gross receivables from the acquisition totaled $387 million; the fair value of which was $344 million after rebates and allowance for estimated uncollectable receivables.

(2) Goodwill recognized is not deductible for income tax purposes.

(3) Cash acquired in the acquisition totaled $521 million. Additional consideration for the acquisition included $94 million related to the cash settlement of stock options held by Thomas & Betts employees at the acquisition date and $5 million representing the fair value of replacement vested stock options issued to Thomas & Betts employees at the acquisition date. The fair value of these stock options was estimated using a Black-Scholes model.

The Company's Consolidated Income Statement for 2012 includes total revenues of $1,541 million and a net loss (including acquisition-related charges) of $10 million in respect of Thomas & Betts since the date of acquisition.

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

($ in millions)	2012	2011
Total revenues	40,251	40,288
Income from continuing operations, net of tax	2,924	3,381

The unaudited pro forma results above include certain adjustments related to the Thomas & Betts acquisition. The table below summarizes the adjustments necessary to present the pro forma financial

Table of Contents

Note 3 Acquisitions (Continued)

information of the Company and Thomas & Betts combined, as if Thomas & Betts had been acquired on January 1, 2011.

($ in millions)	Adjustments 2012	2011
Impact on cost of sales from additional amortization of intangible assets (excluding order backlog capitalized upon acquisition)	(26)	(69)
Impact on cost of sales from amortization of order backlog capitalized upon acquisition	11	(12)
Impact on cost of sales from fair valuing acquired inventory	31	(31)
Impact on cost of sales from additional depreciation of fixed assets	(12)	(33)
Interest expense on Thomas & Betts debt	5	21
Impact on selling, general and administrative expenses from Thomas & Betts stock-option plans adjustments	16	
Impact on selling, general and administrative expenses from acquisition-related costs	56	(20)
Impact on interest and other finance expense from bridging facility costs	13	
Other	(5)	(15)
Income taxes	(7)	44
Total pro forma adjustments	**82**	**(115)**

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

The aggregate allocation of the purchase consideration for other business acquisitions in 2012, excluding Thomas & Betts, was as follows:

($ in millions)	Allocated amounts
Intangible assets	68
Fixed assets	25
Deferred tax liabilities	(24)
Other assets and liabilities, net	21
Goodwill	172
Total consideration (net of cash acquired)	**262**

On January 26, 2011, the Company acquired 83.25 percent of the outstanding shares of Baldor for $63.50 per share in cash. On January 27, 2011, the Company exercised its top-up option contained in the merger agreement, bringing its shareholding in Baldor to 91.6 percent, allowing the Company to complete a short-form merger under Missouri, United States, law. On the same date, the Company completed the purchase of the remaining 8.4 percent of outstanding shares. The resulting cash outflows for the Company amounted to $4,276 million, representing $2,966 million for the purchase of the shares (net of cash acquired), $70 million related to cash settlement of Baldor options held at acquisition date and $1,240 million for the repayment of debt assumed upon acquisition. Baldor markets, designs and manufactures industrial electric motors, mechanical power transmission products, drives and generators.

Table of Contents

Note 3 Acquisitions (Continued)

The final allocation of the purchase consideration for the Baldor acquisition in 2011 was as follows:

($ in millions)	Allocated amounts	Weighted-average useful life
Customer relationships	996	19 years
Technology	259	7 years
Trade name	121	10 years
Order backlog	15	2 months
Other intangible assets	15	5 years
Intangible assets	**1,406**	**16 years**
Fixed assets	382	
Debt acquired	(1,241)	
Deferred tax liabilities	(693)	
Inventories	422	
Other assets and liabilities, net[1]	51	
Goodwill[2]	2,728	
Total consideration (net of cash acquired)[3]	**3,055**	

(1) Gross receivables from the acquisition totaled $266 million; the fair value of which was $263 million after allowance for estimated uncollectable receivables.

(2) The goodwill recognized is not deductible for income tax purposes.

(3) Cash acquired in the acquisition totaled $48 million. Additional consideration included $70 million related to the cash settlement of stock options held by Baldor employees at the acquisition date and $19 million representing the fair value of replacement vested stock options issued to Baldor employees at the acquisition date. The fair value of these stock options was estimated using a Black-Scholes model.

The Company's Consolidated Income Statement for 2011 includes total revenues of $1,950 million and net income (including acquisition-related charges) of $155 million in respect of Baldor since the date of acquisition.

The aggregate allocation of the purchase consideration for business acquisitions in 2011, excluding Baldor, was as follows:

($ in millions)	Allocated amounts[1]
Intangible assets	447
Fixed assets	40
Deferred tax liabilities	(99)
Other assets and liabilities, net[2]	(171)
Goodwill	533
Total consideration (net of cash acquired)	**750**

(1) The allocated amounts primarily relate to the acquisitions of Mincom, PGC Powergen Consulting SA (Trasfor) and AB Lorentzen & Wettre.

(2) Includes debt acquired of $202 million.

Table of Contents

Note 4 Cash and equivalents and marketable securities

Current Assets

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

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

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

Non-current assets

Included in "Other non-current assets" are certain held-to-maturity marketable securities. At December 31, 2013, the amortized cost, gross unrecognized gain and fair value (based on quoted market prices) of these securities were $104 million, $17 million and $121 million, respectively. At December 31, 2012, the amortized cost, gross unrecognized gain and fair value (based on quoted market prices) of these securities were $97 million, $27 million and $124 million, respectively. These securities are pledged as security for certain outstanding deposit liabilities and the funds received at the respective maturity dates of the securities will only be available to the Company for repayment of these obligations.

Table of Contents

Note 4 Cash and equivalents and marketable securities (Continued)

Gains, losses and contractual maturities

Gross realized gains (reclassified from accumulated other comprehensive loss to income) on available-for-sale securities totaled $10 million, $3 million and $8 million in 2013, 2012 and 2011, respectively. Gross realized losses (reclassified from accumulated other comprehensive loss to income) on available-for-sale securities were not significant in 2013, 2012 and 2011. Such gains and losses were included in "Interest and other finance expense".

In 2013, 2012 and 2011, other-than-temporary impairments recognized on available-for-sale equity securities were not significant.

At December 31, 2013, 2012 and 2011, gross unrealized losses on available-for-sale securities that have been in a continuous unrealized loss position were not significant and the Company does not intend and does not expect to be required to sell these securities before the recovery of their amortized cost.

There were no sales of held-to-maturity securities in 2013, 2012 and 2011.

Contractual maturities of debt securities consisted of the following:

	December 31, 2013			
	Available-for-sale		Held-to-maturity	
($ in millions)	Cost basis	Fair value	Cost basis	Fair value
Less than one year	162	163	7	7
One to five years	138	143	40	44
Six to ten years	42	41	57	70
Total	**342**	**347**	**104**	**121**

At December 31, 2013 and 2012, the Company pledged $97 million and $96 million, respectively, of available-for-sale marketable securities as collateral for issued letters of credit and other security arrangements.

Note 5 Financial instruments

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

Currency risk

Due to the global nature of the Company's operations, many of its subsidiaries are exposed to currency risk in their operating activities from entering into transactions in currencies other than their functional currency. To manage such currency risks, the Company's policies require the subsidiaries to hedge their foreign currency exposures from binding sales and purchase contracts denominated in foreign currencies. For forecasted foreign currency denominated sales of standard products and the related foreign currency denominated purchases, the Company's policy is to hedge up to a maximum of 100 percent of the forecasted foreign currency denominated 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

Table of Contents

Note 5 Financial instruments (Continued)

uses foreign exchange swaps and forward foreign exchange contracts to manage the currency and timing mismatches arising in its liquidity management activities.

Commodity risk

Various commodity products are used in the Company's manufacturing activities. Consequently it is exposed to volatility in future cash flows arising from changes in commodity prices. To manage the price risk of commodities other than electricity, the Company's policies require that the subsidiaries hedge the commodity price risk exposures from binding contracts, as well as at least 50 percent (up to a maximum of 100 percent) of the forecasted commodity exposure over the next 12 months or longer (up to a maximum of 18 months). In certain locations where the price of electricity is hedged, up to a maximum of 90 percent of the forecasted electricity needs, depending on the length of the forecasted exposures, are hedged. Swap and futures contracts are used to manage the associated price risks of commodities.

Interest rate risk

The Company has issued bonds at fixed rates. Interest rate swaps are used to manage the interest rate risk associated with certain debt and generally 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 MIP. 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:

	Total notional amounts at December 31,		
Type of derivative ($ in millions)	**2013**	**2012**	**2011**
Foreign exchange contracts	19,351	19,724	16,503
Embedded foreign exchange derivatives	3,049	3,572	3,439
Interest rate contracts	4,693	3,983	5,535

Table of Contents

Note 5 Financial instruments (Continued)

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:

		Total notional amounts at December 31,		
Type of derivative	**Unit**	**2013**	**2012**	**2011**
Copper swaps	metric tonnes	42,866	45,222	38,414
Aluminum swaps	metric tonnes	3,525	5,495	5,068
Nickel swaps	metric tonnes	18	21	18
Lead swaps	metric tonnes	7,100	13,025	13,325
Zinc swaps	metric tonnes	300	225	125
Silver swaps	ounces	1,936,581	1,415,322	1,981,646
Electricity futures	megawatt hours	279,995	334,445	326,960
Crude oil swaps	barrels	113,000	135,471	113,397

Equity derivatives

At December 31, 2013, 2012 and 2011, the Company held 67 million, 67 million and 61 million cash-settled call options indexed to ABB Ltd shares (conversion ratio 5:1) with a total fair value of $56 million, $26 million and $21 million, respectively.

Cash flow hedges

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

At December 31, 2013, 2012 and 2011, "Accumulated other comprehensive loss" included net unrealized gains of $22 million, $37 million and $12 million, respectively, net of tax, on derivatives designated as cash flow hedges. Of the amount at December 31, 2013, net gains of $18 million are expected to be reclassified to earnings in 2014. At December 31, 2013, the longest maturity of a derivative classified as a cash flow hedge was 69 months.

In 2013, 2012 and 2011, the amounts of gains or losses, net of tax, reclassified into earnings due to the discontinuance of cash flow hedge accounting and recognized in earnings due to ineffectiveness in cash flow hedge relationships were not significant.

Table of Contents

Note 5 Financial instruments (Continued)

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:

2013

Type of derivative designated as a cash flow hedge	Gains (losses) recognized in OCI on derivatives (effective portion) ($ in millions)	Gains (losses) reclassified from OCI into income (effective portion) Location	($ in millions)	Gains (losses) recognized in income (ineffective portion and amount excluded from effectiveness testing) Location	($ in millions)
Foreign exchange contracts	22	Total revenues	52	Total revenues	
		Total cost of sales	(1)	Total cost of sales	
Commodity contracts	(5)	Total cost of sales	(5)	Total cost of sales	
Cash-settled call options	16	SG&A expenses(1)	8	SG&A expenses(1)	
Total	**33**		**54**		

2012

Type of derivative designated as a cash flow hedge	Gains (losses) recognized in OCI on derivatives (effective portion) ($ in millions)	Gains (losses) reclassified from OCI into income (effective portion) Location	($ in millions)	Gains (losses) recognized in income (ineffective portion and amount excluded from effectiveness testing) Location	($ in millions)
Foreign exchange contracts	74	Total revenues	69	Total revenues	
		Total cost of sales	(12)	Total cost of sales	
Commodity contracts	4	Total cost of sales	(4)	Total cost of sales	
Cash-settled call options	(4)	SG&A expenses(1)	(11)	SG&A expenses(1)	
Total	**74**		**42**		

2011

Type of derivative designated as a cash flow hedge	Gains (losses) recognized in OCI on derivatives (effective portion) ($ in millions)	Gains (losses) reclassified from OCI into income (effective portion) Location	($ in millions)	Gains (losses) recognized in income (ineffective portion and amount excluded from effectiveness testing) Location	($ in millions)
Foreign exchange contracts	9	Total revenues	113	Total revenues	
		Total cost of sales	(9)	Total cost of sales	
Commodity contracts	(13)	Total cost of sales	2	Total cost of sales	
Cash-settled call options	(17)	SG&A expenses[1]	(18)	SG&A expenses[1]	
Total	**(21)**		**88**		

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

Net derivative gains of $43 million, $28 million and $61 million, net of tax, were reclassified from "Accumulated other comprehensive loss" to earnings during 2013, 2012 and 2011, respectively.

Table of Contents

Note 5 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 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 in 2013, 2012 and 2011, was not significant.

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

	2013			
Type of derivative designated as a fair value hedge	**Gains (losses) recognized in income on derivatives designated as fair value hedges**		**Gains (losses) recognized in income on hedged item**	
	Location	**($ in millions)**	**Location**	**($ in millions)**
Interest rate contracts	Interest and other finance expense	(34)	Interest and other finance expense	35

	2012			
Type of derivative designated as a fair value hedge	**Gains (losses) recognized in income on derivatives designated as fair value hedges**		**Gains (losses) recognized in income on hedged item**	
	Location	**($ in millions)**	**Location**	**($ in millions)**
Interest rate contracts	Interest and other finance expense	6	Interest and other finance expense	(6)

	2011			
Type of derivative designated as a fair value hedge	**Gains (losses) recognized in income on derivatives designated as fair value hedges**		**Gains (losses) recognized in income on hedged item**	
	Location	**($ in millions)**	**Location**	**($ in millions)**
Interest rate contracts	Interest and other finance expense	(24)	Interest and other finance expense	24

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.

