

Operating and financial review and prospects

About ABB

We are a global leader in power and automation technologies that improve the performance and lower the environmental impact of our customers in the utility, industry and transportation & infrastructure sectors. We provide a broad range of products, systems, solutions and services that are designed to boost productivity, increase power reliability and enhance energy efficiency. We operate in roughly 100 countries and employ about 140,000 people.

History of the ABB Group

The ABB Group was formed in 1988 through a merger between Asea AB and BBC Brown Boveri AG. Initially founded in 1883, Asea AB was a major participant in the introduction of electricity into Swedish homes and businesses and in the development of Sweden's railway network. In the 1940s and 1950s, Asea AB expanded into the power, mining and steel industries. Brown Boveri and Cie. (later renamed BBC Brown Boveri AG) was formed in Switzerland in 1891 and initially specialized in power generation and turbines. In the early to mid-1900s, it expanded its operations throughout Europe and broadened its business operations to include a wide range of electrical engineering activities.

In January 1988, Asea AB and BBC Brown Boveri AG each contributed almost all of their businesses to the newly formed ABB Asea Brown Boveri Ltd, of which they each owned 50 percent. In 1996, Asea AB was renamed ABB AB and BBC Brown Boveri AG was renamed ABB AG. In February 1999, the ABB Group announced a group reconfiguration designed to establish a single parent holding company and a single class of shares. ABB Ltd was incorporated on March 5, 1999, under the laws of Switzerland. In June 1999, ABB Ltd became the holding company for the entire ABB Group. This was accomplished by having ABB Ltd issue shares to the shareholders of ABB AG and ABB AB, the two companies that formerly owned the ABB Group. The ABB Ltd shares were exchanged for the shares of those two companies, which, as a result of the share exchange and certain related transactions, became wholly-owned subsidiaries of ABB Ltd. ABB Ltd shares are currently listed on the SIX Swiss Exchange, the NASDAQ OMX Stockholm Exchange and the New York Stock Exchange (in the form of American Depositary Shares).

Organizational structure

Our business is international in scope and we generate revenues in numerous currencies. We are headquartered in Zurich, Switzerland.

We manage our business based on a divisional structure, with five divisions: Discrete Automation and Motion, Low Voltage Products, Process Automation, Power Products, and Power Systems. For a breakdown of our consolidated revenues (i) by operating division and (ii) derived from each geographic region in which we operate, see "Analysis of results of operations – Revenues."

We operate in approximately 100 countries across four regions: Europe, the Americas, Asia, and the Middle East and Africa (MEA). A breakdown of our employees by geographic region is as follows:

	December 31,		
	2014	2013	2012
Europe	63,000	65,000	64,000
The Americas	32,200	34,400	34,400
Asia	37,100	39,400	38,300
Middle East and Africa	8,100	8,900	9,400
Total	140,400	147,700	146,100

The proportion of our employees that are represented by labor unions or are the subject of collective bargaining agreements varies based on the labor practices of each country in which we operate.

Business divisions

Industry background

As a global leader in power and automation, we serve utilities, industry, and transport and infrastructure customers through our five divisions. The markets and our divisions are discussed in more detail below. Revenue figures presented in this Business divisions section are before interdivisional eliminations.

Utilities Market

We serve the utilities market with products, systems and services designed primarily to deliver electricity. Electricity is generated in power stations of various types, including thermal, wind, solar and hydro plants and is then fed into an electricity grid through which it is transmitted and distributed to consumers. Transmission systems link power generation sources to distribution systems, often over long distances. Distribution systems then branch out over shorter distances to carry electricity to end users. These electricity networks incorporate sophisticated devices to transmit electricity, control and monitor the power flow and ensure efficiency, reliability, quality and safety.

The primary demand driver in the utilities market is the growing need for reliable electricity supplies to support economic growth and address global environmental challenges. This is also driving increased demand for renewable energy and high-efficiency power systems and equipment. As new power sources and loads are added, there is a need for grids and power networks to become more flexible, reliable and smarter. Power quality, stability and security of supply become key priorities. Additional drivers vary by region. Capacity addition across the power value chain is the key market driver in emerging markets, mainly in Asia, the Middle East, South America and Africa. In North America, the focus is on upgrading and replacing aging infrastructure, improving grid reliability and enabling smarter power networks. In Europe, the focus is on upgrading the power infrastructure, integrating renewable energy sources such as wind power, and building interconnections to allow more efficient use of power.

Industry Market

We serve the industry market with a wide variety of automation products, systems and services designed primarily to increase industrial productivity and energy efficiency, deliver more reliable and efficient electrical power to industrial end users, and improved process and product quality in industrial and manufacturing processes. We serve industrial customers who mainly use process or discrete manufacturing processes. Process automation refers to measurement, control, electrification and other applications used in processes where the main objective is continuous production, such as in the oil and gas, power, chemicals, mining, metals, and pulp and paper industries. Discrete automation refers to operations that manufacture individual items, such as automotive, consumer electronics and food and beverage. In addition, we offer power solutions to ensure that electricity is delivered within the plant safely, with low losses and at optimal quality and reliability levels.

The primary demand drivers in the industry market include the need by our customers to reduce energy and raw material costs, improve product and process quality, increase process and manufacturing safety, lower their environmental impacts and improve the management of large assets such as manufacturing plants. There are additional regional demand drivers. In North America, for example, the emergence of shale gas and shale oil as economically viable fuel sources and feedstock for the petrochemical industry is creating more demand both for oil and gas processing as well as encouraging general industrial investments to take advantage of lower energy input costs. Development of the largely untapped natural resources base in Africa combined with the ambitions of many African countries to expand economic growth through industrial diversification is another regional demand driver in our industry market. A further example is the shift in policy in China to promote more efficient and cleaner industrial production, which increases demand for our industrial automation solutions.

Transport and Infrastructure Market

We serve the transport and infrastructure market with products, systems and services designed primarily to increase energy efficiency, thereby reducing our customers' operating costs and environmental impact. Our primary transport markets are the marine, rail and electrical vehicle markets. Our solutions ensure that electrical power is delivered and used efficiently in, for example, liquefied natural gas vessels, offshore oil and gas production vessels, cruise ships, conventional and high-speed electrical locomotives, electrically-powered urban transit systems and electric cars and buses. Our infrastructure market includes the building industry, especially building automation where we offer products and applications aimed at improving the energy efficiency of buildings through automated control of indoor climate, lighting and security. Data centers that require large amounts of electrical power delivered at extremely high reliability levels is another important infrastructure market.

The primary demand drivers in the transport and infrastructure market are increasing urbanization, the need for increased energy efficiency to reduce costs and lower environmental impacts, the rise in demand for electrically-powered forms of transportation, and the need for reliable and high-quality power delivery to commercial buildings.

Discrete Automation and Motion Division

Overview

The Discrete Automation and Motion division offers a wide range of products and services including variable-speed drives, motion control solutions, motors, generators, power electronics systems, rectifiers, power quality and power protection products, mechanical power transmission of rotating equipment, traction converters, solar inverters, wind turbine converters, electric vehicle charging infrastructure, programmable logic controllers (PLCs), and industrial robots. These products help customers to improve productivity, quality, and energy efficiency, and generate energy. Key applications include energy conversion, data processing, actuation, automation, standardized manufacturing cells for applications

such as machine tending, welding, cutting, painting, finishing, picking, packing and palletizing, and engineered systems for the automotive industry. The majority of these applications are for industrial applications including discrete manufacturing, process automation and hybrid or batch manufacturing, with others provided for infrastructure and buildings, transportation, and utilities. The division also provides a full range of life-cycle services, from product and system maintenance to application design, including energy efficiency appraisals, preventive maintenance and remote monitoring services.

Revenues are generated both from direct sales to end users as well as from indirect sales through distributors, machine builders and OEMs (original equipment manufacturers), system integrators, and panel builders.

The Discrete Automation and Motion division had approximately 31,100 employees as of December 31, 2014, and generated \$10.1 billion of revenues in 2014.

Products and Services

The Discrete Automation and Motion division provides low-voltage and medium-voltage drive products and systems for industrial, commercial and residential applications. Drives provide speed, torque and motion control for equipment such as fans, pumps, compressors, conveyors, centrifuges, mixers, hoists, cranes, extruders, printing and textile machines. They are used in industries such as building automation, marine, power, transportation, food and beverage, metals, mining, and oil and gas.