Table of Contents

Note 5 Financial instruments (Continued)

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

($ in millions) Type of derivative not designated as a hedge	Location	Gains (losses) recognized in income 2013	2012	2011
Foreign exchange contracts	Total revenues	(95)	318	(93)
	Total cost of sales	80	(193)	(25)
	SG&A expenses[1]	(1)	(3)	
	Interest and other finance expense	223	68	265
Embedded foreign exchange contracts	Total revenues	101	(148)	(31)
	Total cost of sales	(10)	28	11
Commodity contracts	Total cost of sales	(50)	10	(59)
	Interest and other finance expense	1	1	1
Interest rate contracts	Interest and other finance expense	(3)	(1)	
Cash-settled call options	Interest and other finance expense			(1)
Total		**246**	**80**	**68**

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

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

	December 31, 2013			
	Derivative assets		Derivative liabilities	
($ in millions)	Current in "Other current assets"	Non-current in "Other non-current assets"	Current in "Other current liabilities"	Non-current in "Other non-current liabilities"
Derivatives designated as hedging instruments:				
Foreign exchange contracts	21	8	10	3
Commodity contracts	2		1	
Interest rate contracts		14		7
Cash-settled call options	14	40		
Total	**37**	**62**	**11**	**10**
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	272	42	121	30
Commodity contracts	6	1	15	1
Cash-settled call options		2		
Embedded foreign exchange derivatives	57	21	55	11
Total	**335**	**66**	**191**	**42**

Total fair value	**372**	**128**	**202**	**52**
Thereof, subject to close-out netting agreements	**284**	**63**	**130**	**40**

Table of Contents

Note 5 Financial instruments (Continued)

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

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

Although the Company is party to close-out netting agreements with most derivative counterparties, the fair values in the tables above and in the Consolidated Balance Sheets at December 31, 2013 and 2012, have been presented on a gross basis.

Table of Contents

Note 6 Fair values

Recurring fair value measures

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

($ in millions)	Level 1	Level 2	Level 3	Total fair value
	December 31, 2013			
Assets				
Available-for-sale securities in "Cash and equivalents":				
Debt securities Corporate		69		69
Available-for-sale securities in "Marketable securities and short-term investments":				
Equity securities		159		159
Debt securities U.S. government obligations	104			104
Debt securities European government obligations	25			25
Debt securities Other government obligations		3		3
Debt securities Corporate		146		146
Derivative assets current in "Other current assets"		372		372
Derivative assets non-current in "Other non-current assets"		128		128
Total	**129**	**877**		**1,006**
Liabilities				
Derivative liabilities current in "Other current liabilities"	3	199		202
Derivative liabilities non-current in "Other non-current liabilities"		52		52
Total	**3**	**251**		**254**

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

Total	**164**	**1,967**	**2,131**
Liabilities			
Derivative liabilities current in "Other current liabilities"	4	192	196
Derivative liabilities non-current in "Other non-current liabilities"		69	69
Total	**4**	**261**	**265**

Table of Contents

Note 6 Fair values (Continued)

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

Available-for-sale securities in "Cash and equivalents", "Marketable securities and short-term investments" and "Other non-current assets": If quoted market prices in active markets for identical assets are available, these are considered Level 1 inputs; however, when markets are not active, these inputs are considered Level 2. If such quoted market prices are not available, fair value is determined using market prices for similar assets or present value techniques, applying an appropriate risk-free interest rate adjusted for nonperformance risk. The inputs used in present value techniques are observable and fall into the Level 2 category.

Derivatives: The fair values of derivative instruments are determined using quoted prices of identical instruments from an active market, if available (Level 1). If quoted prices are not available, price quotes for similar instruments, appropriately adjusted, or present value techniques, based on available market data, or option pricing models are used. Cash-settled call options hedging the Company's WAR liability are valued based on bid prices of the equivalent listed warrant. The fair values obtained using price quotes for similar instruments or valuation techniques represent a Level 2 input unless significant unobservable inputs are used.

Non-recurring fair value measures

There were no significant non-recurring fair value measurements during 2013. During 2012, impairment charges of $87 million were recorded as an adjustment to the fair value of certain equity-method investments. The non-recurring fair value measures were determined using a discounted cash flow model adjusted for industry and market conditions using Level 3 inputs and the resulting fair value of those assets remeasured during 2012 and still held at December 31, 2012, was not significant. Other non-recurring fair value measurements in 2012 were not significant.

Table of Contents

Note 6 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:

	December 31, 2013				
($ in millions)	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Assets					
Cash and equivalents (excluding available-for-sale securities with original maturities up to 3 months):					
Cash	2,414	2,414			2,414
Time deposits	3,538		3,538		3,538
Marketable securities and short-term investments (excluding available-for-sale securities):					
Time deposits	18		18		18
Other short-term investments	9	9			9
Short-term loans in "Receivables, net"	6		6		6
Other non-current assets:					
Loans granted	54		52		52
Held-to-maturity securities	104		121		121
Restricted cash and cash deposits	276	95	219		314
Liabilities					
Short-term debt and current maturities of long-term debt (excluding finance lease liabilities)	424	107	317		424
Long-term debt (excluding finance lease liabilities)	7,475	7,540	34		7,574
Non-current deposit liabilities in "Other non-current liabilities"	279		338		338

F-38

Table of Contents

Note 6 Fair values (Continued)

	December 31, 2012				
($ in millions)	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Assets					
Cash and equivalents (excluding available-for-sale securities with original maturities up to 3 months):					
Cash	2,784	2,784			2,784
Time deposits	3,963		3,963		3,963
Marketable securities and short-term investments (excluding available-for-sale securities):					
Time deposits	30		30		30
Other short-term investments	15	15			15
Short-term loans in "Receivables, net"	7		7		7
Other non-current assets:					
Loans granted	58		59		59
Held-to-maturity securities	97		124		124
Restricted cash and cash deposits	271	80	242		322
Liabilities					
Short-term debt and current maturities of long-term debt (excluding finance lease liabilities)	2,512	1,328	1,184		2,512
Long-term debt (excluding finance lease liabilities)	7,449	7,870	39		7,909
Non-current deposit liabilities in "Other non-current liabilities"	283		359		359

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

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

Other non-current assets: Includes (i) loans granted whose fair values are based on the carrying amount adjusted using a present value technique to reflect a premium or discount based on current market interest rates (Level 2 inputs), (ii) held-to-maturity securities (see Note 4) whose fair values are based on quoted market prices in inactive markets (Level 2 inputs), (iii) restricted cash whose fair values approximates the carrying amounts (Level 1) and (iv) cash deposits pledged in respect of certain non-current deposit liabilities whose fair values are determined using a discounted cash flow methodology based on current market interest rates (Level 2 inputs).

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

Long-term debt excluding finance lease liabilities: Fair values of outstanding bonds are determined using quoted market prices (Level 1 inputs). The fair values of other debt are determined using a discounted cash flow methodology based upon borrowing rates of similar debt instruments and reflecting appropriate adjustments for non-performance risk (Level 2 inputs).

Table of Contents

Note 6 Fair values (Continued)

Non-current deposit liabilities in "Other non-current liabilities": The fair values of non-current deposit liabilities are determined using a discounted cash flow methodology based on risk-adjusted interest rates (Level 2 inputs).

Note 7 Receivables, net

"Receivables, net" consisted of the following:

	December 31,	
($ in millions)	**2013**	**2012**
Trade receivables	8,360	8,233
Other receivables	802	801
Allowance	(317)	(271)
	8,845	8,763
Unbilled receivables, net:		
Costs and estimated profits in excess of billings	4,552	3,955
Advance payments consumed	(1,251)	(1,143)
	3,301	2,812
Total	**12,146**	**11,575**

"Trade receivables" in the table above includes contractual retention amounts billed to customers of $552 million and $390 million at December 31, 2013 and 2012, respectively. Management expects that the substantial majority of related contracts will be completed and the substantial majority of the billed amounts retained by the customer will be collected. Of the retention amounts outstanding at December 31, 2013, 71 percent and 21 percent are expected to be collected in 2014 and 2015, respectively. "Other receivables" in the table above consists of value added tax, claims, rental deposits and other non-trade receivables.

"Costs and estimated profits in excess of billings" in the table above represents revenues earned and recognized for contracts under the percentage-of-completion or completed-contract method of accounting. Management expects that the majority of the amounts will be collected within one year of the respective balance sheet date.

The reconciliation of changes in the allowance for doubtful accounts is as follows:

($ in millions)	**2013**	**2012**	**2011**
Balance at January 1,	**271**	**227**	**215**
Additions	147	155	157
Deductions	(92)	(113)	(131)
Exchange rate differences	(9)	2	(14)
Balance at December 31,	**317**	**271**	**227**

F-40

Table of Contents

Note 8 Inventories, net

"Inventories, net" consisted of the following:

	December 31,	
($ in millions)	2013	2012
Raw materials	2,403	2,427
Work in process	1,893	2,075
Finished goods	1,834	1,741
Advances to suppliers	246	246
	6,376	6,489
Advance payments consumed	(372)	(307)
Total	**6,004**	**6,182**

"Work in process" in the table above contains inventoried costs relating to long-term contracts of $358 million and $363 million at December 31, 2013 and 2012, respectively. "Advance payments consumed" in the table above relates to contractual advances received from customers on work in process.

Note 9 Other non-current assets

"Other non-current assets" consisted of the following:

	December 31,	
($ in millions)	2013	2012
Pledged financial assets	285	288
Derivatives (including embedded derivatives) (see Note 5)	128	144
Investments	72	57
Restricted cash	95	80
Loans granted (see Note 6)	54	58
Other	124	149
Total	**758**	**776**

The Company entered into structured leasing transactions with U.S. investors prior to 1999. Certain amounts were received at the inception of the transaction and are included above as "Pledged financial assets". These assets are pledged as security for certain outstanding deposit liabilities included in "Other non-current liabilities" (see Note 13) and the funds received upon maturity of the respective pledged financial assets will only be available to the Company for repayment of these obligations.

"Investments" represents shares and other equity investments carried at cost.

"Loans granted" is reported in the balance sheet at outstanding principal amount less any write-offs or allowance for uncollectible loans and primarily represents financing arrangements provided to customers (relating to products manufactured by the Company).

F-41

Table of Contents

Note 10 Property, plant and equipment, net

"Property, plant and equipment, net" consisted of the following:

($ in millions)	December 31, 2013	2012
Land and buildings	4,478	4,316
Machinery and equipment	8,258	7,603
Construction in progress	645	627
	13,381	12,546
Accumulated depreciation	(7,127)	(6,599)
Total	**6,254**	**5,947**

Assets under capital leases included in "Property, plant and equipment, net" were as follows:

($ in millions)	December 31, 2013	2012
Land and buildings	112	88
Machinery and equipment	98	95
	210	183
Accumulated depreciation	(115)	(103)
Total	**95**	**80**

In 2013, 2012 and 2011, depreciation, including depreciation of assets under capital leases, was $842 million, $733 million and $660 million, respectively.

Note 11 Goodwill and other intangible assets

Changes in "Goodwill" were as follows:

($ in millions)	Discrete Automation and Motion	Low Voltage Products	Process Automation	Power Products	Power Systems	Corporate and Other	Total
Cost at January 1, 2012	3,293	407	1,130	712	1,705	40	7,287
Accumulated impairment charges						(18)	(18)
Balance at January 1, 2012	**3,293**	**407**	**1,130**	**712**	**1,705**	**22**	**7,269**

Goodwill acquired during the year[1]	112	2,723	(1)	17	44		2,895
Exchange rate differences	15	17	11	5	13	1	62
Balance at December 31, 2012	**3,420**	**3,147**	**1,140**	**734**	**1,762**	**23**	**10,226**
Goodwill acquired during the year[1]	485	(45)	85				525
Goodwill allocated to disposals	(9)		(2)				(11)
Exchange rate differences	18	(43)	6	2	(53)		(70)
Balance at December 31, 2013	**3,914**	**3,059**	**1,229**	**736**	**1,709**	**23**	**10,670**

(1) Amounts include adjustments arising during the twelve-month measurement period subsequent to the respective acquisition date.

In 2013, goodwill acquired primarily relates to Power-One, acquired in July 2013, which has been allocated to the Discrete Automation and Motion operating segment.

Table of Contents

Note 11 Goodwill and other intangible assets (Continued)

In 2012, goodwill acquired primarily included $2,723 million in respect of Thomas & Betts (allocated to the Low Voltage Products operating segment) with the remainder representing goodwill in respect of Newave Energy Holding SA (allocated to the Discrete Automation and Motion operating segment), as well as a number of smaller acquisitions.

Intangible assets other than goodwill consisted of the following:

	December 31,					
	2013			2012		
($ in millions)	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Capitalized software for internal use	767	(618)	149	688	(533)	155
Capitalized software for sale	432	(384)	48	401	(346)	55
Intangibles other than software:						
Customer-related	2,773	(481)	2,292	2,733	(319)	2,414
Technology-related	867	(374)	493	768	(240)	528
Marketing-related	400	(99)	301	378	(59)	319
Other	63	(49)	14	73	(43)	30
Total	**5,302**	**(2,005)**	**3,297**	**5,041**	**(1,540)**	**3,501**

Additions to intangible assets other than goodwill consisted of the following:

($ in millions)	2013	2012
Capitalized software for internal use	66	71
Capitalized software for sale	26	
Intangibles other than software:		
Customer-related	82	1,204
Technology-related	110	222
Marketing-related	16	161
Total	**300**	**1,658**

Included in the additions of $300 million and $1,658 million in 2013 and 2012, respectively, were the following intangible assets other than goodwill related to business combinations:

	2013		2012	
($ in millions)	Amount acquired	Weighted-average useful life	Amount acquired	Weighted-average useful life
Customer-related[(1)]	82	11 years	1,200	18 years
Technology-related	108	4 years	222	5 years
Marketing-related	16	10 years	161	10 years

Total	**206**	**7 years**	**1,583**	**15 years**

(1) Includes the fair value of order backlog acquired in business combinations.