The division also produces a range of power conversion products. These include static excitation and synchronizing systems that provide stability for power stations, uninterruptible power supply modular systems, as well as high power rectifiers that convert alternating current (AC) power to direct current (DC) power for very high-amperage applications such as furnaces in aluminum smelters. The division also manufactures solar inverters, wind turbine converters and converters for power protection. Rail traction converters, DC wayside power solutions and a range of solutions for the charging of electric vehicles are also part of the division's portfolio.

Discrete Automation and Motion supplies a comprehensive range of electrical motors and generators, including high-efficiency motors that conform to leading environmental and Minimum Energy Performance Standards (MEPS). Efficiency is an important selection criterion for customers, because electric motors account for nearly two-thirds of the electricity consumed by industrial plants. The Discrete Automation and Motion division manufactures synchronous motors for the most demanding applications and a full range of low- and high-voltage induction motors, for both IEC (International Electrotechnical Commission) and NEMA (National Electrical Manufacturers Association) standards.

The Discrete Automation and Motion division offers robots, controllers and software systems and services for the automotive manufacturers and their sub-suppliers as well as for general manufacturing industries, to improve product quality, productivity and consistency in manufacturing processes. Robots are also used in activities or environments which may be hazardous to employee health and safety, such as repetitive lifting, dusty, hot or cold rooms, or painting booths. In the automotive industry, the robot products and systems are used in such areas as press shop, body shop, paint shop, power train assembly, trim and final assembly. General industry segments in which robotics solutions are used range from metal fabrication, foundry, plastics, food and beverage, chemicals and pharmaceuticals to consumer electronics, solar and wood. Typical general industry applications include welding, material handling, painting, picking, packing and palletizing.

The division also offers services that complement its products, including design and project management, engineering, installation, training and life-cycle care, energy efficiency appraisals and preventive maintenance.

Customers

The Discrete Automation and Motion division serves a wide range of customers. Customers include machinery manufacturers, process industries such as pulp and paper, oil and gas, and metals and mining companies, hybrid and batch manufacturers such as food and beverage companies, rail equipment manufacturers, discrete manufacturing companies such as '3C' (computer, communication and consumer electronic), utilities and renewable energy suppliers, particularly in the wind and solar sectors, as well as customers in the automotive industry and electric vehicle charging networks.

Sales and Marketing

Sales are made both through direct sales forces as well as through third-party channel partners, such as distributors, wholesalers, installers, machine builders and OEMs, system integrators, and panel builders. The proportion of direct sales compared to channel partner sales varies among the different industries, product technologies and geographic markets.

Competition

The Discrete Automation and Motion division's principal competitors vary by product line but include Alstom, Fanuc Robotics, Kuka Robot Group, Rockwell Automation, Schneider, Siemens, Yaskawa, SMA and WEG Industries.

Capital Expenditures

The Discrete Automation and Motion division's capital expenditures for property, plant and equipment totaled \$192 million in 2014, compared to \$214 million and \$197 million in 2013 and in 2012, respectively. Principal investments in 2014 were primarily related to equipment replacement and upgrades. Geographically, in 2014, Europe represented 43 percent of the capital expenditures, followed by the Americas (35 percent), Asia (19 percent) and MEA (3 percent).

Low Voltage Products Division

Overview

The Low Voltage Products division helps customers to improve productivity, use energy efficiently and increase safety. The division offers a wide range of products and systems, with related services, that provide protection, control and measurement for electrical installations, enclosures, switchboards, electronics and electromechanical devices for industrial machines and plants. The main applications are in industry, building, infrastructure, rail and sustainable transportation, renewable energies and e-mobility applications.

The Low Voltage Products division had approximately 29,900 employees as of December 31, 2014, and generated \$7.5 billion of revenues in 2014.

A majority of the division's revenues comes from sales through distributors, wholesalers, OEMs, system integrators, and panel builders, although a portion of the division's revenues comes from direct sales to end users and utilities.

Products and Services

The Low Voltage Products division offering covers a wide range of products and services including low-voltage switchgears, breakers, switches, control products, DIN-rail components, automation and distribution enclosures, wiring accessories and installation material for many kinds of applications.

The division offers solutions for restoring service rapidly in case of a fault and providing optimum protection of the electrical installation and people using such installation. The product offering ranges from miniature circuit breakers to high-capacity molded-case and air circuit breakers, and includes safety switches used for power distribution in factories and buildings, fuse gear systems for short circuit and overload protection as well as cabling and connection components.

The Low Voltage Products division also offers terminal blocks and printed circuit board connectors used by panel builders and OEMs to produce standard distribution and control panels as well as specialized applications in industries such as traction, energy, maritime, explosive atmospheres and electronics. In addition, the division offers a range of contactors, soft starters, starters, proximity sensors, safety products for industrial protection, limit switches and manual motor starters, along with electronic relays and overload relays.

The division provides smart home and intelligent building control systems, also known as KNX protocol, a complete system for all energy-reducing building application areas such as lighting and shutters, heating, ventilation, cooling and security. In addition, the division's IEC and NEMA compliant switchgear technology integrates intelligent motor and feeder control solutions to enhance protection, digital control, condition monitoring and plant-wide data access by process control systems, electrical control systems and other plant computers.

The Low Voltage Products division has also developed a range of products for new markets, such as those used by electric vehicles (e-mobility) and in photovoltaic, solar and wind applications. These include circuit breakers, energy meters, switch-disconnectors, residual current-operated cir-

cuit breakers, interface relays and other products designed for outdoor installation.

The division also supplies a wide range of electrical components including conduits, boxes, covers, fittings, connectors, fasteners, wiring ducts, terminals, cable trays, struts, grounding, insulation, switchgear, metal framing, earthing & lightning protection and industrial lighting products for various types of application.

Customers

The Low Voltage Products division serves a wide range of customers, including residential and commercial building contractors, process industries, rail equipment manufacturers, manufacturing companies, utilities and renewable energy suppliers, particularly in the wind and solar sectors.

Sales and Marketing

Sales are made both through direct sales forces as well as through third-party channel partners, such as distributors, wholesalers, installers, machine builders and OEMs, system integrators, and panel builders. The proportion of direct sales compared to channel partner sales varies among the different industries, product technologies and geographic markets.

Competition

The Low Voltage Products division's principal competitors vary by product line but include Eaton Corporation, Legrand, Mitsubishi, Schneider, Siemens, Leviton and Rittal.

Capital Expenditures

The Low Voltage Products division's capital expenditures for property, plant and equipment totaled \$184 million in 2014, compared to \$204 million and \$208 million in 2013 and 2012, respectively. Investments in 2014 primarily related to equipment replacement and upgrades in recently acquired businesses. Geographically, in 2014, Europe represented 48 percent of the capital expenditures, followed by the Americas (34 percent), Asia (16 percent) and MEA (2 percent).

Process Automation Division

Overview

The Process Automation division is a leading provider of fully-engineered solutions, products and services for process control, safety, instrumentation, plant electrification and energy management for the key process industry sectors of chemical, oil and gas, marine, mining, minerals, metals, cement, and pulp and paper. Each industry has certain unique business drivers, yet all share common requirements for operational productivity, safety, energy efficiency, minimized risk and environment compliance. The Process Automation division's core competencies are the applications of automation and electrification technologies to address these generic requirements and are tailored to the characteristics of each of its key industries. Additionally, this business has a number of industry-specific services and anchor products (e.g. gearless mill drives, mine hoists, Azipods, turbochargers) that differentiate the business from its competitors. These products make ABB more relevant to its customers in these industries

and represent significant components of a larger automation and electrification scope. The division is organized around industry systems, product businesses and life cycle services. The division had approximately 23,100 employees as of December 31, 2014, and generated revenues of \$7.9 billion in 2014.

The Process Automation division offering is made available as separately sold products or as part of a total electrification, instrumentation and/or automation system. The division's technologies are sold both through direct sales forces and third-party channels.

Products and Services

The Process Automation division offers standalone products, engineered systems and services for process control and measurement, safety, plant electrification, information management, assets management and industry-specific applications for a variety of industries, primarily pulp and paper, metals, minerals and mining, chemical, oil and gas, marine, pharmaceuticals and the power industry. Some of the Discrete Automation and Motion, Power Systems, Power Products and Low Voltage Products divisions' products are integrated into the process control and electrification systems offered by the Process Automation division.