Table of Contents

Note 11 Goodwill and other intangible assets (Continued)

Amortization expense of intangible assets other than goodwill consisted of the following:

($ in millions)	2013	2012	2011
Capitalized software for internal use	81	79	87
Capitalized software for sale	34	38	48
Intangibles other than software	361	332	200
Total	**476**	**449**	**335**

In 2013, 2012 and 2011, impairment charges on intangible assets other than goodwill were not significant.

At December 31, 2013, future amortization expense of intangible assets other than goodwill is estimated to be:

	($ in millions)
2014	466
2015	403
2016	356
2017	266
2018	219
Thereafter	1,587
Total	**3,297**

Note 12 Debt

The Company's total debt at December 31, 2013 and 2012, amounted to $8,023 million and $10,071 million, respectively.

Short-term debt and current maturities of long-term debt

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

	December 31,	
($ in millions)	2013	2012
Short-term debt (weighted-average interest rate of 6.9% and 1.7%, respectively)	423	1,531
Current maturities of long-term debt (weighted-average nominal interest rate of 3.6% and 4.8%, respectively)	30	1,006
Total	**453**	**2,537**

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

At December 31, 2013 and 2012, the Company had in place three commercial paper programs: a $1 billion Euro-commercial paper program for the issuance of commercial paper in a variety of currencies (which in February 2014, was terminated and replaced with a $2 billion Euro-commercial paper program, also for the issuance of commercial paper in a variety of currencies); a 5 billion Swedish krona commercial paper program for the issuance of Swedish krona and euro-denominated commercial paper and, a $2 billion commercial paper program for the private placement of U.S. dollar

Table of Contents

Note 12 Debt (Continued)

denominated commercial paper in the United States. At December 31, 2013 and 2012, $100 million and $1,019 million, respectively, was outstanding under the $2 billion program in the United States. At February 28, 2014, the amount outstanding under the United States program was $1,275 million, with a corresponding increase in cash and equivalents.

In addition, the Company has a $2 billion multicurrency revolving credit facility, maturing in 2015. The facility is for general corporate purposes, including as a back-stop for the above-mentioned commercial paper programs. Interest costs on drawings under the facility are LIBOR, STIBOR or EURIBOR (depending on the currency of the drawings) plus a margin of between 0.425 percent and 0.625 percent (depending on the Company's credit rating), while commitment fees (payable on the unused portion of the facility) amount to 35 percent of the margin, which, given the Company's credit ratings at December 31, 2013, represents commitment fees of 0.166 percent per annum. Utilization fees, payable on drawings, amount to 0.15 percent per annum on drawings over one-third but less than or equal to two-thirds of the facility, or 0.3 percent per annum on drawings over two-thirds of the facility. No utilization fees are payable on drawings representing one-third or less of the total facility. No amount was drawn at December 31, 2013 and 2012. The facility contains cross-default clauses whereby an event of default would occur if the Company were to default on indebtedness as defined in the facility, at or above a specified threshold.

Long-term debt

The Company utilizes derivative instruments to modify the interest characteristics of its long-term debt. In particular, the Company uses interest rate swaps to effectively convert certain fixed-rate long-term debt into floating rate obligations. The carrying value of debt, designated as being hedged by fair value hedges, is adjusted for changes in the fair value of the risk component of the debt being hedged.

The following table summarizes the Company's long-term debt considering the effect of interest rate swaps. Consequently, a fixed-rate debt subject to a fixed-to-floating interest rate swap is included as a floating rate debt in the table below:

	December 31,					
	2013			2012		
($ in millions, except % data)	**Balance**	**Nominal rate**	**Effective rate**	**Balance**	**Nominal rate**	**Effective rate**
Floating rate	2,211	2.7%	1.2%	2,353	3.4%	1.6%
Fixed rate	5,389	3.1%	3.1%	6,187	3.1%	3.1%
	7,600			8,540		
Current portion of long-term debt	(30)	3.6%	3.6%	(1,006)	4.8%	1.3%
Total	**7,570**			**7,534**		

At December 31, 2013, the principal amounts of long-term debt repayable at maturity were as follows:

	($ in millions)
Due in 2014	30
Due in 2015	44
Due in 2016	1,173
Due in 2017	886
Due in 2018	395
Thereafter	5,088
Total	**7,616**

F-45

Table of Contents

Note 12 Debt (Continued)

Details of the Company's outstanding bonds were as follows:

		December 31, 2013 Nominal outstanding (in millions)		2013 Carrying value[1]		2012 Nominal outstanding (in millions)		2012 Carrying value[1]
Bonds:								
4.625% EUR Instruments, due 2013					EUR	700	$	931
2.5% USD Notes, due 2016	USD	600	$	598	USD	600	$	597
1.25% CHF Bonds, due 2016	CHF	500	$	568	CHF	500	$	557
1.625% USD Notes, due 2017	USD	500	$	498	USD	500	$	497
4.25% AUD Notes, due 2017	AUD	400	$	353	AUD	400	$	413
1.50% CHF Bonds, due 2018	CHF	350	$	393	CHF	350	$	383
2.625% EUR Instruments, due 2019	EUR	1,250	$	1,722	EUR	1,250	$	1,648
4.0% USD Notes, due 2021	USD	650	$	642	USD	650	$	641
2.25% CHF Bonds, due 2021	CHF	350	$	396	CHF	350	$	402
5.625% USD Notes, due 2021	USD	250	$	287	USD	250	$	291
2.875% USD Notes, due 2022	USD	1,250	$	1,230	USD	1,250	$	1,224
4.375% USD Notes, due 2042	USD	750	$	727	USD	750	$	727
Total outstanding bonds			**$**	**7,414**			**$**	**8,311**

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

During 2013, the Company repaid the 4.625% EUR Instruments, due 2013. The Company had entered into interest rate swaps to hedge its interest obligations on these bonds. After considering the impact of such swaps, these bonds effectively became floating rate euro obligations and consequently are shown as floating rate debt at December 31, 2012, in the table of long-term debt above.

The 2.5% USD Notes, due 2016, and the 4.0% USD Notes, due 2021, pay interest semi-annually in arrears, at fixed annual rates of 2.5 percent and 4.0 percent, respectively. The Company may redeem these notes prior to maturity, in whole or in part, at the greater of (i) 100 percent of the principal amount of the notes to be redeemed and (ii) the sum of the present values of remaining scheduled payments of principal and interest (excluding interest accrued to the redemption date) discounted to the redemption date at a rate defined in the note terms, plus interest accrued at the redemption date.

The 1.25% CHF Bonds, due 2016, and the 2.25% Bonds, due 2021, pay interest annually in arrears, at fixed annual rates of 1.25 percent and 2.25 percent, respectively. The Company has the option to redeem the bonds prior to maturity, in whole, at par plus accrued interest, if 85 percent of the aggregate principal amount of the bonds has been redeemed or purchased and cancelled. The Company entered into interest rate swaps to hedge its interest obligations on these bonds. After considering the impact of such swaps, these bonds effectively became floating rate Swiss franc obligations and consequently have been shown as floating rate debt in the table of long-term debt above.

The 1.50% CHF Bonds, due 2018, were issued in January 2012, and the Company recorded net proceeds of CHF 346 million (equivalent to approximately $370 million on date of issuance). The bonds have an aggregate principal of CHF 350 million and pay interest annually in arrears at a fixed annual rate of 1.5 percent. The Company has the option to redeem the bonds prior to maturity, in

Table of Contents

Note 12 Debt (Continued)

whole, at par plus accrued interest, if 85 percent of the aggregate principal amount of the bonds has been redeemed or purchased and cancelled.

The 2.625% EUR Instruments, due 2019, were issued in March 2012, and the Company recorded proceeds (net of fees) of EUR 1,245 million (equivalent to approximately $1,648 million on date of issuance). The instruments have an aggregate principal of EUR 1,250 million and pay interest annually in arrears at a fixed rate of 2.625 percent per annum.

In May 2012, the Company issued the following notes (i) $500 million of 1.625% USD Notes, due 2017, paying interest semi-annually in arrears at a fixed annual rate of 1.625 percent, (ii) $1,250 million of 2.875% USD Notes, due 2022, paying interest semi-annually in arrears at a fixed annual rate of 2.875 percent, and (iii) $750 million of 4.375% USD Notes, due 2042, paying interest semi-annually in arrears at a fixed annual rate of 4.375 percent. The Company may redeem these notes prior to maturity, in whole or in part, at the greater of (i) 100 percent of the principal amount of the notes to be redeemed and (ii) the sum of the present values of remaining scheduled payments of principal and interest (excluding interest accrued to the redemption date) discounted to the redemption date at a rate defined in the note terms, plus interest accrued at the redemption date. The aggregate net proceeds of these bond issues, after underwriting discount and other fees, amounted to $2,431 million. These notes, registered with the U.S. Securities and Exchange Commission, were issued by ABB Finance (USA) Inc., a 100 percent owned finance subsidiary, and were fully and unconditionally guaranteed by ABB Ltd. There are no significant restrictions on the ability of the parent company to obtain funds from its subsidiaries by dividend or loan. In reliance on Rule 3-10 of Regulation S-X, the separate financial statements of ABB Finance (USA) Inc. are not provided. During the third quarter of 2013, the Company entered into interest rate swaps to hedge obligations on an aggregate principal of $850 million of the 2.875% USD Notes, due 2022. After considering the impact of such swaps, $850 million of the outstanding principal became floating rate obligations and consequently are shown as floating rate debt at December 31, 2013, in the table of long-term debt above.

The 5.625% USD Notes, due 2021, were assumed in May 2012, upon the acquisition of Thomas & Betts and pay interest semi-annually in arrears at a fixed annual rate of 5.625 percent. These notes, with an aggregate principal of $250 million, were recorded at their fair value on the date the Company acquired Thomas & Betts and are being amortized to par over the period to maturity. The Company has the option to redeem the notes prior to maturity at the greater of (i) 100 percent of the principal amount of the notes to be redeemed, and (ii) the sum of the present values of remaining scheduled payments of principal and interest (excluding interest accrued to the redemption date) discounted to the redemption date at a rate defined in the note terms, plus interest accrued at the redemption date.

The 4.25% AUD Notes, due 2017, were issued in November 2012. Net issuance proceeds (after underwriting fees) totaled AUD 398 million (equivalent to approximately $412 million on date of issuance). The notes, with an aggregate principal of AUD 400 million, pay fixed interest of 4.25 percent semi-annually in arrears. The Company entered into interest rate swaps to hedge its interest obligations on these bonds. After considering the impact of such swaps, these bonds effectively became floating rate Australian dollar obligations and consequently have been shown as floating rate debt in the table of long-term debt above.

The Company's bonds contain cross-default clauses which would allow the bondholders to demand repayment if the Company were to default on any borrowing at or above a specified threshold. Furthermore, all such bonds constitute unsecured obligations of the Company and rank pari passu with other debt obligations.

In addition to the bonds described above, included in long-term debt at December 31, 2013 and 2012, are capital lease obligations, bank borrowings of subsidiaries and other long-term debt, none of which is individually significant.

Table of Contents

Note 13 Other provisions, other current liabilities and other non-current liabilities

"Other Provisions" consisted of the following:

	December 31,	
($ in millions)	**2013**	**2012**
Contract-related provisions	762	684
Provisions for contractual penalties and compliance and litigation matters	327	223
Restructuring and restructuring-related provisions	247	227
Provision for insurance-related reserves	232	215
Other	239	226
Total	**1,807**	**1,575**

"Other current liabilities" consisted of the following:

	December 31,	
($ in millions)	**2013**	**2012**
Employee-related liabilities	1,854	1,786
Accrued expenses	694	652
Income taxes payable	357	369
Non-trade payables	328	365
Other tax liabilities	269	312
Derivative liabilities (see Note 5)	202	196
Accrued customer rebates	162	163
Deferred income	155	164
Pension and other employee benefits (see Note 17)	82	164
Accrued interest	79	103
Other	60	63
Total	**4,242**	**4,337**

"Other non-current liabilities" consisted of the following:

	December 31,	
($ in millions)	**2013**	**2012**
Income tax related liabilities	830	732
Non-current deposit liabilities (see Note 9)	279	283
Environmental provisions (see Note 15)	116	73
Provisions for contractual penalties and compliance and litigation matters	71	94
Employee-related liabilities	68	55
Deferred income	57	48
Derivative liabilities (see Note 5)	52	69
Other	234	212

Total	**1,707**	**1,566**

Table of Contents

Note 14 Leases

The Company's lease obligations primarily relate to real estate and office equipment. Rent expense was $602 million, $610 million and $601 million in 2013, 2012 and 2011, respectively. Sublease income received by the Company on leased assets was $22 million, $25 million and $41 million in 2013, 2012 and 2011, respectively.

At December 31, 2013, future net minimum lease payments for operating leases, having initial or remaining non-cancelable lease terms in excess of one year, consisted of the following:

	($ in millions)
2014	510
2015	429
2016	347
2017	248
2018	203
Thereafter	248
	1,985
Sublease income	(55)
Total	**1,930**

At December 31, 2013, the future net minimum lease payments for capital leases and the present value of the net minimum lease payments consisted of the following:

	($ in millions)
2014	36
2015	35
2016	26
2017	14
2018	10
Thereafter	88
Total minimum lease payments	**209**
Less amount representing estimated executory costs included in total minimum lease payments	(2)
Net minimum lease payments	**207**
Less amount representing interest	(83)
Present value of minimum lease payments	**124**

Minimum lease payments have not been reduced by minimum sublease rentals due in the future under non-cancelable subleases. Such minimum sublease rentals were not significant. The present value of minimum lease payments is included in "Short-term debt and current maturities of long-term debt" or "Long-term debt" in the Consolidated Balance Sheets.