Our automation systems are used in applications such as continuous and batch control, asset optimization, energy management and safety. They are the hubs that link instrumentation, measurement devices and systems for control and supervision of industrial processes and enable customers to integrate their production systems with their enterprise, resource and planning systems, thereby providing a link to their ordering, billing and shipping processes. This link allows customers to manage their entire manufacturing and business process based on real-time access to plant information. Additionally, it allows customers to increase production efficiency, optimize their assets and reduce environmental waste.

A key element of this division's product offering is its System 800xA process automation platform. This product extends the capability of traditional process control systems, introducing advanced functions such as batch management, asset optimization and field device integration which "plug in" to a common user environment. The same user interface may also be used to manage components of existing multiple ABB control systems that have been installed in the market over approximately the past 25 years. In this way, System 800xA gives customers a way to migrate to new functions one step at a time, rather than having to make a large-scale capital investment to replace their entire control system. By creating a common user interface that can be used to manage multiple systems, System 800xA also reduces the research and development investment needed to achieve a "one size fits all" solution across our large installed systems base. The division also offers a full line of instrumentation and analytical products to analyze, measure and record industrial and power processes.

The division's product offerings for the pulp and paper industries include quality control systems for pulp and paper mills, control systems, drive systems, on-line sensors, actuators and field instruments. On-line sensors measure product properties, such as weight, thickness, color, brightness, moisture content and additive content. Actuators allow the customer to make automatic adjustments during the production process to improve the quality and consistency of the product. Field instruments measure properties of the process, such as flow rate, chemical content and temperature.

We offer our customers in the metals, cement and mining industries specialized products and services, as well as total production systems. We design, plan, engineer, supply, erect and commission electric equipment, drives, motors and equipment for automation and supervisory control within a variety of areas including mining, mineral handling, aluminum smelting, hot and cold steel applications and cement production.

In the oil and gas sector, we provide solutions for onshore and offshore production and exploration, refining, and petrochemical processes, and oil and gas transportation and distribution. In the pharmaceuticals and fine chemicals areas, we offer applications to support manufacturing, packaging, quality control and compliance with regulatory agencies.

In the marine industry, we provide global shipbuilders with power and automation technologies for luxury cruise liners, ferries, tankers, offshore oil rigs and special purpose vessels. We design, engineer, build, supply and commission electrical and automation systems for marine power generation, power distribution and diesel electric propulsion, as well as turbochargers to improve efficiency for diesel and gasoline engines.

We also offer a complete range of lifecycle services across all of our customer segments to help customers optimize their assets. Demand for our process automation services is increasing as our customers seek to increase productivity by improving the performance of existing equipment.

Customers

The Process Automation division's end customers are primarily companies in the oil and gas, minerals and mining, metals, pulp and paper, chemicals and pharmaceuticals, and the marine industries. Customers for this division are looking for complete instrumentation, automation and electrification solutions which demonstrate value mainly in the areas of lower capital costs, increased plant availability, lower lifecycle costs and reduced project costs.

Sales and Marketing

The Process Automation division uses a direct sales force as well as third-party channel partners, such as distributors, system integrators and OEMs. For the division as a whole, the majority of revenues are derived through the division's own direct sales channels.

Competition

The Process Automation division's principal competitors vary by industry or product line. Competitors include Emerson, Honeywell, Metso Automation, Rockwell Automation, Schneider, Siemens, Voith, and Yokogawa Electric Corporation.

Capital Expenditures

The Process Automation division's capital expenditures for property, plant and equipment totaled \$49 million in 2014, compared to \$68 million and \$91 million in 2013 and 2012, respectively. Principal investments in 2014 were in the measurement products and turbocharging businesses. Geographically, in 2014, Europe represented 66 percent of the capital expenditures, followed by the Americas (16 percent), Asia (14 percent) and MEA (4 percent).

Power Products Division

Overview

The Power Products division primarily serves electric, gas and water utilities as well as industrial and commercial customers, with a vast portfolio of products and services across a wide voltage range to facilitate power generation, transmission and distribution. Direct sales account for a significant part of the division's total revenues, and external channel partners, such as wholesalers, distributors and OEMs, account for the rest. Key technologies include high- and medium-voltage switchgear, circuit breakers for a range of current ratings and voltage levels, power, distribution, traction and other special transformers, as well as products to help control and protect electrical networks. The division had approximately 35,400 employees as of December 31, 2014, and generated \$10.3 billion of revenues in 2014.

Products and Services

The Power Products division manufactures products that can be placed in three broad categories: high-voltage products, medium-voltage products and transformers. The division sells directly to end customers and also through channels such as distributors, wholesalers, installers and OEMs. Some of the division's products are also integrated into the turnkey offerings of systems divisions such as Power Systems and Process Automation or sold through engineering, procurement and construction (EPC) firms.

The high-voltage products business supplies high-voltage equipment, ranging from 50 to 1,200 kilovolts, mainly to power transmission utilities and also serves industrial customers. This equipment primarily enables the transmission grid to operate more reliably and efficiently with minimum environmental impact. As part of its portfolio, this business designs and manufactures a range of air-, gas-insulated and hybrid switchgear, generator circuit breakers, capacitors, high-voltage circuit breakers, surge arresters, instrument transformers, cable accessories and a variety of high-voltage components. This is supported by a range of service solutions to support the products throughout their life cycle.

The medium-voltage business offers products and services that largely serve the power distribution sector, often providing the link between high-voltage transmission systems and low-voltage users. Medium-voltage products help utility and industrial customers to improve power quality and control, reduce outage time and enhance operational reliability and efficiency. This business reaches customers directly and through channels such as distributors and OEMs. Its comprehensive offering includes medium-voltage equipment (1 to 50 kilovolts), indoor and outdoor circuit breakers, reclosers, fuses, contactors, relays, instrument transformers, sensors, motor control centers, ring main units for primary and secondary distribution, as well as a range of air- and gas-insulated switchgear. It also produces indoor and outdoor modular systems and other solutions to facilitate efficient and reliable power distribution.

The transformers business of the division designs and manufactures power transformers (72.5 to 1,200 kilovolts) for utility and industrial customers that help to step up or step down voltage levels and include special applications such as high voltage direct current (HVDC) transformers or phase shifters. This business also supplies transformer components and insulation material, such as bushings and tap changers. It also manufactures a wide range of distribution transformers (up to 72.5 kilovolts) for use in the power distribution sector, industrial facilities and commercial buildings. These transformers are designed to step down electrical voltage bringing it to consumption levels. They can be oil- or dry-type and, although oil-type transformers are more commonly used, demand for dry-type transformers is growing because they minimize fire hazards and are well-suited for applications such as office buildings, windmills, offshore drilling platforms, marine vessels and large industrial plants. Another part of the offering includes traction transformers for use in electric locomotives, special application transformers, as well as a wide range of service and retrofit solutions for utilities and industry customers.

Customers

The Power Products division serves electric utilities, owners and operators of power generating plants and power transmission and distribution networks. It also serves industries across the spectrum. Customers include electric, gas, water and other utilities, as well as industrial and commercial customers.

Sales and Marketing

The Power Products division sells its products individually and as part of wider solutions through our systems divisions. Direct sales account for a significant part of the division's business and the rest are sold through external channel partners, such as wholesalers, distributors, system integrators, EPCs and OEMs. As the Power Products and Power Systems divisions share many of the same customers and technologies and are influenced by similar market drivers, they also have a common front-end sales organization to maximize market synergies and coverage across countries, regions, and sectors for the entire power portfolio.

Competition

On a global basis, the main competitors for the Power Products division are Siemens, Alstom and Schneider. The division also faces global competition in some product categories from competitors in emerging markets. It also competes in specific geographies with companies such as Eaton Corporation, Hyundai, Hyosung, Crompton Greaves, Larsen & Toubro and Bharat Heavy Electricals.

Capital Expenditures

The Power Products division's capital expenditures for property, plant and equipment totaled \$220 million in 2014, compared to \$252 million and \$259 million in 2013 and 2012, respectively. Principal investments in 2014 related to upgrades and expansion of existing facilities in Sweden, China, United States, Germany and Czech Republic as well as a new factory in Saudi Arabia. Geographically, in 2014, Europe represented 58 percent of the division's capital expenditures, followed by the Americas (19 percent), Asia (17 percent) and MEA (6 percent).

Power Systems Division

Overview

The Power Systems division serves public and private utilities, as well as industrial and commercial customers with solutions for power and water plants, grid integration and automation as well as a complete range of systems and services for the generation, transmission and distribution of electricity. Turnkey solutions include power plant electrification and automation, bulk power transmission, substations and network management. The division had approximately 18,900 employees as of December 31, 2014, and generated \$7.0 billion of revenues in 2014.

Products and Services

The Power Systems division delivers solutions through four businesses: Power Generation, Grid Systems, Substations and Network Management. The scope of work in a typical turnkey contract includes design, system engineering, supply, installation, commissioning and testing of the system. As part of the business model, the Power Systems division integrates products from both the Power Products division and external suppliers, adding value through design, engineering and project management to deliver turnkey solutions.

The Power Generation business is a leading provider of integrated power and automation solutions for all types of power generation plants, including coal, gas, combined-cycle, waste-to-energy and a range of renewables including hydro, solar, wind and biomass. With an extensive offering that includes electrical balance of plant as well as instrumentation and control systems, ABB technologies help optimize performance, improve reliability, enhance efficiency and minimize environmental impact throughout the plant life cycle. The business also serves the water industry, including applications such as pumping stations and desalination plants.

As part of the Grid Systems business, ABB provides a comprehensive offering of AC and DC transmission systems, which help customers to reduce transmission losses, maximize efficiency and improve grid reliability. ABB pioneered HVDC technology nearly 60 years ago. HVDC technology is designed to reliably and efficiently transmit electrical power over long distances via overhead lines and underground or submarine cables with minimum losses. HVDC is also widely used for grid interconnections. HVDC Light®, a more compact form of ABB's classic HVDC technology, is ideal for linking offshore installations, such as wind farms or oil and gas platforms, to mainland grids and for interconnections, often via subsea links. The environmental benefits of HVDC Light®, include neutral electromagnetic fields, oil-free cables and compact converter stations.

ABB also offers a comprehensive range of land and submarine cables through its Grid Systems business, as well as accessories and services for a range of applications from medium- to high-voltage AC and DC systems. The portfolio includes high-performance XLPE (cross-linked polyethylene) insulated cables for high efficiency transmission systems at voltages up to 525 kilovolts. When it comes to transmission grid solutions, ABB manufactures its own power semiconductors, which is a key enabler for HVDC, flexible alternating current transmission systems (FACTS) and other technologies, serving a range of sectors including transportation and wind.

Substations are key installations in the power grid that facilitate the efficient transmission and distribution of electricity with minimal environmental impact. They perform the vital function of monitoring and controlling power flows, feeding power from generating stations into the grid and providing the link between transmission and distribution networks as well as end consumers. ABB has successfully delivered air- and gas-insulated substations in all kinds of environments, from deserts and mountains to offshore rigs and crowded city centers. ABB's substation offering spans a range of voltage levels up to 1,100 kilovolts, serving utility, industry and commercial customers as well as sectors such as railways, urban transportation and renewables.

FACTS technologies are also part of the Substations business offering. FACTS solutions help improve power quality and can significantly increase the capacity of existing AC transmission systems, by as much as 50 percent, while maintaining and improving system reliability. FACTS technologies also boost transmission efficiency, relieve bottlenecks and can be used for the safe integration of intermittent power sources, such as wind and solar, into the grid. By enhancing the capacity of existing transmission infrastructure, FACTS solutions can alleviate the need for capital investment, reducing the time, cost and environmental impact associated with the construction of new generating facilities and transmission lines. By improving efficiency, FACTS technologies help to deliver more power to consumers, reducing the need for more electricity generation, and improving power supply and quality. ABB is a global leader in the growing field of FACTS, and has delivered more than 800 such installations across the world.

ABB's Network Management business offers solutions to help manage power networks. The offering covers network management and utility communications solutions to monitor, control, operate and protect power systems. These solutions are designed to ensure the reliability of electricity supplies and enable real-time management of power plants, transmission grids, distribution networks and energy trading markets. The portfolio includes control and protection systems for power generation, transmission and distribution, supervisory control and data acquisition (SCADA) systems, as well as software solutions for central electricity markets and mixed utilities (electricity, district heating, gas and water). It also encompasses the substation automation offering, compliant with IEC 61850, the open communication standard, which provides a common framework for substation control and protection and facilitates interoperability across devices and systems. The Network Management portfolio also covers wireless and fixed communication systems for power, water and gas utilities. It includes fiber optics, microwave radio and power line applications for data networking and broadband network management, as well as teleprotection and substation communication networks and voice switching management systems.

Network management systems are key smart-grid enablers by providing automated power systems to incorporate and manage centralized and distributed power generation, intermittent sources of renewable energy, real-time pricing and load-management data. The Ventyx and Mincom acquisitions have made ABB a global leader in enterprise software and services for essential industries such as energy, mining, public infrastructure and transportation. These solutions bridge the gap between information technologies (IT) and operational technologies (OT), enabling clients to make faster, better-informed decisions in both daily operations and long-term planning strategies. Some of the world's largest private and public enterprises rely on such solutions to minimize risk, enhance operational and financial performance and execute the right strategies for the future.

The Power Systems division also has a global footprint and installed base that helps drive the service business. The offering includes a range of services aimed at optimizing operations and reducing maintenance requirements across the value chain. These services range from support agreements and retrofits to spare parts, asset health, management, data analytics and training. The division also undertakes consulting activities such as energy efficiency studies for power plants and grids, analyses and design of new transmission and distribution systems as well as asset optimization based on technical, regulatory, economic and environmental considerations.

Customers

The Power Systems division's principal customers include public and private power generation utilities and companies, transmission and distribution utilities, owners and operators as well as industrial and commercial customers. Other customers include gas and water utilities including multi-utilities, which are involved in the transmission or distribution of more than one commodity.

Sales and Marketing

The Power Systems division promotes its offering primarily through a direct sales force of specialized sales engineering teams. Some sales are also handled through third-party channels, such as EPC firms, OEMs and system integrators. As the Power Products and Power Systems divisions share many of the same customers and technologies, and are influenced by similar market drivers, they also have a common front-end sales organization that helps maximize market synergies across countries and regions.

Competition

On a global basis, the Power Systems division faces competition mainly from Siemens and Alstom. Emerson, General Electric, Prysmian and Nexans are additional competitors in parts of the business. The division also sees emerging competitors in specific regions. The breadth of its portfolio, technology and innovation, a global footprint and a vast installed base, enable the division to maintain its leading position in the power sector.

Capital Expenditures

The Power Systems division's capital expenditures for property, plant and equipment totaled \$92 million in 2014, compared to \$101 million and \$194 million in 2013 and 2012, respectively. Principal investments in 2014 were related to capacity expansion as well as the replacement of existing equipment, particularly in Sweden. Geographically, in 2014, Europe represented 81 percent of the capital expenditures, followed by the Americas (10 percent), Asia (7 percent) and MEA (2 percent).

Corporate and Other

Corporate and Other includes headquarters, central research and development, our real estate activities, Group Treasury Operations and other minor business activities.

Corporate headquarters and stewardship activities include the operations of our corporate headquarters in Zurich, Switzerland, as well as corporate-related activities in various countries. These activities cover staff functions with group-wide responsibilities, such as accounting and financial reporting, corporate finance and taxes, planning and controlling, internal audit, legal and integrity, compliance, risk management and insurance, corporate communications, information systems, investor relations and human resources.

Corporate research and development primarily covers our research activities, as our development activities are organized under the five business divisions. We have two global research laboratories, one focused on power technologies and the other focused on automation technologies, which both work on technologies relevant to the future of our five business divisions. Each laboratory works on new and emerging technologies and collaborates with universities and other external partners to support our divisions in advancing relevant technologies and in developing cross-divisional technology platforms. We have corporate research centers in seven countries (the U.S., Sweden, Switzerland, Poland, China, Germany and India).

Corporate and Other had approximately 2,000 employees at December 31, 2014.