Note 15 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

Table of Contents

Note 15 Commitments and contingencies (Continued)

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 entities' remediation liability is indemnified by a prior owner. Accordingly, an asset equal to that portion of the remediation liability is included in "Other non-current assets".

The impact of environmental obligations on "Income from continuing operations, net of tax" was not significant in 2013, 2012 and 2011. The impact on "Income (loss) from discontinued operations, net of tax" was a charge of $41 million in 2013 and was not significant in 2012 and 2011.

The effect of environmental obligations on the Company's Consolidated Statements of Cash Flows was not significant in 2013 and 2012, and amounted to an outflow of $149 million in 2011, primarily related to the Company's former nuclear technology business.

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

	December 31,	
($ in millions)	**2013**	**2012**
Other provisions	37	33
Other non-current liabilities	116	73
Total environmental provisions	**153**	**106**

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

Contingencies Regulatory, Compliance and Legal

Antitrust

The Company's cables business is under investigation for alleged anticompetitive practices in a number of jurisdictions, including Brazil and the European Union. In December 2013, the Company agreed with the Brazilian Antitrust Authority (CADE) to settle its ongoing investigation into the Company's involvement in these anticompetitive practices and the Company agreed to pay a fine of approximately 1.5 million Brazilian reals (equivalent to approximately $1 million on date of payment). In the European Union, the Company has received the European Commission's Statement of Objections concerning its investigation into the cables business and in June 2012 participated in the related Oral Hearing. An informed judgment about the outcome of this investigation or the amount of

Table of Contents

Note 15 Commitments and contingencies (Continued)

potential loss or range of loss for the Company, if any, relating to this investigation cannot be made at this stage.

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

In Italy, one of the Company's recently acquired subsidiaries was raided in October 2013 by the Italian Antitrust Agency for alleged anticompetitive practices. An informed judgment about the outcome of this investigation or the amount of potential loss or range of loss for the Company, if any, relating to this investigation cannot be made at this stage.

In September 2012, the German Antitrust Authority (Bundeskartellamt) fined one of the Company's German subsidiaries euro 8.7 million (equivalent to approximately $11 million on date of payment) for its involvement in anticompetitive practices in the German power transformers business.

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

Suspect payments

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

In September 2010, the Company reached settlements with the DoJ and the SEC regarding their investigations into these matters and into suspect payments involving certain of the Company's subsidiaries in the United Nations Oil-for-Food Program. In connection with these settlements, the Company agreed to make payments to the DoJ and SEC totaling $58 million, which were settled in the fourth quarter of 2010. One subsidiary of the Company pled guilty to one count of conspiracy to violate the anti-bribery provisions of the U.S. Foreign Corrupt Practices Act and one count of violating those provisions. The Company entered into a deferred prosecution agreement and settled civil charges brought by the SEC. These settlements resolved the foregoing investigations. In lieu of an external compliance monitor, the DoJ and SEC agreed to allow the Company to report on its continuing compliance efforts and the results of the review of its internal processes through September 2013. Further to the Fraud Section of the DoJ determining that the Company has fully complied with all its obligations under the deferred prosecution agreement, on October 1, 2013, the competent court in the U.S. agreed to dismiss all criminal charges against the Company in relation to these matters.

General

In addition, the Company is aware of proceedings, or the threat of proceedings, against it and others in respect of private claims by customers and other third parties with regard to certain actual or alleged anticompetitive practices. Also, the Company is subject to other various legal proceedings,

Table of Contents

Note 15 Commitments and contingencies (Continued)

investigations, and claims that have not yet been resolved. With respect to the above-mentioned regulatory matters and commercial litigation contingencies, the Company will bear the costs of the continuing investigations and any related legal proceedings.

Liabilities recognized

At December 31, 2013 and 2012, the Company had aggregate liabilities of $245 million and $211 million, respectively, included in "Other provisions" and "Other non-current liabilities", for the above regulatory, compliance and legal contingencies, and none of the individual liabilities recognized was significant. As it is not possible to make an informed judgment on the outcome of certain matters and as it is not possible, based on information currently available to management, to estimate the maximum potential liability on other matters, there could be material adverse outcomes beyond the amounts accrued.

Guarantees

General

The following table provides quantitative data regarding the Company's third-party guarantees. The maximum potential payments represent a "worst-case scenario", and do not reflect management's expected results. The carrying amount of liabilities recorded in the Consolidated Balance Sheets reflects the Company's best estimate of future payments, which it may incur as part of fulfilling its guarantee obligations.

	December 31,	
	2013	**2012**
($ in millions)	**Maximum potential payments**	
Performance guarantees	149	149
Financial guarantees	77	83
Indemnification guarantees	50	190
Total	**276**	**422**

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

Performance guarantees

Performance guarantees represent obligations where the Company guarantees the performance of a third party's product or service according to the terms of a contract. Such guarantees may include guarantees that a project will be completed within a specified time. If the third party does not fulfill the obligation, the Company will compensate the guaranteed party in cash or in kind. Performance guarantees include surety bonds, advance payment guarantees and standby letters of credit. The significant performance guarantees are described below.

The Company retained obligations for guarantees related to the Power Generation business contributed in mid-1999 to the former ABB Alstom Power NV joint venture (Alstom Power NV). The guarantees primarily consist of performance guarantees and other miscellaneous guarantees under certain contracts such as indemnification for personal injuries and property damages, taxes and compliance with labor laws, environmental laws and patents. These guarantees have no fixed expiration date. In May 2000, the Company sold its interest in Alstom Power NV to Alstom SA (Alstom). As a

Table of Contents

Note 15 Commitments and contingencies (Continued)

result, Alstom and its subsidiaries have primary responsibility for performing the obligations that are the subject of the guarantees. Further, Alstom, the parent company and Alstom Power NV, have undertaken jointly and severally to fully indemnify and hold harmless the Company against any claims arising under such guarantees. Management's best estimate of the total maximum potential amount payable of quantifiable guarantees issued by the Company on behalf of its former Power Generation business was $65 million and $78 million at December 31, 2013 and 2012, respectively, and is subject to foreign exchange fluctuations. The Company has not experienced any losses related to guarantees issued on behalf of the former Power Generation business.

The Company is engaged in executing a number of projects as a member of consortia that include third parties. In certain of these cases, the Company guarantees not only its own performance but also the work of third parties. The original maturity dates of these guarantees range from one to six years. At December 31, 2013 and 2012, the maximum potential amount payable under these guarantees as a result of third-party non-performance was $70 million and $57 million, respectively.

Financial guarantees and commercial commitments

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

At December 31, 2013 and 2012, the Company had a maximum potential amount payable of $77 million and $83 million, respectively, under financial guarantees outstanding. Of these amounts, $15 million and $19 million at December 31, 2013 and 2012, respectively, was in respect of guarantees issued on behalf of companies in which the Company formerly had or has an equity interest. The guarantees outstanding have various maturity dates up to 2020.

In addition, in the normal course of bidding for and executing certain projects, the Company has entered into standby letters of credit, bid/performance bonds and surety bonds (collectively "performance bonds") with various financial institutions. Customers can draw on such performance bonds in the event that the Company does not fulfill its contractual obligations. The Company would then have an obligation to reimburse the financial institution for amounts paid under the performance bonds. There have been no significant amounts reimbursed to financial institutions under these types of arrangements in 2013, 2012 and 2011.

Indemnification guarantees

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

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

The Company issued to the purchasers of its interest in Jorf Lasfar Energy Company S.C.A. guarantees related to assets and liabilities divested in 2007. The maximum potential amount payable under such guarantees was $140 million at December 31, 2012. During 2013, a settlement agreement

Table of Contents

Note 15 Commitments and contingencies (Continued)

was reached and at December 31, 2013, the Company had no further obligations with respect to these guarantees.

Product and order-related contingencies

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

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

($ in millions)	2013	2012
Balance at January 1,	**1,291**	**1,324**
Warranties assumed through acquisitions	111	4
Claims paid in cash or in kind	(294)	(219)
Net increase in provision for changes in estimates, warranties issued and warranties expired	245	149
Exchange rate differences	9	33
Balance at December 31,	**1,362**	**1,291**

Related party transactions

The Company conducts business with certain companies where members of the Company's Board of Directors or Executive Committee act, or in recent years have acted, as directors or senior executives. The Company's Board of Directors has determined that the Company's business relationships with those companies do not constitute material business relationships. This determination was made in accordance with the Company's related party transaction policy which was prepared based on the Swiss Code of Best Practice and the independence criteria set forth in the corporate governance rules of the New York Stock Exchange.

Note 16 Taxes

"Provision for taxes" consisted of the following:

($ in millions)	2013	2012	2011
Current taxes	1,258	967	1,278
Deferred taxes	(136)	63	(34)
Tax expense from continuing operations	**1,122**	**1,030**	**1,244**
Tax benefit from discontinued operations	**(8)**		**(1)**

Table of Contents

Note 16 Taxes (Continued)

Tax expense from continuing operations is reconciled below from the Company's weighted-average global tax rate (rather than from the Swiss domestic statutory tax rate) as the parent company of the ABB Group, ABB Ltd, is domiciled in Switzerland and income generated in jurisdictions outside of Switzerland (hereafter "foreign jurisdictions") which has already been subject to corporate income tax in those foreign jurisdictions is, to a large extent, tax exempt in Switzerland. There is no requirement in Switzerland for any parent company of a group to file a tax return of the consolidated group determining domestic and foreign pre-tax income. As the Company's consolidated income from continuing operations is predominantly earned outside of Switzerland, corporate income tax in foreign jurisdictions largely determines the global weighted-average tax rate of the Company.

The reconciliation of "Tax expense from continuing operations" at the weighted-average tax rate to the effective tax rate is as follows:

($ in millions, except % data)	2013	2012	2011
Income from continuing operations before taxes	**4,066**	**3,838**	**4,550**
Weighted-average tax rate	**22.7%**	**23.6%**	**24.9%**
Income taxes at weighted-average tax rate	922	906	1,134
Items taxed at rates other than the weighted-average tax rate	110	60	103
Changes in valuation allowance, net	31	44	(22)
Effects of changes in tax laws and enacted tax rates	1	(27)	(17)
Other, net	58	47	46
Tax expense from continuing operations	**1,122**	**1,030**	**1,244**
Effective tax rate for the year	**27.6%**	**26.8%**	**27.3%**

In 2013, 2012 and 2011, the "Items taxed at rates other than the weighted-average tax rate" predominantly related to tax credits arising in foreign jurisdictions for which the technical merits did not allow a benefit to be taken.

In 2013, 2012 and 2011, "Changes in the valuation allowance, net" included reductions in valuation allowances recorded in certain jurisdictions where the Company determined that it was more likely than not that such deferred tax assets (recognized for net operating losses and temporary differences in those jurisdictions) would be realized, as well as increases in the valuation allowance in certain other jurisdictions. In 2013, the "Changes in valuation allowance, net" included an amount of $104 million related to certain of the Company's operations in Central Europe and South America. It also included a benefit of $42 million related to certain of the Company's operations in Central Europe. In 2012, the "Changes in valuation allowance, net" included an expense of $36 million related to certain of the Company's operations in Central Europe and in 2011, the "Changes in valuation allowance, net" included a benefit of $47 million, related to certain of the Company's operations in Northern Europe.

In 2013, 2012 and 2011, "Other, net" of $58 million, $47 million and $46 million, respectively, included expenses of $71 million, $94 million and $60 million, respectively, in relation to items that were deducted for financial accounting purposes, but were not tax deductible, such as interest expense, local taxes on productive activities, disallowed meals and entertainment expenses and other similar items.

Table of Contents

Note 16 Taxes (Continued)

Deferred income tax assets and liabilities consisted of the following:

	December 31,	
($ in millions)	**2013**	**2012**
Deferred tax assets:		
Unused tax losses and credits	1,000	1,009
Pension and other accrued liabilities	1,335	1,395
Inventories	302	287
Property, plant and equipment	83	125
Other	140	104
Total gross deferred tax asset	**2,860**	**2,920**
Valuation allowance	(589)	(550)
Total gross deferred tax asset, net of valuation allowance	**2,271**	**2,370**
Deferred tax liabilities:		
Property, plant and equipment, and intangible assets	(1,433)	(1,366)
Pension and other accrued liabilities	(206)	(252)
Inventories	(135)	(118)
Other current assets	(161)	(169)
Unremitted earnings	(598)	(766)
Other	(60)	(26)
Total gross deferred tax liability	**(2,593)**	**(2,697)**
Net deferred tax liability	**(322)**	**(327)**
Included in:		
"Deferred taxes" current assets	832	869
"Deferred taxes" non-current assets	370	334
"Deferred taxes" current liabilities	(259)	(270)
"Deferred taxes" non-current liabilities	(1,265)	(1,260)
Net deferred tax liability	**(322)**	**(327)**

Certain entities have deferred tax assets related to net operating loss carry-forwards and other items. As recognition of these assets in certain entities did not meet the more likely than not criterion, valuation allowances have been recorded and amount to $589 million and $550 million, at December 31, 2013 and 2012, respectively. "Unused tax losses and credits" at December 31, 2013 and 2012, in the table above, included $172 million and $155 million, respectively, for which the Company has established a full valuation allowance as, due to limitations imposed by the relevant tax law, the Company determined that, more likely than not, such deferred tax assets would not be realized.