Capital expenditures

Total capital expenditures for property, plant and equipment and intangible assets (excluding intangibles acquired through business combinations) amounted to \$1,026 million, \$1,106 million and \$1,293 million in 2014, 2013 and 2012, respectively. In 2014 and 2013, capital expenditures were 21 percent and 16 percent lower, respectively, than depreciation and amortization while in 2012 capital expenditures exceeded total depreciation and amortization expenses. This change, commencing in 2013, is due partly to a reduction in capital expenditures but also due to an increase in depreciation and amortization (including amortization of intangible assets acquired in acquisitions).

Capital expenditures in 2014 remained at a significant level in mature markets, reflecting the geographic distribution of our existing production facilities. Capital expenditures in Europe and North America in 2014 were driven primarily by upgrades and maintenance of existing production facilities, mainly in Sweden, the U.S., Germany and Switzerland. Capital expenditures in emerging markets were lower in 2014 compared to 2013, with expenditures being highest in China, Saudi Arabia, the Czech Republic and Poland. Capital expenditures in emerging markets were made primarily to increase production capacity by investment in new or expanded facilities. The share of emerging markets capital expenditures as a percentage of total capital expenditures in 2014, 2013 and 2012 was 29 percent, 33 percent and 31 percent, respectively.

At December 31, 2014, construction in progress for property, plant and equipment was \$653 million, mainly in Sweden, the U.S., Switzerland, Saudi Arabia and China, while at December 31, 2013 and 2012, construction in progress for property, plant and equipment was \$645 million and \$627 million, respectively, mainly in Sweden, the U.S., Switzerland, Germany and Brazil.

Our capital expenditures relate primarily to property, plant and equipment. For 2015, we estimate the expenditures for property, plant and equipment will be higher than our annual depreciation charge.

Supplies and raw materials

We purchase a variety of raw materials and products which contain raw materials for use in our production and project execution processes. The primary materials used in our products, by weight, are copper, aluminum, carbon steel, mineral oil and various plastics. We also purchase a wide variety of fabricated products and electronic components. We operate a worldwide supply chain management network with employees dedicated to this function in our businesses and key countries. Our supply chain management network consists of a number of teams, each focusing on different product categories. These category teams, on global, divisional and/or regional level, take advantage of opportunities to leverage the scale of ABB and to optimize the efficiency of our supply networks, in a sustainable manner.

Our supply chain management organization's activities have continued to expand in recent years, to:

- pool and leverage procurement of materials and services,
- provide transparency of ABB's global spending through a comprehensive performance and reporting system linked to all of our enterprise resource planning (ERP) systems,
- strengthen ABB's supply chain network by implementing an effective product category management structure and extensive competency-based training, and
- monitor and develop our supply base to ensure sustainability, both in terms of materials and processes used.

We buy many categories of products which contain steel, copper, aluminum, crude oil and other commodities. Continuing global economic growth in many emerging economies, coupled with the volatility in foreign currency exchange rates, has led to significant fluctuations in these raw material costs over the last few years. While we expect global commodity prices to remain highly volatile, some market volatility will be offset through the use of long-term contracts and global sourcing.

We seek to mitigate the majority of our exposure to commodity price risk by entering into hedges. For example, we manage copper and aluminum price risk using principally swap contracts based on prices for these commodities quoted on leading exchanges. ABB's hedging policy is designed to safeguard margins by minimizing price volatility and providing a stable cost base during order execution. In addition to using hedging to reduce our exposure to fluctuations in raw materials prices, in some cases we can reduce this risk by incorporating changes in raw materials prices into the prices of our products (through price escalation clauses).

Overall, during 2014 supply chain management personnel in our businesses, and in the countries in which we operate, along with the global category teams, continued to focus on value chain optimization efforts in all areas, while maintaining and improving quality and delivery performance.

In August 2012, the United States Securities and Exchange Commission (SEC) issued its final rules regarding "Conflict Minerals", as required by section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. We initiated conflict minerals processes in 2013 and we continue to work with our suppliers and customers, to enable us to comply with the rules and disclosure obligations. Further information

on ABB's Conflict Minerals policy and supplier requirements can be found under "Material Compliance" at new.abb.com/about/supplying

Management overview

During 2014, we continued to deliver power and automation solutions that help our utility, industry, and transport and infrastructure customers meet the challenges and opportunities of a rapidly-changing world. These include significant shifts in the electricity value chain, such as the growth in renewable power generation. Wind and solar power sources are often located far from the centers of power consumption, and they often increase the number of feed-in points into a grid, creating instability and increased grid complexity. Our high-efficiency power transmission and intelligent grid solutions help utilities address these challenges. For example, we won large orders for HVDC power transmission in the United Kingdom and Canada that will link remote renewable energy sources to existing grids. An ABB substation using compact gas-insulated switchgear will integrate power from a solar park in Dubai into the local grid. We also signed a partnership agreement with wind power company Vestas to deliver affordable and clean wind-diesel micro-grid power systems to remote communities in Africa.

Among the new opportunities facing our industrial customers is the possibility to interconnect people, processes, equipment and services, sometimes referred to as "Industry 4.0" or "the Internet of Things". This trend is having profound impacts on many of our key end markets, such as oil and gas, mining, discrete automation and building automation, where the ability to monitor and control assets and processes in real time and across large geographic spaces is opening new opportunities to increase industrial productivity, reduce environmental impacts and improve the quality of work life for people. In 2014, we won an order from Brazilian mining company Vale to install electrical and automation systems at an iron ore mine to support their development of a sustainable "mine of the future" with truckless transport systems powered through intelligent digital substations. We were also awarded a large contract from Statoil of Norway for telecommunications systems used to remotely monitor and control offshore oil and gas platforms. We also continued to roll out internet-based remote monitoring, preventive maintenance and service solutions for robotics applications, power equipment diagnostics and the control of underground mining ventilation using mobile devices.

Market conditions were mixed in 2014.

Utility customers remained cautious in their capital expenditures in the face of macroeconomic and policy uncertainties, especially in Europe. Nevertheless, several large power transmission projects were awarded during the year and many utilities continued to invest in their power distribution activities.

Industrial demand varied by sector. Many industry customers took a more cautious approach to large capital expenditures in light of ongoing macroeconomic uncertainties. However, operational spending to maintain and improve the performance of existing assets remained generally stable. Demand from the oil and gas sector remained steady as continuing high oil prices supported customer investments through most of the year. The oil price declines seen late in the year resulted in some uncertainty around short-term capital investment trends, however. Mining and metals demand remained at low levels, mainly the result of overcapacity in the industry. General industry customers continued to invest in automation solutions to improve efficiency and productivity.

In the transport and infrastructure sectors, marine demand for specialty vessels continued to grow, mainly the result of demand for oil and gas-related vessels, such as offshore production vessels and liquefied natural gas ships. There was also a steady demand for high efficiency electrical rail equipment.

In this mixed environment, we combined our broad geographic and business scope with the successful execution of profitable growth initiatives across the company to increase orders received in every division except Low Voltage Products, where the disposal of businesses offset order increases in most of the division's other businesses. The Discrete Automation and Motion division achieved a record level of orders, more than \$10 billion, partly the result of growth initiatives to sell packaged industrial solutions that combine, for example, robots, motors and drives for packaging applications in general industry. The Process Automation division tapped growth opportunities in the marine, upstream oil and gas and pulp and paper sectors, which more than offset lower demand in mining. Low Voltage Products orders were supported by increased penetration of the U.S. market through the distribution channels of the Thomas & Betts acquisition it completed in 2012.

In 2014, we maintained the profitability of our Power Products division, despite the continued challenging market environment, through successful cost savings and productivity improvements as well as our ability to be more selective in the orders we take, thanks to our broad product and geographic scope. Our Power Systems division experienced continuing project execution issues which impacted profitability in 2014. We therefore launched a "step change" program to reduce the risk profile of the business and secure higher and more consistent returns. Under the program, we decided to discontinue our future participation in EPC projects in the solar power generation sector. We are also changing our business model in the offshore wind power sector to reduce execution risks and we are adjusting capacity in the business to reflect this repositioning. We continue to focus the ongoing business on projects with lower risk profiles and greater pull-through of our higher value-added content. Our strong positions in fast-growing emerging markets and selected mature markets, our flexible global production base and technological leadership, as well as the operational improvements we continue to make in our businesses, also supported our business in 2014.

Foremost among these improvements was the successful reduction of costs to adapt to changing demand. Savings in 2014 amounted to more than \$1 billion and were principally achieved by making better use of global sourcing opportunities and eliminating operational and process inefficiencies. We expanded our cost savings efforts in 2014 to take greater account of improvement opportunities in white-collar productivity, such as streamlining back-office and sales-support activities.