At December 31, 2013 and 2012, deferred tax liabilities totaling $598 million and $766 million have been provided for in respect of withholding taxes, dividend distribution taxes or additional corporate income taxes (hereafter "withholding taxes") on unremitted earnings, as well as for limited Swiss income taxes on any such repatriated earnings. Income which has been generated outside of Switzerland and has already been subject to corporate income tax in such foreign jurisdictions is, to a large extent, tax exempt in Switzerland. Therefore, generally no or only limited Swiss income tax has to be provided for on the repatriated earnings of foreign subsidiaries. The decrease during 2013 was mainly due to repatriation of earnings.

Table of Contents

Note 16 Taxes (Continued)

Certain countries levy withholding taxes on dividend distributions. Such taxes cannot always be fully reclaimed by the shareholder, although they have to be declared and withheld by the subsidiary. In 2013 and 2012, certain taxes arose in certain foreign jurisdictions for which the technical merits do not allow utilization of benefits. At December 31, 2013 and 2012, approximately $200 million and $400 million, respectively, of foreign subsidiary retained earnings subject to withholding taxes upon distribution were considered as permanently reinvested, as these funds are used for financing current operations as well as business growth through working capital and capital expenditure in those countries, and consequently, no deferred tax liability was recorded.

At December 31, 2013, net operating loss carry-forwards of $2,685 million and tax credits of $239 million were available to reduce future taxes of certain subsidiaries. Of these amounts, $1,779 million of loss carry-forwards and $238 million of tax credits will expire in varying amounts through 2033. The largest amount of these carry-forwards related to the Company's Central Europe operations.

Table of Contents

Note 16 Taxes (Continued)

Unrecognized tax benefits consisted of the following:

($ in millions)	Unrecognized tax benefits	Penalties and interest related to unrecognized tax benefits	Total
Classification as unrecognized tax items on January 1, 2011	**714**	**178**	**892**
Net change due to acquisitions and divestments	9	2	11
Increase relating to prior year tax positions	52	61	113
Decrease relating to prior year tax positions	(31)	(11)	(42)
Increase relating to current year tax positions	128	2	130
Decrease relating to current year tax positions	(2)		(2)
Decrease due to settlements with tax authorities	(78)	(27)	(105)
Decrease as a result of the applicable statute of limitations	(135)	(35)	(170)
Exchange rate differences	(4)	(1)	(5)
Balance at December 31, 2011, which would, if recognized, affect the effective tax rate	**653**	**169**	**822**
Net change due to acquisitions and divestments	10		10
Increase relating to prior year tax positions	51	26	77
Decrease relating to prior year tax positions	(73)	(56)	(129)
Increase relating to current year tax positions	141	1	142
Decrease relating to current year tax positions	(3)		(3)
Decrease due to settlements with tax authorities	(89)	(11)	(100)
Decrease as a result of the applicable statute of limitations	(29)	(7)	(36)
Exchange rate differences	8	5	13
Balance at December 31, 2012, which would, if recognized, affect the effective tax rate	**669**	**127**	**796**
Net change due to acquisitions and divestments	17	2	19
Increase relating to prior year tax positions	43	36	79
Decrease relating to prior year tax positions	(30)		(30)
Increase relating to current year tax positions	90	4	94
Decrease relating to current year tax positions	(1)		(1)
Decrease due to settlements with tax authorities	(18)	(5)	(23)
Decrease as a result of the applicable statute of limitations	(46)	(13)	(59)
Exchange rate differences	9	3	12
Balance at December 31, 2013, which would, if recognized, affect the effective tax rate	**733**	**154**	**887**

In 2013, the "Increase relating to current year tax positions" included a total of $62 million in taxes related to the interpretation of tax law and double tax treaty agreements by competent tax authorities.

In 2012, the "Decrease relating to prior year tax positions" included a total of $87 million relating to the release of provisions due to favorable resolution of a tax dispute in Northern Europe. In 2012, the "Increase relating to current year tax positions" included a total of $108 million in taxes related to the interpretation of tax law and double tax treaty agreements by competent tax authorities. In 2012, the "Decrease due to settlements with tax authorities" included a total of $47 million relating to the interpretation of tax law and double tax treaty agreements by competent tax authorities.

Explanation of Responses:

Table of Contents

Note 16 Taxes (Continued)

In 2011, the "Increase relating to prior year tax positions", in unrecognized tax benefits above, related primarily to a tax dispute in Asia. The "Increase relating to prior year tax positions", in penalties and interest related to unrecognized tax benefits above, mainly reflected the interest accrual on prior years' tax positions. Also in 2011, the "Increase relating to current year tax positions" included a total of $97 million in taxes related to the interpretation of tax law and double tax treaty agreements by competent tax authorities. In 2011, the "Decrease due to settlements with tax authorities" included $49 million in tax, penalty and interest relating to a tax dispute in Northern Europe, while the "Decrease as a result of the applicable statute of limitations" included both the effect of the statute of limitations in certain jurisdictions, as well as instances where tax audits had been concluded by taxing authorities and the corresponding tax years were consequently considered closed.

At December 31, 2013, the Company expected the resolution, within the next twelve months, of uncertain tax positions related to pending court cases amounting to $34 million for taxes, penalties and interest. Otherwise, the Company had not identified any other significant changes which were considered reasonably possible to occur within the next twelve months.

At December 31, 2013, the earliest significant open tax years that remained subject to examination were the following:

Region	Year
Europe	2007
The Americas	2010
Asia	2004
Middle East & Africa	2004

Note 17 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.

The Company recognizes in its Consolidated Balance Sheets the funded status of its defined benefit pension plans, postretirement plans, and other employee-related benefits measured as the difference between the fair value of the plan assets and the benefit obligation.

Table of Contents

Note 17 Employee benefits (Continued)

Obligations and funded status of the plans

The change in benefit obligation, change in fair value of plan assets, and funded status recognized in the Consolidated Balance Sheets were as follows:

($ in millions)	2013	2012	2013	2012
	Defined pension benefits		Other postretirement benefits	
Benefit obligation at January 1,	**12,063**	**9,817**	**281**	**260**
Service cost	249	221	1	1
Interest cost	373	396	9	11
Contributions by plan participants	81	77		
Benefit payments	(612)	(559)	(15)	(15)
Benefit obligations of businesses acquired	7	684		17
Actuarial (gain) loss	(273)	1,124	(41)	2
Plan amendments and other	(50)	(12)	2	4
Exchange rate differences	225	315	(1)	1
Benefit obligation at December 31,	**12,063**	**12,063**	**236**	**281**
Fair value of plan assets at January 1,	**10,282**	**8,867**		
Actual return on plan assets	621	839		
Contributions by employer	403	347	15	15
Contributions by plan participants	81	77		
Benefit payments	(612)	(559)	(15)	(15)
Plan assets of businesses acquired		482		
Plan amendments and other	(57)	(44)		
Exchange rate differences	212	273		
Fair value of plan assets at December 31,	**10,930**	**10,282**		
Funded status underfunded	**1,133**	**1,781**	**236**	**281**

The amounts recognized in "Accumulated other comprehensive loss" and "Noncontrolling interests" were:

($ in millions)	2013	2012	2011	2013	2012	2011
	December 31,					
	Defined pension benefits			Other postretirement benefits		
Net actuarial loss	(2,050)	(2,574)	(1,826)	(25)	(69)	(71)
Prior service cost	(21)	(32)	(34)	24	33	42
Amount recognized in OCI[(1)] and NCI[(2)]	**(2,071)**	**(2,606)**	**(1,860)**	**(1)**	**(36)**	**(29)**
Taxes associated with amount recognized in OCI[(1)] and NCI[(2)]	459	631	415			

Amount recognized in OCI[1] and NCI[2], net of tax[3]	**(1,612)**	**(1,975)**	**(1,445)**	**(1)**	**(36)**	**(29)**

(1) OCI represents "Accumulated other comprehensive loss".

(2) NCI represents "Noncontrolling interests".

(3) NCI, net of tax, amounted to $(3) million, $(7) million and $(2) million at December 31, 2013, 2012 and 2011, respectively.

Table of Contents

Note 17 Employee benefits (Continued)

In addition, the following amounts were recognized in the Company's Consolidated Balance Sheets:

	December 31,			
	2013	2012	2013	2012
($ in millions)	Defined pension benefits		Other postretirement benefits	
Overfunded plans	(66)	(49)		
Underfunded plans current	20	27	18	20
Underfunded plans non-current	1,179	1,803	218	261
Funded status underfunded	**1,133**	**1,781**	**236**	**281**

	December 31,	
($ in millions)	2013	2012
Non-current assets		
Overfunded pension plans	(66)	(49)
Other employee-related benefits	(27)	(22)
Prepaid pension and other employee benefits	**(93)**	**(71)**

	December 31,	
($ in millions)	2013	2012
Current liabilities		
Underfunded pension plans	20	27
Underfunded other postretirement benefit plans	18	20
Other employee-related benefits	44	117
Pension and other employee benefits (see Note 13)	**82**	**164**

	December 31,	
($ in millions)	2013	2012
Non-current liabilities		
Underfunded pension plans	1,179	1,803

Underfunded other postretirement benefit plans	218	261
Other employee-related benefits	242	226
Pension and other employee benefits	**1,639**	**2,290**

The funded status, calculated using the projected benefit obligation (PBO) and fair value of plan assets, for pension plans with a PBO in excess of fair value of plan assets (underfunded) or fair value of plan assets in excess of PBO (overfunded), respectively, was:

	December 31,					
	2013			2012		
($ in millions)	**PBO**	**Assets**	**Difference**	**PBO**	**Assets**	**Difference**
PBO exceeds assets	11,054	9,855	1,199	11,378	9,548	1,830
Assets exceed PBO	1,009	1,075	(66)	685	734	(49)
Total	**12,063**	**10,930**	**1,133**	**12,063**	**10,282**	**1,781**

Table of Contents

Note 17 Employee benefits (Continued)

The accumulated benefit obligation (ABO) for all defined benefit pension plans was $11,594 million and $11,668 million at December 31, 2013 and 2012, respectively. The funded status, calculated using the ABO and fair value of plan assets for pension plans with ABO in excess of fair value of plan assets (underfunded) or fair value of plan assets in excess of ABO (overfunded), respectively, was:

	December 31,					
	2013			2012		
($ in millions)	**ABO**	**Assets**	**Difference**	**ABO**	**Assets**	**Difference**
ABO exceeds assets	9,112	8,161	951	10,700	9,237	1,463
Assets exceed ABO	2,482	2,769	(287)	968	1,045	(77)
Total	**11,594**	**10,930**	**664**	**11,668**	**10,282**	**1,386**

All of the Company's other postretirement benefit plans are unfunded.

Components of net periodic benefit cost

Net periodic benefit cost consisted of the following:

	2013	2012	2011	2013	2012	2011
($ in millions)	**Defined pension benefits**			**Other postretirement benefits**		
Service cost	249	221	242	1	1	2
Interest cost	373	396	402	9	11	12
Expected return on plan assets	(479)	(494)	(507)			
Amortization of transition liability						1
Amortization of prior service cost / (credit)	34	42	44	(9)	(9)	(9)
Amortization of net actuarial loss	136	98	52	4	4	3
Curtailments, settlements and special termination benefits	1	2	3	2		
Net periodic benefit cost	**314**	**265**	**236**	**7**	**7**	**9**

The net actuarial loss and prior service cost for defined pension benefits estimated to be amortized from "Accumulated other comprehensive loss" into net periodic benefit cost in 2014 is $115 million and $29 million, respectively.

The net actuarial loss and prior service (credit) for other postretirement benefits estimated to be amortized from "Accumulated other comprehensive loss" into net periodic benefit cost in 2014 is $1 million and $(9) million, respectively.

Assumptions

The following weighted-average assumptions were used to determine benefit obligations:

	December 31,			
	2013	2012	2013	2012
(in %)				

	Defined pension benefits		Other postretirement benefits	
Discount rate	3.58	3.22	4.17	3.35
Rate of compensation increase	1.81	1.71		
Pension increase assumption	1.14	1.04		

Table of Contents

Note 17 Employee benefits (Continued)

The discount rate assumptions are based upon AA-rated corporate bonds. In those countries with sufficient liquidity in corporate bonds, the Company used the current market long-term corporate bond rates and matched the bond duration with the average duration of the pension liabilities. In those countries where the liquidity of the AA-rated corporate bonds was deemed to be insufficient, the Company determined the discount rate by adding the credit spread derived from an AA corporate bond index in another relevant liquid market, as adjusted for interest rate differentials, to the domestic government bond curve or interest rate swap curve.

The following weighted-average assumptions were used to determine the "Net periodic benefit cost":

	2013	2012	2011	2013	2012	2011
(in %)	**Defined pension benefits**			**Other postretirement benefits**		
Discount rate	3.22	3.91	4.29	3.35	4.07	5.03
Expected long-term rate of return on plan assets	4.79	5.38	5.45			
Rate of compensation increase	1.71	1.62	2.05			

The "Expected long-term rate of return on plan assets" is derived for each benefit plan by considering the expected future long-term return assumption for each individual asset class. A single long-term return assumption is then derived for each plan based upon the plan's current and target asset allocation.

The Company maintains other postretirement benefit plans, which are generally contributory with participants' contributions adjusted annually. The assumptions used were:

	December 31,	
	2013	**2012**
Health care cost trend rate assumed for next year	8.15%	8.60%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2028	2028

A one-percentage-point change in assumed health care cost trend rates would have the following effects at December 31, 2013:

	1-percentage-point	
($ in millions)	**Increase**	**Decrease**
Effect on total of service and interest cost	1	(1)
Effect on postretirement benefit obligation	18	(15)

Plan assets

The Company has pension plans in various countries with the majority of the Company's pension liabilities deriving from a limited number of these countries. The pension plans' structures reflect local regulatory environments and market practices.

The pension plans are typically funded by regular contributions from employees and the Company. These plans are typically administered by boards of trustees (which include Company representatives) whose primary responsibility is to ensure that the plans meet their liabilities through contributions and investment returns. The boards of trustees have the responsibility for key investment strategy decisions.

Table of Contents

Note 17 Employee benefits (Continued)

The accumulated contributions are invested in a diversified range of assets that are managed by third-party asset managers, in accordance with local statutory regulations, pension plan rules and the respective plans' investment guidelines, as approved by the boards of trustees.

Plan assets are generally segregated from those of the Company and invested with the aim of meeting the respective plans' projected future pension liabilities. Plan assets are measured at fair value at the balance sheet date.

The boards of trustees manage the assets of the pension plans in a risk-controlled manner and assess the risks embedded in the pension plans through asset/liability modeling. The projected future development of pension liabilities is assessed relative to various alternative asset allocations in order to determine a strategic asset allocation for each plan that provides a balance between risk and return. Asset/liability management studies typically take place every three years. However, the risks of the plans are monitored on an ongoing basis. The assets of the major plans are reviewed at least quarterly, while the plans' liabilities are reviewed in detail at least annually.

The board of trustees' investment goal is to maximize the long-term returns of plan assets within specified risk parameters, while considering the future liabilities and liquidity needs of the individual plans. Risk parameters taken into account include:

- the funding ratio of the plan,
- the likelihood of extraordinary cash contributions being required, and
- the risk embedded in each individual asset class, and the plan asset portfolio as a whole.

The Company's investment policy is to achieve a balance between risk and return on the plans' investments through the diversification of asset classes, the use of various external asset managers and the use of differing investment styles. This has resulted in a diversified portfolio with a mix of actively and passively managed investments.

The Company's global pension asset allocation is the result of the asset allocations of the individual plans, which are set by the respective boards of trustees. The target asset allocation of the Company's plans on a weighted-average basis is as follows:

	Target percentage
Asset Class	
Equity	23
Fixed income	57
Real estate	11
Other	9
	100

The actual asset allocations of the plans are in line with the target asset allocations.

Fixed income assets include corporate bonds of companies from diverse industries and government bonds mainly from mature-market issuers. Equity assets primarily include investments in large-cap and mid-cap listed companies. Both fixed income and equity assets are invested either via funds or directly in individual securities, and include an allocation to emerging markets. Real estate investments consist largely of domestic real estate in Switzerland held in the Swiss plans. The "Other" asset class includes investments in private equity, hedge funds, commodities, and cash and reflects a variety of investment strategies.

Table of Contents

Note 17 Employee benefits (Continued)

Based on the above global asset allocation, the expected long-term return on assets at December 31, 2013, is 4.60 percent. The Company and the local boards of trustees regularly review the investment performance of the asset classes and individual asset managers. Due to the diversified nature of the investments, the Company is of the opinion that no significant concentration of risks exists in its pension fund assets.

The Company does not expect any plan assets to be returned to the employer during 2014.

At December 31, 2013 and 2012, plan assets include ABB Ltd's shares (as well as an insignificant amount of the Company's debt instruments) with a total value of $18 million and $16 million, respectively.

The fair values of the Company's pension plan assets by asset class are presented below. For further information on the fair value hierarchy and an overview of the Company's valuation techniques applied see the "Fair value measures" section of Note 2.

	December 31, 2013			
($ in millions)	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Asset Class				
Equity				
Equity securities	387			387
Mutual funds/commingled funds		2,287		2,287
Emerging market mutual funds/commingled funds		515		515
Fixed income				
Government and corporate securities	586	1,011		1,597
Government and corporate mutual funds/commingled funds		3,442		3,442
Emerging market bonds mutual funds/commingled funds		645		645
Insurance contracts		69		69
Cash and short-term investments	143	505		648
Private equity			155	155
Hedge funds			158	158
Real estate		82	866	948
Commodities		47	32	79
Total	**1,116**	**8,603**	**1,211**	**10,930**

Table of Contents

Note 17 Employee benefits (Continued)

($ in millions)	Level 1	Level 2	Level 3	Total fair value
		December 31, 2012		
Asset Class				
Equity				
Equity securities	296			296
Mutual funds/commingled funds		1,893		1,893
Emerging market mutual funds/commingled funds		443		443
Fixed income				
Government and corporate securities	701	1,056		1,757
Government and corporate mutual funds/commingled funds		3,367		3,367
Emerging market bonds mutual funds/commingled funds		707		707
Insurance contracts		76		76
Cash and short-term investments	170	252		422
Private equity			164	164
Hedge funds			153	153
Real estate		87	830	917
Commodities		52	35	87
Total	**1,167**	**7,933**	**1,182**	**10,282**

In the above table of pension assets at December 31, 2012, certain assets, previously disclosed as Level 1, have been disclosed as Level 2, to conform with the current year's presentation.

The following table represents the movements of those asset categories whose fair values use significant unobservable inputs (Level 3):

($ in millions)	Private equity	Hedge funds	Real estate	Commodities	Total Level 3
Balance at January 1, 2012	**177**	**113**	**741**		**1,031**
Return on plan assets					
Assets still held at December 31, 2012	4	9	15	(1)	27
Assets sold during the year	13	(7)			6
Purchases (sales)	(31)	35	40	35	79
Transfers into Level 3			9		9
Exchange rate differences	1	3	25	1	30
Balance at December 31, 2012	**164**	**153**	**830**	**35**	**1,182**
Return on plan assets					
Assets still held at December 31, 2013	6	28	10	(3)	41
Assets sold during the year	8	(7)			1
Purchases (sales)	(24)	(19)	4		(39)
Transfers into Level 3			8		8
Exchange rate differences	1	3	14		18

Balance at December 31, 2013	**155**	**158**	**866**	**32**	**1,211**

Real estate properties are valued under the income approach using the discounted cash flow method, by which the market value of a property is determined as the total of all projected future earnings discounted to the valuation date. The discount rates are determined for each property

F-66

Table of Contents

Note 17 Employee benefits (Continued)

individually according to the property's location and specific use, and by considering initial yields of comparable market transactions.

Private equity investments include investments in partnerships and related funds. Such investments consist of both publicly-traded and privately-held securities. Publicly-traded securities that are quoted in inactive markets are valued using available quotes and adjusted for liquidity restrictions. Privately-held securities are valued taking into account various factors, such as the most recent financing involving unrelated new investors, earnings multiple analyses using comparable companies and discounted cash flow analyses.

Hedge funds are normally not exchange-traded and the shares of the funds are not redeemed daily. Depending on the fund structure, the fair values are derived through modeling techniques based on the values of the underlying assets adjusted to reflect liquidity and transferability restrictions.

Contributions

Employer contributions were as follows:

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

In 2013, the discretionary contributions included non-cash contributions totaling $160 million of available-for-sale debt securities to certain of the Company's pension plans in Germany and the United Kingdom. In 2012, the discretionary contributions included non-cash contributions totaling $42 million of available-for-sale securities to the Company's pension plans in the United Kingdom and the U.S.

The Company expects to contribute approximately $310 million, including $75 million of discretionary contributions, to its defined benefit pension plans in 2014. $25 million of the 2014 discretionary contributions are expected to be non-cash contributions. The Company expects to contribute approximately $18 million to its other postretirement benefit plans in 2014.

The Company also contributes to a number of defined contribution plans. The aggregate expense for these plans was $243 million, $220 million and $144 million in 2013, 2012 and 2011, respectively. Contributions to multi-employer plans were not significant in 2013, 2012 and 2011.

Estimated future benefit payments

The expected future cash flows to be paid by the Company's plans in respect of pension and other postretirement benefit plans (net of Medicare subsidies) at December 31, 2013, are as follows:

($ in millions)	Defined pension benefits	Other postretirement benefits
2014	699	18
2015	687	18
2016	697	18
2017	666	19
2018	661	19
Years 2019 - 2023	3,238	88

Table of Contents

Note 18 Share-based payment arrangements

The Company has three principal share-based payment plans, as more fully described in the respective sections below. Compensation cost for equity-settled awards is recorded in "Total cost of sales" and in "Selling, general and administrative expenses" and totaled $71 million, $60 million, and $67 million in 2013, 2012 and 2011, respectively. Compensation cost for cash-settled awards is recorded in "Selling, general and administrative expenses" and is disclosed in the "WARs", "LTIP" and "Other share-based payments" sections of this note. The total tax benefit recognized in 2013, 2012 and 2011, was not significant.

At December 31, 2013, the Company had the ability to issue up to 94 million new shares out of contingent capital in connection with share-based payment arrangements. In addition, 14 million shares held by the Company in treasury stock at December 31, 2013, could be used to settle share-based payment arrangements.

As the primary trading market for the shares of ABB Ltd is the SIX Swiss Exchange, on which the shares are traded in Swiss francs, certain data disclosed below related to the instruments granted under share-based payment arrangements are presented in Swiss francs.

MIP

Under the MIP, the Company offers options and cash-settled WARs (and prior to the 2010 launch offered also physically-settled warrants) to key employees for no consideration.

The warrants and options granted under the MIP allow participants to purchase shares of ABB Ltd at predetermined prices. Participants may sell the warrants and options rather than exercise the right to purchase shares. Equivalent warrants are listed by a third-party bank on the SIX Swiss Exchange, which facilitates pricing and transferability of instruments granted under this plan. The options entitle the holder to request that the third-party bank purchase such options at the market price of equivalent listed warrants related to that MIP launch. If the participant elects to sell the warrants or options, the instruments will thereafter be held by a third party and, consequently, the Company's obligation to deliver shares will be toward this third party. Each WAR gives the participant the right to receive, in cash, the market price of an equivalent listed warrant on the date of exercise of the WAR. The WARs are non-transferable.

Participants may exercise or sell warrants and options and exercise WARs after the vesting period, which is three years from the date of grant. Vesting restrictions can be waived in certain circumstances such as death or disability. All warrants, options and WARs expire six years from the date of grant.

Warrants and options

The fair value of each warrant and option is estimated on the date of grant using a lattice model that uses the weighted-average assumptions noted in the table below. Expected volatilities are based on implied volatilities from equivalent listed warrants on ABB Ltd shares. The expected term of the warrants and options granted has been assumed to be the contractual six-year life of each warrant and option, based on the fact that after the vesting period, a participant can elect to sell the warrant or option rather than exercise the right to purchase shares, thereby realizing the time value of the warrants and options. The risk-free rate is based on a six-year Swiss franc interest rate, reflecting the

Table of Contents

Note 18 Share-based payment arrangements (Continued)

six-year contractual life of the warrants and options. In estimating forfeitures, the Company has used the data from previous comparable MIP launches.

	2013	2012	2011
Expected volatility	21%	27%	26%
Dividend yield	2.90%	3.60%	2.44%
Expected term	6 years	6 years	6 years
Risk-free interest rate	0.57%	0.30%	1.59%

Presented below is a summary of the activity related to warrants and options under the MIP:

	Number of instruments (in millions)	Number of shares (in millions)(1)	Weighted-average exercise price (in Swiss francs)(2)	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value (in millions of Swiss francs)(3)
Outstanding at January 1, 2013	**242.5**	**48.5**	**22.38**		
Granted	88.1	17.6	21.50		
Forfeited	(4.8)	(1.0)	19.60		
Expired	(27.9)	(5.5)	26.74		
Outstanding at December 31, 2013	**297.9**	**59.6**	**21.76**	**3.7**	**185**
Vested and expected to vest at December 31, 2013	**282.5**	**56.5**	**21.81**	**3.7**	**175**
Exercisable at December 31, 2013	**95.6**	**19.1**	**25.07**	**1.8**	**36**

(1) Information presented reflects the number of shares of ABB Ltd that can be received upon exercise, as warrants and options have a conversion ratio of 5:1.

(2) Information presented reflects the exercise price per share of ABB Ltd.

(3) Computed using the closing price, in Swiss francs, of ABB Ltd shares on the SIX Swiss Exchange and the exercise price per share of ABB Ltd.

At December 31, 2013, there was $79 million of total unrecognized compensation cost related to non-vested options granted under the MIP. That cost is expected to be recognized over a weighted-average period of 2.0 years. The weighted-average grant-date fair value (per instrument) of options granted during 2013, 2012 and 2011 was 0.66 Swiss francs, 0.59 Swiss francs and 0.83 Swiss francs, respectively. In 2011 the aggregate intrinsic value (on the date of exercise) of instruments exercised was 11 million Swiss francs ($13 million). There were no exercises in 2013 and the aggregate intrinsic value in 2012 was not significant.

Table of Contents

Note 18 Share-based payment arrangements (Continued)

Presented below is a summary, by launch, related to instruments outstanding at December 31, 2013:

Exercise price (in Swiss francs)[1]	Number of instruments (in millions)	Number of shares (in millions)[2]	Weighted-average remaining contractual term (in years)
36.40	25.1	5.0	0.4
19.00	22.8	4.6	1.4
22.50	36.7	7.3	2.4
25.50	43.4	8.7	3.4
15.75	68.2	13.7	4.4
17.50	14.7	2.9	4.4
21.50	87.0	17.4	5.4
Total number of instruments and shares	**297.9**	**59.6**	**3.7**

(1) Information presented reflects the exercise price per share of ABB Ltd.

(2) Information presented reflects the number of shares of ABB Ltd that can be received upon exercise.

WARs

As each WAR gives the holder the right to receive cash equal to the market price of the equivalent listed warrant on date of exercise, the Company records a liability based upon the fair value of outstanding WARs at each period end, accreted on a straight-line basis over the three-year vesting period. In "Selling, general and administrative expenses", the Company recorded an expense of $26 million and income of $8 million in 2013 and 2011, respectively, as a result of changes in both the fair value and vested portion of the outstanding WARs. The amount recorded in 2012 was not significant. To hedge its exposure to fluctuations in the fair value of outstanding WARs, the Company purchased cash-settled call options, which entitle the Company to receive amounts equivalent to its obligations under the outstanding WARs. The cash-settled call options are recorded as derivatives measured at fair value (see Note 5), with subsequent changes in fair value recorded through earnings to the extent that they offset the change in fair value of the liability for the WARs. In 2013 the Company recorded an income of $16 million and in 2011, an expense of $24 million, in "Selling, general and administrative expenses" related to the cash-settled call options. The amount recorded in 2012 was not significant.