Next Level strategy 2015–2020

In September 2014, ABB laid the foundations to take the company to the next level, with a new strategy aimed at accelerating sustainable value creation to deliver attractive shareholder returns. The Next Level strategy is designed to build on ABB's strong position in attractive markets. The strategy builds on the three focus areas of profitable growth, relentless execution and business-led collaboration.

To achieve the next level, ABB is targeting profitable growth by shifting its center of gravity through strengthening competitiveness, higher organic growth and lowering risk. We intend to drive organic growth through the PIE concept (penetration, innovation, expansion), further increase competitiveness in areas such as technology, service and software, and reduce intrinsic business risks by, for example, aligning business models more closely with our core competencies. Organic growth will be complemented by incremental strategic acquisitions and partnerships.

Our second strategic focus area is relentless execution. We have been successful in executing our programs to reduce costs and improve customer service. We intend to broaden those efforts by developing a leading operating model across ABB, starting with the areas of white-collar productivity, net working capital management, and quality. For 2015, the completion of the Power Systems "step change" program will remain a high priority. Major Group-wide change management will be implemented through 1,000-day programs that drive and coordinate change across all businesses and regions. The strategic objectives and targets have been explicitly linked to a new performance management and compensation model.

Our third focus area is aimed at simplifying how the organization works together and at achieving a more market-focused organization. To achieve this, as of January 1, 2015, we have streamlined our regional organization – reducing the number of regions from eight to three – with regional management on the Executive Committee to bring us closer to the market. At the same time, roles and responsibilities have been clarified – including giving global business lines undiluted responsibility for their businesses – and processes put in place to strengthen cross-business collaboration.

The Next Level strategy includes the following financial targets: ABB expects to grow operational earnings per share at a 10–15 percent compound annual growth rate and deliver attractive cash return on invested capital in the mid-teens over the period 2015–2020. It targets to grow revenues on a like-for-like basis on average 4–7 percent per year over six years, faster than forecasted GDP and market growth. Over the same time period, ABB plans to steadily increase its

profitability, measured in Operational EBITA, within a bandwidth of 11–16 percent while targeting an average free cash flow conversion rate above 90 percent. The new financial targets took effect on January 1, 2015.

We have changed our profitability targets from Operational EBITDA to Operational EBITA. This new measure includes depreciation expense as well as amortization charges that are not related to intangibles recorded in acquisitions which were previously excluded under the Operational EBITDA measure. This change ensures that the costs of capital expenditures invested to drive organic growth will be reflected in the profitability measure on which our businesses are evaluated.

Outlook

The long-term demand outlook in our three major customer sectors – utilities, industry, and transport and infrastructure – remains clearly positive. Key drivers are the big shift in the electricity value chain, industrial productivity improvements and Industry 4.0, as well as rapid urbanization and the need for energy efficiency in transport and infrastructure.

We are well-positioned to tap these opportunities for long-term profitable growth, with our strong market presence, broad geographic and business scope, technology leadership and financial strength.

In the short term, macroeconomic and geopolitical developments are signaling a mixed picture with increased uncertainty. Some macroeconomic signs in the U.S. remain positive and growth in China is expected to continue. At the same time, the market remains impacted by slow growth in Europe and geopolitical tensions in various parts of the world.

Oil prices and foreign exchange effects

Current oil prices will influence customer operating and capital expenditures along the oil and gas value chain, and influence spending by many other of our customer segments and government spending in different ways. Government spending on energy subsidies may be reallocated to other infrastructure development and certain customer segments will benefit from lower energy costs. However, the current oil price will have a dampening effect on the oil and gas value chain, mainly in the upstream sector.

Currency volatility has increased over the last 12 months, including the weakening of the Euro against the U.S. dollar and Swiss franc. Changes in foreign exchange rates have two effects on our financial results, translational and structural. Translational impacts result from converting local-currency financial information from ABB companies around the world into U.S. dollars at average exchange rates for the purpose of reporting results in U.S. dollars. If exchange rates stay around the current levels, we expect a negative translation effect in 2015.

Structural effects are related to the export of products and services from one currency zone into another. Our well-balanced local operations (including sourcing) in all key markets mean these structural effects have a limited impact. Further, our policy to actively hedge all significant foreign

exchange exposures means these effects are largely mitigated in the short to medium term.

Application of critical accounting policies

General

We prepare our Consolidated Financial Statements in accordance with U.S. GAAP and present these in U.S. dollars unless otherwise stated.

The preparation of our financial statements requires us to make assumptions and estimates that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosure of contingent assets and liabilities. We evaluate our estimates on an ongoing basis, including, but not limited to, those related to: gross profit margins on long-term construction-type contracts; costs of product guarantees and warranties; provisions for bad debts; recoverability of inventories, investments, fixed assets, goodwill and other intangible assets; the fair values of assets and liabilities assumed in business combinations; income tax expenses and provisions related to uncertain tax positions; pensions and other postretirement benefit assumptions; and legal and other contingencies. Where appropriate, we base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from our estimates and assumptions.

We deem an accounting policy to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made and if different estimates that reasonably could have been used, or if changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our Consolidated Financial Statements. We also deem an accounting policy to be critical when the application of such policy is essential to our ongoing operations. We believe the following critical accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates regarding matters that are inherently uncertain. These policies should be considered when reading our Consolidated Financial Statements.

Revenue recognition

We generally recognize 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. We use various International Commercial shipping terms (as promulgated by the International Chamber of Commerce) such as Ex Works (EXW), Free Carrier (FCA) and Delivered Duty Paid (DDP). Subsequent to delivery of the products, we generally have 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. We use 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 management'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 in which the change in estimate is determined.

The percentage-of-completion method of accounting involves the use of assumptions and projections, principally relating to future material, labor and project-related overhead costs. As a consequence, there is a risk that total contract costs will exceed those we originally estimated and the margin will decrease or the long-term construction-type contract may become unprofitable. This risk increases if the duration of a contract increases because there is a higher probability that the circumstances upon which we originally developed estimates will change, resulting in increased costs that we may not recover. Factors that could cause costs to increase include:

- unanticipated technical problems with equipment supplied or developed by us which may require us to incur additional costs to remedy,
- changes in the cost of components, materials or labor,
- difficulties in obtaining required governmental permits or approvals,
- project modifications creating unanticipated costs,
- suppliers' or subcontractors' failure to perform, and
- delays caused by unexpected conditions or events.

Changes in our initial assumptions, which we review on a regular basis between balance sheet dates, may result in revisions to estimated costs, current earnings and anticipated earnings. We recognize these changes in the period in which the changes in estimates are determined. By recognizing changes in estimates cumulatively, recorded revenue and costs to date reflect the current estimates of the stage of completion of each project. Additionally, losses on long-term 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.

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 we have 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 our 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 which revenue is allocated to the undelivered elements based on vendor-specific objective evidence (VSOE) of 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 licenses, 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 authorized 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.

We offer multiple element arrangements to meet our 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, we allocate 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 our best estimate of what the selling prices of elements would be if the elements were sold on a stand-alone basis. Revenue is allocated between the elements of an arrangement consideration 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 us and our customers, such as sales, use, value-added and some excise taxes, are excluded from revenues.

These revenue recognition methods require the collectability of the revenues recognized to be reasonably assured. When recording the respective accounts receivable, allowances are calculated to estimate those receivables that will not be collected. These reserves assume a level of default based on historical information, as well as knowledge about specific invoices and customers. The risk remains that actual defaults will vary in number and amount from those originally estimated. As such, the amount of revenues recognized might exceed or fall below the amount which will be collected, resulting in a change in earnings in the future. The risk of deterioration is likely to increase during periods of significant negative industry, economic or political trends.

As a result of the above policies, judgment in the selection and application of revenue recognition methods must be made.

Contingencies

As more fully described in "Note 15 Commitments and contingencies" to our Consolidated Financial Statements, we are 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. We are 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 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.

We record provisions for our 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 our best estimate of the amount of loss or at the lower end of an estimated range when a single best estimate is not determinable. In some cases, we may be able to recover a portion of the costs relating to these obligations from insurers or other third parties; however, we record such amounts only when it is probable that they will be collected.