The aggregate fair value of outstanding WARs was $56 million and $26 million at December 31, 2013 and 2012, respectively. The fair value of WARs was determined based upon the trading price of equivalent warrants listed on the SIX Swiss Exchange.

Table of Contents

Note 18 Share-based payment arrangements (Continued)

Presented below is a summary of the activity related to WARs:

	Number of WARs (in millions)
Outstanding at January 1, 2013	**66.8**
Granted	18.8
Exercised	(13.6)
Forfeited	(0.4)
Expired	(4.3)
Outstanding at December 31, 2013	**67.3**
Exercisable at December 31, 2013	**23.3**

The aggregate fair value at date of grant of WARs granted in 2013, 2012 and 2011, was $13 million, $10 million and $10 million, respectively. In 2013, 2012 and 2011, share-based liabilities of $9 million, $7 million and $7 million, respectively, were paid upon exercise of WARs by participants.

ESAP

The employee share acquisition plan (ESAP) is an employee stock-option plan with a savings feature. Employees save over a twelve-month period, by way of regular payroll deductions. At the end of the savings period, employees choose whether to exercise their stock options using their savings plus interest to buy ABB Ltd shares (American Depositary Shares (ADS) in the case of employees in the United States and Canada each ADS representing one registered share of the Company) at the exercise price set at the grant date, or have their savings returned with interest. The savings are accumulated in bank accounts held by a third-party trustee on behalf of the participants and earn interest. Employees can withdraw from the ESAP at any time during the savings period and will be entitled to a refund of their accumulated savings.

The fair value of each option is estimated on the date of grant using the same option valuation model as described under the MIP, using the assumptions noted in the table below. The expected term of the option granted has been determined to be the contractual one-year life of each option, at the end of which the options vest and the participants are required to decide whether to exercise their options or have their savings returned with interest. The risk-free rate is based on one-year Swiss franc interest rates, reflecting the one-year contractual life of the options. In estimating forfeitures, the Company has used the data from previous ESAP launches.

	2013	2012	2011
Expected volatility	20%	23%	33%
Dividend yield	2.84%	3.45%	3.13%
Expected term	1 year	1 year	1 year
Risk-free interest rate	0%	0%	0%

Note 18 Share-based payment arrangements (Continued)

Presented below is a summary of activity under the ESAP:

	Number of shares (in millions)[1]	Weighted-average exercise price (in Swiss francs)[2]	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value (in millions of Swiss francs)[2][3]
Outstanding at January 1, 2013	**4.4**	**17.08**		
Granted	4.7	20.82		
Forfeited	(0.2)	17.08		
Exercised[4]	(3.7)	17.08		
Not exercised (savings returned plus interest)	(0.5)	17.08		
Outstanding at December 31, 2013	**4.7**	**20.82**	**0.8**	**12.6**
Vested and expected to vest at December 31, 2013	**4.5**	**20.82**	**0.8**	**12.0**
Exercisable at December 31, 2013				

(1) Includes shares represented by ADS.

(2) Information presented for ADS is based on equivalent Swiss franc denominated awards.

(3) Computed using the closing price, in Swiss francs, of ABB Ltd shares on the SIX Swiss Exchange and the exercise price of each option in Swiss francs.

(4) The cash received upon exercise was approximately $70 million and the corresponding tax benefit was not significant. The shares were delivered out of treasury stock.

The exercise prices per ABB Ltd share and per ADS of 22.90 Swiss francs and $25.21, respectively, for the 2013 grant, 17.08 Swiss francs and $18.30, respectively, for the 2012 grant, and 15.98 Swiss francs and $18.10, respectively, for the 2011 grant were determined using the closing price of the ABB Ltd share on SIX Swiss Exchange and ADS on the New York Stock Exchange on the respective grant dates. For the 2013 grant, the exercise price has been effectively reduced as for every ten shares bought through exercise of the options one additional free share will be delivered; therefore the effective exercise prices per ABB Ltd share and per ADS are 20.82 Swiss francs and $22.92, respectively. The table above reflects the effective exercise price.

At December 31, 2013, there was $12 million of total unrecognized compensation cost related to non-vested options granted under the ESAP. That cost is expected to be recognized over the first ten months of 2014 in "Total cost of sales" and in "Selling, general and administrative expenses". The weighted-average grant-date fair value (per option) of options granted during 2013, 2012 and 2011, was 2.79 Swiss francs, 1.29 Swiss francs and 1.89 Swiss francs, respectively. The total intrinsic value (on the date of exercise) of options exercised in 2013 was $24 million while in 2012 and 2011 it was not significant.

LTIP

The Company has a long-term incentive plan (LTIP) for members of its Executive Committee and selected other executives (Eligible Participants), as defined in the terms of the LTIP and determined by the Company's Governance, Nomination and Compensation Committee. The LTIP involves annual conditional grants of the Company's stock to such Eligible Participants that are subject to certain conditions. The 2013, 2012 and 2011 launches under the LTIP are each composed of two components: (i) a performance component (earnings per share performance for the 2013 and 2012 launches and share-price performance for the 2011 launch) and (ii) a retention component.

F-72

Table of Contents

Note 18 Share-based payment arrangements (Continued)

Under the performance component, the number of shares granted is dependent upon the base salary of the Eligible Participant. For the 2013 and 2012 LTIP launches, the actual number of shares that will vest at a future date is dependent on (i) the Company's weighted cumulative earnings per share performance over three financial years, beginning with the year of launch, and (ii) the fulfillment of the service condition as defined in the terms and conditions of the LTIP. The cumulative earnings per share performance is weighted as follows: 33 percent of the first year's result, 67 percent of the second year's result and 100 percent of the third year's result. The actual number of shares that ultimately vest will vary depending on the weighted cumulative earnings per share outcome, interpolated between a lower threshold (no shares vest) and an upper threshold (the number of shares vesting is capped at 200 percent of the conditional grant).

For the 2011 LTIP launch, the actual number of shares that will vest at a future date is dependent on (i) the performance of ABB Ltd shares during a defined three-year period (Evaluation Period) compared to those of a selected peer group of publicly-listed multinational companies and (ii) the fulfillment of the service condition as defined in the terms and conditions of the LTIP. The actual number of shares that ultimately vest cannot exceed 100 percent of the conditional grant. The performance of the Company compared to its peers over the Evaluation Period will be measured as the sum, in percentage terms, of the average percentage price development of the ABB Ltd share price over the Evaluation Period (from a reference price of 22.25 Swiss francs for the 2011 launch) and an average annual dividend yield percentage (the Company's Performance). In order for shares to vest, the Company's Performance over the Evaluation Period must be equal to or better than half of the defined peers. The actual number of shares to be delivered by the Company, after the end of the Evaluation Period, will be dependent on the Company's ranking in comparison with the defined peers. The full amount of the grant will vest if the Company's Performance is positive and better than three-quarters of the defined peers. If the Company's Performance is negative but other conditions are met, a reduced number of shares will vest. In addition, if the Company's net income (adjusted for the financial impact of items that are, in the opinion of the Company's Board, non-operating, non-recurring or unforeseen such as divestments and acquisitions) is negative for the year preceding the year in which the Evaluation Period ends, no shares will vest, irrespective of the outcome of the Company's Performance.

Under the retention component of the 2013, 2012 and 2011 LTIP launches, each Eligible Participant was conditionally granted an individually defined maximum number of shares which fully vest at the end of the respective vesting periods (if the participant remains an Eligible Participant until the end of such period).

For the 2013, 2012 and 2011 LTIP launches, under the performance component, an Eligible Participant receives, in cash, 100 percent of the value of the shares that have vested. Under the retention component, an Eligible Participant receives 70 percent of the shares that have vested in the form of shares and 30 percent of the value of the shares that have vested in cash, with the possibility to elect to receive the 30 percent portion also in shares rather than cash.

Table of Contents

Note 18 Share-based payment arrangements (Continued)

Presented below is a summary of activity under the LTIP:

	Number of shares			
	Equity & Cash or choice of 100% Equity Settlement[1] (in millions)	Only Cash Settlement[2] (in millions)	Total (in millions)	Weighted-average grant-date fair value per share (Swiss francs)
Nonvested at January 1, 2013	**1.6**	**1.0**	**2.6**	15.72
Granted	0.5	0.4	0.9	20.92
Vested	(0.3)		(0.3)	19.54
Expired[3]		(0.2)	(0.2)	4.87
Forfeited	(0.1)	(0.1)	(0.2)	16.92
Nonvested at December 31, 2013	**1.7**	**1.1**	**2.8**	17.65

(1) Shares that, subject to vesting, the Eligible Participant can elect to receive 100 percent in the form of shares.

(2) Shares that, subject to vesting, the Eligible Participant can only receive in cash.

(3) Expired as the criteria for the Company's performance condition were not satisfied.

Equity-settled awards are recorded in the "Capital stock and additional paid-in capital" component of stockholders' equity, with compensation cost recorded in "Selling, general and administrative expenses" over the vesting period (which is from grant date to the end of the vesting period) based on the grant-date fair value of the shares. Cash-settled awards are recorded as a liability, remeasured at fair value at each reporting date for the percentage vested, with changes in the liability recorded in "Selling, general and administrative expenses".

At December 31, 2013, there was $14 million of total unrecognized compensation cost related to equity-settled awards under the LTIP. That cost is expected to be recognized over a weighted-average period of 2.0 years. The compensation cost recorded in 2013, 2012 and 2011, for cash-settled awards was not significant.

The aggregate fair value, at the dates of grant, of shares granted in 2013, 2012 and 2011, was approximately $22 million, $22 million and $16 million, respectively. The total grant-date fair value of shares that vested during 2013, 2012 and 2011 was not significant. The weighted-average grant-date fair value (per share) of shares granted during 2013, 2012 and 2011, was 20.92 Swiss francs, 15.21 Swiss francs and 17.91 Swiss francs, respectively.

For the earnings per share performance component of the 2013 and 2012 LTIP launches, the aggregate fair value of the conditionally granted shares is based on the market price of the ABB Ltd share at each reporting date and the probable outcome of the earnings per share achievement that would result in the vesting of the highest number of shares, as computed using a Monte Carlo simulation model. The main inputs to this model are the Company's and financial analysts' revenue growth rates and Operational EBITDA margin expectations.

Table of Contents

Note 18 Share-based payment arrangements (Continued)

The aggregate fair value of the shares relating to the (cash-settled) share-price performance component under the 2011 LTIP launch is based on the market price of the ABB Ltd share at each reporting date adjusted for the probability of vesting as computed using a Monte Carlo simulation model at each reporting date. The main inputs to the Monte Carlo simulation model for the December 31, 2013 and 2012, fair values for the Company and each peer company were as follows:

	December 31,			
	2013		2012	
Cash-settled awards at	From	To	From	To
Input ranges for:				
Option implied volatilities (%)	16.8	36.7	16.2	48.4
Risk-free rates (%)	1.7	4.0	1.0	3.1
Equity betas	0.85	1.31	0.85	1.24
Equity risk premiums (%)	5.0	7.0	5.0	7.0

For the retention component under the 2013, 2012 and 2011 LTIP launches, the fair value of granted shares for equity-settled awards is the market price of the ABB Ltd share on grant date and the fair value of granted shares for cash-settled awards is the market price of the ABB Ltd share at each reporting date.

Other share-based payments

The Company has other minor share-based payment arrangements with certain employees. The compensation cost related to these arrangements in 2013, 2012 and 2011 was not significant.

Note 19 Stockholders' equity

At both December 31, 2013 and 2012, the Company had 2,819 million authorized shares, of which 2,315 million were registered and issued.

At the Annual General Meeting of Shareholders (AGM) held in April 2013, at the AGM held in April 2012 and at the AGM held in April 2011, shareholders approved the payment of a dividend of 0.68 Swiss francs per share, 0.65 Swiss francs per share and 0.60 Swiss francs per share, respectively, out of the capital contribution reserve in stockholders' equity of the unconsolidated statutory financial statements of ABB Ltd, prepared in accordance with Swiss law. The dividends were paid in May 2013 (amounting to $1,667 million), May 2012 (amounting to $1,626 million) and May 2011 (amounting to $1,569 million), respectively.

Upon and in connection with each launch of the Company's MIP, the Company sold call options to a bank at fair value, giving the bank the right to acquire shares equivalent to the number of shares represented by the MIP warrant and WAR awards to participants. Under the terms of the agreement with the bank, the call options can only be exercised by the bank to the extent that MIP participants have either sold or exercised their warrants or exercised their WARs. In 2012 and 2011, the bank exercised certain of the call options it held. As a consequence, in 2012, the Company delivered 2.7 million shares out of treasury stock and in 2011 the Company delivered 6.0 million shares from contingent capital. No call options were exercised by the bank in 2013. At December 31, 2013, such call options representing 9.6 million shares and with strike prices ranging from 15.75 to 36.40 Swiss francs (weighted-average strike price of 23.12 Swiss francs) were held by the bank. The call options expire in periods ranging from May 2014 to May 2019. However, only 1.0 million of these instruments, with strike prices ranging from 15.75 to 36.40 Swiss francs (weighted-average strike price of 31.40 Swiss francs), could be exercised at December 31, 2013, under the terms of the agreement with the bank.

Table of Contents

Note 19 Stockholders' equity (Continued)

In addition to the above, at December 31, 2013, the Company had further outstanding obligations to deliver:

- up to 2.6 million shares relating to the options granted under the 2008 launch of the MIP, with a strike price of 36.40 Swiss francs, vested in May 2011 and expiring in May 2014,
- up to 4.5 million shares relating to the options granted under the 2009 launch of the MIP, with a strike price of 19.00 Swiss francs, vested in May 2012 and expiring in May 2015,
- up to 7.3 million shares relating to the options granted under the 2010 launch of the MIP, with a strike price of 22.50 Swiss francs, vested in May 2013 and expiring in May 2016,
- up to 8.7 million shares relating to the options granted under the 2011 launch of the MIP, with a strike price of 25.50 Swiss francs, vesting in May 2014 and expiring in May 2017,
- up to 16.6 million shares relating to the options granted under the 2012 launches of the MIP, with a weighted-average strike price of 16.06 Swiss francs, vesting in May 2015 and expiring in May 2018,
- up to 17.4 million shares relating to the options granted under the 2013 launch of the MIP, with a strike price of 21.50 Swiss francs, vesting in May 2016 and expiring in May 2019,
- up to 4.7 million shares relating to the ESAP, vesting and expiring in November 2014,
- up to 1.7 million shares to Eligible Participants under the 2013, 2012 and 2011, launches of the LTIP, vesting and expiring in June 2016, May 2015 and March 2014, respectively, and
- up to 2.3 million shares in connection with certain other share-based payment arrangements with employees.

See Note 18 for a description of the above share-based payment arrangements.

In November 2013 and 2012, the Company delivered 3.7 million and 2.3 million shares, respectively, from treasury stock, under the ESAP. In 2011, the number of shares delivered under the ESAP was not significant.

Amounts available to be distributed as dividends to the stockholders of ABB Ltd are based on the requirements of Swiss law and ABB Ltd's Articles of Incorporation, and are determined based on amounts presented in the unconsolidated financial statements of ABB Ltd, Zurich, prepared in accordance with Swiss law. At December 31, 2013, of the 11,637 million Swiss francs ($13,076 million) total stockholders' equity reflected in such unconsolidated financial statements, 2,384 million Swiss francs ($2,679 million) represents share capital and 9,253 million Swiss francs ($10,397 million) represent reserves. Of these reserves, legal reserves for own shares of 296 million Swiss francs ($333 million) and ordinary legal reserves of 1,000 million Swiss francs ($1,124 million) are restricted.

In February 2014, the Company announced that a proposal will be put to the 2014 AGM to distribute 0.70 Swiss francs per share to shareholders.

Table of Contents

Note 20 Earnings per share

Basic earnings per share is calculated by dividing income by the weighted-average number of shares outstanding during the year. Diluted earnings per share is calculated by dividing income by the weighted-average number of shares outstanding during the year, 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. In 2013, 2012 and 2011, outstanding securities representing a maximum of 47 million, 56 million and 39 million shares, respectively, were excluded from the calculation of diluted earnings per share as their inclusion would have been anti-dilutive.

Basic earnings per share:

($ in millions, except per share data in $)	**2013**	**2012**	**2011**
Amounts attributable to ABB shareholders:			
Income from continuing operations, net of tax	2,824	2,700	3,159
Income (loss) from discontinued operations, net of tax	(37)	4	9
Net income	**2,787**	**2,704**	**3,168**
Weighted-average number of shares outstanding (in millions)	**2,297**	**2,293**	**2,288**
Basic earnings per share attributable to ABB shareholders:			
Income from continuing operations, net of tax	1.23	1.18	1.38
Income (loss) from discontinued operations, net of tax	(0.02)		
Net income	**1.21**	**1.18**	**1.38**

Diluted earnings per share:

($ in millions, except per share data in $)	**2013**	**2012**	**2011**
Amounts attributable to ABB shareholders:			
Income from continuing operations, net of tax	2,824	2,700	3,159
Income (loss) from discontinued operations, net of tax	(37)	4	9
Net income	**2,787**	**2,704**	**3,168**
Weighted-average number of shares outstanding (in millions)	2,297	2,293	2,288
Effect of dilutive securities:			
Call options and shares	8	2	3
Dilutive weighted-average number of shares outstanding	**2,305**	**2,295**	**2,291**

Diluted earnings per share attributable to ABB shareholders:			
Income from continuing operations, net of tax	1.23	1.18	1.38
Income (loss) from discontinued operations, net of tax	(0.02)		
Net income	**1.21**	**1.18**	**1.38**

Table of Contents

Note 21 Other comprehensive income

The following table includes amounts recorded within "Total other comprehensive income (loss)" including the related income tax effects.

($ in millions)	2013 Before tax	2013 Tax effect	2013 Net of tax	2012 Before tax	2012 Tax effect	2012 Net of tax	2011 Before tax	2011 Tax effect	2011 Net of tax
Foreign currency translation adjustments:									
Net change during the year	**133**	**8**	**141**	**389**	**(6)**	**383**	**(280)**	**5**	**(275)**
Available-for-sale securities:									
Net unrealized gains (losses) arising during the year	(4)		**(4)**	5	(2)	**3**	(2)	(1)	**(3)**
Reclassification adjustments for net (gains) losses included in net income	(14)	1	**(13)**	1		**1**	3	2	**5**
Net change during the year	**(18)**	**1**	**(17)**	**6**	**(2)**	**4**	**1**	**1**	**2**
Pension and other postretirement plans:									
Prior service (costs) credits arising during the year	(20)	4	**(16)**	(42)	6	**(36)**	(35)	12	**(23)**
Net actuarial gains (losses) arising during the year	423	(132)	**291**	(846)	245	**(601)**	(750)	157	**(593)**
Amortization of prior service cost included in net income	25	(2)	**23**	33	(3)	**30**	35	(13)	**22**
Amortization of net actuarial loss included in net income	140	(41)	**99**	102	(32)	**70**	55	(11)	**44**
Amortization of transition liability included in net income							1		**1**
Net change during the year	**568**	**(171)**	**397**	**(753)**	**216**	**(537)**	**(694)**	**145**	**(549)**
Cash flow hedge derivatives:									
Net gains (losses) arising during the year	33	(5)	**28**	74	(21)	**53**	(21)	2	**(19)**
Reclassification adjustments for net (gains) losses included in net income	(54)	11	**(43)**	(42)	14	**(28)**	(88)	27	**(61)**
Net change during the year	**(21)**	**6**	**(15)**	**32**	**(7)**	**25**	**(109)**	**29**	**(80)**
Total other comprehensive income (loss)	**662**	**(156)**	**506**	**(326)**	**201**	**(125)**	**(1,082)**	**180**	**(902)**

Table of Contents

Note 21 Other comprehensive income (Continued)

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

($ in millions)	Foreign currency translation adjustments	Unrealized gains (losses) on available-for-sale securities	Pension and other postretirement plan adjustments	Unrealized gains (losses) of cash flow hedge derivatives	Total OCI
Balance at January 1, 2013	**(580)**	**24**	**(2,004)**	**37**	**(2,523)**
Other comprehensive (loss) income before reclassifications	141	(4)	275	28	**440**
Amounts reclassified from OCI		(13)	122	(43)	**66**
Total other comprehensive (loss) income	141	(17)	397	(15)	**506**
Less:					
Amounts attributable to noncontrolling interests	(8)		3		**(5)**
Balance at December 31, 2013	**(431)**	**7**	**(1,610)**	**22**	**(2,012)**

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

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

Amounts reclassified from OCI	**(43)**

(1) These components are included in the computation of net periodic benefit cost (see Note 17).

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

The amounts reclassified out of OCI in respect of Unrealized gains (losses) on available-for-sale securities were not significant in 2013.

Table of Contents

Note 22 Restructuring and related expenses

Restructuring-related activities

In 2013, 2012 and 2011, the Company executed minor restructuring-related activities and incurred charges of $252 million, $180 million and $164 million, respectively, which were mainly recorded in "Total cost of sales".

($ in millions)	2013	2012	2011
Employee severance costs	154	92	83
Estimated contract settlement, loss order and other costs	78	72	53
Inventory and long-lived asset impairments	20	16	28
Total	**252**	**180**	**164**

At December 31, 2013 and 2012, the balance of restructuring and related liabilities is primarily included in "Other provisions".

Note 23 Operating segment and geographic data

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

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

Discrete Automation and Motion: manufactures and sells motors, generators, variable speed drives, programmable logic controllers, robots and robotics, solar inverters, wind converters, rectifiers, excitation systems, power quality and protection solutions, electric vehicle fast charging infrastructure, components and subsystems for railways, and related services for a wide range of applications in discrete automation, process industries, transportation and utilities.

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

Process Automation: develops and sells control and plant optimization systems, automation products and solutions, including instrumentation, as well as industry-specific application knowledge and services for the oil, gas and petrochemicals, metals and minerals, marine and turbocharging, pulp and paper, chemical and pharmaceuticals, and power industries.

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

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

Table of Contents

Note 23 Operating segment and geographic data (Continued)

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

The Company evaluates the profitability of its segments based on Operational EBITDA, which represents income from operations excluding depreciation and amortization, restructuring and restructuring-related expenses, and acquisition-related expenses and certain non-operational items, as well as foreign exchange/commodity timing differences in income from operations consisting of: (i) unrealized gains and losses on derivatives (foreign exchange, commodities, embedded derivatives), (ii) realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized, and (iii) unrealized foreign exchange movements on receivables/payables (and related assets/liabilities).

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

The following tables present segment revenues, Operational EBITDA, the reconciliations of consolidated Operational EBITDA to income from continuing operations before taxes, as well as depreciation and amortization, and capital expenditures for 2013, 2012 and 2011, as well as total assets at December 31, 2013, 2012 and 2011.

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

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

F-81

Table of Contents

Note 23 Operating segment and geographic data (Continued)

($ in millions)	2011 Third-party revenues	2011 Intersegment revenues	2011 Total revenues
Discrete Automation and Motion	8,047	759	8,806
Low Voltage Products	4,953	351	5,304
Process Automation	8,078	222	8,300
Power Products	9,028	1,841	10,869
Power Systems	7,833	268	8,101
Corporate and Other	51	1,508	1,559
Intersegment elimination		(4,949)	(4,949)
Consolidated	**37,990**		**37,990**

($ in millions)	2013	2012	2011
Operational EBITDA:			
Discrete Automation and Motion	1,783	1,735	1,664
Low Voltage Products	1,468	1,219	1,059
Process Automation	1,096	1,003	1,028
Power Products	1,637	1,585	1,782
Power Systems	419	290	743
Corporate and Other and Intersegment elimination	(328)	(277)	(262)
Consolidated Operational EBITDA	**6,075**	**5,555**	**6,014**
Depreciation and amortization	(1,318)	(1,182)	(995)
Restructuring and restructuring-related expenses	(252)	(180)	(164)
Acquisition-related expenses and certain non-operational items	(181)	(199)	(107)
Foreign exchange/commodity timing differences in income from operations:			
Unrealized gains and losses on derivatives (foreign exchange, commodities, embedded derivatives)	60	135	(158)
Realized gains and losses on derivatives where the underlying hedged transaction has not yet been realized	14	(28)	(32)
Unrealized foreign exchange movements on receivables/payables (and related assets/liabilities)	(11)	(43)	109
Income from operations	**4,387**	**4,058**	**4,667**
Interest and dividend income	69	73	90
Interest and other finance expense	(390)	(293)	(207)
Income from continuing operations before taxes	**4,066**	**3,838**	**4,550**

Table of Contents

Note 23 Operating segment and geographic data (Continued)

($ in millions)	Depreciation and amortization			Capital expenditure(1)			Total assets(1) at December 31,		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Discrete Automation and Motion	285	263	251	214	197	202	10,931	9,416	9,195
Low Voltage Products	323	250	116	204	208	149	9,389	9,534	3,333
Process Automation	87	82	83	68	91	72	4,537	4,847	4,777
Power Products	223	209	200	252	259	192	7,669	7,701	7,355
Power Systems	183	174	144	101	194	136	7,905	8,083	7,469
Corporate and Other	217	204	201	267	344	270	7,633	9,489	7,519
Consolidated	**1,318**	**1,182**	**995**	**1,106**	**1,293**	**1,021**	**48,064**	**49,070**	**39,648**

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

Geographic information

Geographic information for revenues and long-lived assets was as follows:

($ in millions)	Revenues			Long-lived assets at December 31,	
	2013	2012	2011	2013	2012
Europe	14,385	14,073	14,657	3,798	3,543
The Americas	12,115	10,699	9,043	1,450	1,347
Asia	11,230	10,750	10,136	850	883
Middle East and Africa	4,118	3,814	4,154	156	174
	41,848	**39,336**	**37,990**	**6,254**	**5,947**

Revenues by geography reflect the location of the customer. Approximately 18 percent, 17 percent and 14 percent of the Company's total revenues in 2013, 2012 and 2011, respectively, came from customers in the United States. Approximately 12 percent, 12 percent and 13 percent of the Company's total revenues in 2013, 2012, and 2011, respectively, were generated from customers in China. In 2013, 2012 and 2011, more than 98 percent of the Company's total revenues were generated from customers outside Switzerland.

Long-lived assets represent "Property, plant and equipment, net" and are shown by location of the assets. At December 31, 2013, approximately 17 percent, 17 percent and 15 percent of the Company's long-lived assets were located in Switzerland, the U.S. and Sweden, respectively. At December 31, 2012, approximately 17 percent, 17 percent and 14 percent were located in Switzerland, the U.S. and Sweden, respectively.

The Company does not segregate revenues derived from transactions with external customers for each type or group of products and services. Accordingly, it is not practicable for the Company to present revenues from external customers by product and service type.