We provide for anticipated costs for warranties when we recognize revenues on the related products or contracts. Warranty costs include calculated costs arising from imperfections in design, material and workmanship in our products. We generally make 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. There is a risk that actual warranty costs may exceed the amounts provided for, which would result in a deterioration of earnings in the future when these actual costs are determined.

We may have legal obligations to perform environmental clean-up activities related to land and buildings as a result of the normal operations of our 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 our control, but the underlying obligation itself is unconditional and certain. We recognize 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. In some cases, we may be able to recover a portion of the costs expected to be incurred to settle these matters. An asset is recorded when it is probable that we will collect such amounts. Provisions for environmental obligations are not discounted to their present value when the timing of payments cannot be reasonably estimated.

Pension and other postretirement benefits

As more fully described in "Note 17 Employee benefits" to our Consolidated Financial Statements, we have a number of defined benefit pension and other postretirement plans and recognize an asset for a plan's overfunded status or a liability for a plan's underfunded status in our Consolidated Balance Sheets. We measure such a plan's assets and obligations that determine its funded status as of the end of the year.

Significant differences between assumptions and actual experience, or significant changes in assumptions, may materially affect the pension obligations. The effects of actual results differing from assumptions and the changing of assumptions are included in net actuarial loss within "Accumulated other comprehensive loss".

We recognize actuarial gains and losses gradually over time. Any cumulative unrecognized actuarial gain or loss that exceeds 10 percent of the greater of the present value of the projected benefit obligation (PBO) and the fair value of plan assets is recognized in earnings over the expected average remaining working lives of the employees participating in the plan, or the expected average remaining lifetime of the inactive plan participants if the plan is comprised of all or almost all inactive participants. Otherwise, the actuarial gain or loss is not recognized in the Consolidated Income Statements.

We use actuarial valuations to determine our pension and postretirement benefit costs and credits. The amounts calculated depend on a variety of key assumptions, including discount rates, mortality rates and expected return on plan assets. Under U.S. GAAP, we are required to consider current market conditions in making these assumptions. In particular, the discount rates are reviewed annually based on changes in long-term, highly-rated corporate bond yields. Decreases in the discount rates result in an increase in the PBO and in pension costs. Conversely, an increase in the discount rates results in a decrease in the PBO and in pension costs. The mortality assumptions are reviewed annually by management. Decreases in mortality rates result in an increase in the PBO and in pension costs. Conversely, an increase in mortality rates results in a decrease in the PBO and in pension costs.

Holding all other assumptions constant, a 0.25 percentage-point decrease in the discount rate would have increased the PBO related to our defined benefit pension plans by \$456 million, while a 0.25 percentage-point increase in the discount rate would have decreased the PBO related to our defined benefit pension plans by \$431 million.

The expected return on plan assets is reviewed regularly and considered for adjustment annually based upon the target asset allocations and represents the long-term return expected to be achieved. Decreases in the expected return on plan assets result in an increase to pension costs. Holding all other assumptions constant, an increase or decrease of 0.25 percentage-points in the expected long-term rate of asset return would have decreased or increased, respectively, the net periodic benefit cost in 2014 by \$27 million.

The funded status, which can increase or decrease based on the performance of the financial markets or changes in our assumptions, does not represent a mandatory short-term cash obligation. Instead, the funded status of a defined benefit pension plan is the difference between the PBO and the fair value of the plan assets. At December 31, 2014, our defined benefit pension plans were \$1,890 million underfunded compared to an underfunding of \$1,133 million at December 31, 2013. Our other postretirement plans were underfunded by \$245 million and \$236 million at December 31, 2014 and 2013, respectively.

We have multiple non-pension postretirement benefit plans. Our health care plans are generally contributory with participants' contributions adjusted annually. For purposes of estimating our health care costs, we have assumed health care cost increases to be 8 percent per annum for 2015, gradually declining to 5 percent per annum by 2028 and to remain at that level thereafter.

Income taxes

In preparing our Consolidated Financial Statements, we are required to estimate income taxes in each of the jurisdictions in which we operate. Tax expense from continuing operations is reconciled from the 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. Income which has been generated in jurisdictions outside of Switzerland (hereafter "foreign jurisdictions") and has already been subject to corporate income tax in those 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. There is no requirement in Switzerland for a parent company of a group to file a tax return of the group determining domestic and foreign pre-tax income and as our consolidated income from continuing operations is predominantly earned outside of Switzerland, corporate income tax in foreign jurisdictions largely determines our global weighted-average tax rate.

We account for deferred taxes by using the asset and liability method. Under this method, we determine deferred tax assets and liabilities based on temporary differences between the financial reporting and the tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. We recognize a deferred tax asset when it is more likely than not that the asset will be realized. We regularly review our deferred tax assets for recoverability and establish a valuation allowance based upon historical losses, projected future

taxable income and the expected timing of the reversals of existing temporary differences. To the extent we increase or decrease this allowance in a period, we recognize the change in the allowance within "Provision for taxes" in the Consolidated Income Statements unless the change relates to discontinued operations, in which case the change is recorded in "Income (loss) from discontinued operations, net of tax". Unforeseen changes in tax rates and tax laws, as well as differences in the projected taxable income as compared to the actual taxable income, may affect these estimates.

Certain countries levy withholding taxes, dividend distribution taxes or additional corporate income taxes (hereafter "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. Switzerland has concluded double taxation treaties with many countries in which we operate. These treaties either eliminate or reduce such withholding taxes on dividend distributions. It is our policy to distribute retained earnings of subsidiaries, insofar as such earnings are not permanently reinvested or no other reasons exist that would prevent the subsidiary from distributing them. No deferred tax liability is set up, if retained earnings are considered as permanently reinvested, and used for financing current operations as well as business growth through working capital and capital expenditure in those countries.

We operate in numerous tax jurisdictions and, as a result, are regularly subject to audit by tax authorities. We provide 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 our filing position, considering the applicable tax laws and Organisation for Economic Co-operation and Development (OECD) guidelines and are based on our 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. Although we believe that our tax estimates are reasonable and that appropriate tax reserves have been made, the final determination of tax audits and any related litigation could be different than that which is reflected in our income tax provisions and accruals.

An estimated loss from a tax contingency must be accrued as a charge to income if it is more likely than not that a tax asset has been impaired or a tax liability has been incurred and the amount of the loss can be reasonably estimated. We apply 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 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. The required amount of provisions for contingencies of any type may change in the future due to new developments.

Business combinations

The amount of goodwill initially recognized in a business combination is based on the excess of the purchase price of the acquired company over the fair value of the assets acquired and liabilities assumed. The determination of these fair values requires us to make significant estimates and assumptions. For instance, when assumptions with respect to the timing and amount of future revenues and expenses associated with an asset are used to determine its fair value, but the actual timing and amount differ materially, the asset could become impaired. In some cases, particularly for large acquisitions, we may engage independent third-party appraisal firms to assist in determining the fair values.

Critical estimates in valuing certain intangible assets include but are not limited to: future expected cash flows of the acquired business, brand awareness, customer retention, technology obsolescence and discount rates.

In addition, uncertain tax positions and tax-related valuation allowances assumed in connection with a business combination are initially estimated at the acquisition date. We reevaluate these items quarterly, based upon facts and circumstances that existed at the acquisition date with any adjustments to our preliminary estimates being recorded to goodwill provided that we are within the twelve-month measurement period. Subsequent to the measurement period or our final determination of the tax allowance's or contingency's estimated value, whichever comes first, changes to these uncertain tax positions and tax-related valuation allowances will affect our provision for income taxes in our Consolidated Income Statements and could have a material impact on our results of operations and financial position. The fair values assigned to the intangible assets acquired are described in "Note 3 Acquisitions and business divestments" as well as "Note 11 Goodwill and other intangible assets", to our Consolidated Financial Statements.

Goodwill and other intangible assets

We review goodwill for impairment annually as of October 1, or more frequently if events or circumstances indicate the carrying value may not be recoverable. We use either a qualitative or quantitative assessment method for each reporting unit. The qualitative assessment involves determining, based on an evaluation of qualitative factors, whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. 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 is performed. If we elect not to perform the qualitative assessment for a reporting unit, then we perform the two-step impairment test.

Our reporting units are the same as our business divisions for Discrete Automation and Motion, Low Voltage Products, Power Products and Power Systems. For the Process Automation division, we determined the reporting units to be one level below the division, as the different products produced or services provided by this division do not share sufficiently similar economic characteristics to permit testing of goodwill on a total division level.

When performing the qualitative assessment, we first determine, for a reporting unit, factors which would affect the fair value of the reporting unit including: (i) macroeconomic conditions related to the business, (ii) industry and market trends, and (iii) the overall future financial performance and future opportunities in the markets in which the business operates. We then consider how these factors would impact the most recent quantitative analysis of the reporting unit's fair value. Key assumptions in determining the value of the reporting unit include the projected level of business operations, the weighted-average cost of capital, the income tax rate and the terminal growth rate.

If, after performing the qualitative assessment, we conclude that events or circumstances have occurred which would indicate that it is more likely than not that the fair value of the reporting unit is less than its carrying value, or if we have elected not to perform a qualitative assessment, the two-step quantitative impairment test is performed. In the first step, we calculate the fair value of the reporting unit (using an income approach whereby the fair value is calculated based on the present value of future cash flows applying a discount rate that represents our weighted-average cost of capital) and compare it to the reporting unit's carrying value. Where the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and no further testing is performed. However, if the carrying value of the net assets assigned to the reporting unit is equal to or exceeds the reporting unit's fair value, we would perform the second step of the impairment test. In the second step, we would determine the implied fair value of the reporting unit's goodwill and compare it to the carrying value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill were to exceed its implied fair value, then we would record an impairment loss equal to the difference. Any goodwill impairment losses would be recorded as a separate line item in the income statement in continuing operations, unless related to a discontinued operation, in which case the losses would be recorded in "Income (loss) from discontinued operations, net of tax".

In 2014, we performed the two-step quantitative impairment test for all of our reporting units to reflect new assumptions and forecasts resulting from our newly-developed strategic plan for the period 2015 to 2020. The quantitative test concluded that the estimated fair values for each of our reporting units exceeded their respective carrying values by at least 60 percent and as no reporting unit had a zero or negative carrying value, we concluded that none of the reporting units was "at risk" of failing the goodwill impairment test. Consequently, the second step of the impairment test was not performed.

The projected future cash flows used in the fair value calculation are based on approved business plans for the reporting units which cover a period of six years plus a calculated terminal value. The projected future cash flows require significant judgments and estimates involving variables such as future sales volumes, sales prices, awards of large orders, production and other operating costs, capital expenditures, net working capital requirements and other economic factors. The after-tax weighted-average cost of capital, currently 9 percent, is based on variables such as the risk-free rate derived from the yield of 10-year U.S. treasury

bonds, as well as an ABB-specific risk premium. The terminal value growth rate is assumed to be 1 percent. The mid-term tax rate used in the test is currently 27 percent. We base our fair value estimates on assumptions we believe to be reasonable, but which are inherently uncertain. Consequently, actual future results may differ from those estimates.

We assess the reasonableness of the fair value calculations of our reporting units by reconciling the sum of the fair values for all our reporting units to our total market capitalization. The assumptions used in the fair value calculation are challenged each year (through the use of sensitivity analysis) to determine the impact on the fair value of the reporting units. Our sensitivity analysis in 2014 showed that, holding all other assumptions constant, a 1 percentage-point increase in the discount rate would have reduced the calculated fair value by approximately 11.6 percent, while a 1 percentage-point decrease in the terminal value growth rate would have reduced the calculated fair value by approximately 7.3 percent.

In 2013, we performed a qualitative assessment for all of our reporting units except for Power Systems where we elected to perform a quantitative test. Based on the qualitative assessments performed in 2013 and 2012 (when the qualitative assessment covered all our reporting units), we determined that it was not more likely than not that the fair value was below the carrying value for these reporting units, and as a result, concluded that it was not necessary to perform the two-step quantitative impairment test.

The quantitative test for Power Systems was undertaken in response to the low order intake in 2013. The calculated fair value of the Power Systems reporting unit on October 1, 2013, exceeded the reporting unit's carrying value by more than 50 percent and as the carrying value was not zero or negative, we concluded that Power Systems was not "at risk" of failing the goodwill impairment test. Consequently, the second step of the impairment test was not performed.

The projected future cash flows used in the fair value calculation for Power Systems in 2013, were based on an approved business plan for the reporting unit which covered a period of four years plus a calculated terminal value. The projected future cash flows required significant estimates and judgments involving variables such as future sales volumes, sales prices, awards of large orders, production and other operating costs, capital expenditures, net working capital requirements and other economic factors. The after-tax weighted-average cost of capital used (9 percent) was based on variables such as the risk-free rate derived from the yield of 10-year U.S. treasury bonds, as well as an ABB-specific risk premium. The terminal value growth rate was assumed to be 1 percent. The mid-term tax rate used in the test was 27 percent.

Intangible assets are reviewed for recoverability upon the occurrence of certain triggering events (such as a decision to divest a business or projected losses of an entity) or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. We record impairment charges in "Other income (expense), net", in our Consolidated Income Statements, unless they relate to a discontinued operation, in which case the charges are recorded in "Income (loss) from discontinued operations, net of tax".

New accounting pronouncements

For a description of accounting changes and recent accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on our Consolidated Financial Statements, see "Note 2 Significant accounting policies" to our Consolidated Financial Statements.

Research and development

Each year, we invest significantly in research and development. Our research and development focuses on developing and commercializing the technologies of our businesses that are of strategic importance to our future growth. In 2014, 2013 and 2012, we invested \$1,499 million, \$1,470 million and \$1,464 million, respectively, or approximately 3.8 percent, 3.5 percent and 3.7 percent, respectively, of our annual consolidated revenues on research and development activities. We also had expenditures of \$310 million, \$274 million and \$282 million, respectively, or approximately 0.8 percent, 0.7 percent and 0.7 percent, respectively, of our annual consolidated revenues in 2014, 2013 and 2012, on order-related development activities. These are customer- and project-specific development efforts that we undertake to develop or adapt equipment and systems to the unique needs of our customers in connection with specific orders or projects. Order-related development amounts are initially recorded in inventories as part of the work in process of a contract and then are reflected in cost of sales at the time revenue is recognized in accordance with our accounting policies.

In addition to continuous product development, and order-related engineering work, we develop platforms for technology applications in our automation and power businesses in our research and development laboratories, which operate on a global basis. Through active management of our investment in research and development, we seek to maintain a balance between short-term and long-term research and development programs and optimize our return on investment.

Our research and development strategy focuses on three objectives: (i) to monitor and develop emerging technologies and create an innovative, sustainable technology base for ABB, (ii) to develop technology platforms that enable efficient product design for our power and automation customers, and (iii) to create the next generation of power and automation products and systems that we believe will be the engines of profitable growth.

Universities are incubators of future technology, and a central task of our research and development team is to transform university research into industry-ready technology platforms. We collaborate with a number of universities and research institutions to build research networks and foster new technologies. We believe these collaborations shorten the amount of time required to turn basic ideas into

viable products, and they additionally help us recruit and train new personnel. We have built numerous university partnerships in the U.S., Europe and Asia, including long-term, strategic relationships with the Carnegie Mellon University, Massachusetts Institute of Technology, North Carolina State University, ETH Zurich, EPFL Lausanne, University of Zurich, Chalmers Technical University Gothenburg, Royal Institute of Technology (KTH) Stockholm, TU Dresden, TU Delft, Cambridge University and Imperial College London. Our collaborative projects include research on materials, sensors, micro-engineered mechanical systems, robotics, controls, manufacturing, distributed power and communication. Common platforms for power and automation technologies are developed around advanced materials, efficient manufacturing, information technology and data communication, as well as sensor and actuator technology.

Common applications of basic power and automation technologies can also be found in power electronics, electrical insulation, and control and optimization. Our power technologies, including our insulation technologies, current interruption and limitation devices, power electronics, flow control and power protection processes, apply as much to large, reliable, blackout-free transmission systems as they do to everyday household needs. Our automation technologies, including our control and optimization processes, power electronics, sensors and microelectronics, mechatronics and wireless communication processes, are designed to improve efficiency in plants and factories around the world, including our own.

Acquisitions and divestments

Acquisitions

During 2014, 2013 and 2012, ABB paid \$58 million, \$897 million and \$3,643 million to purchase six, seven and nine businesses, respectively. The amounts exclude changes in cost- and equity-accounted companies.

There were no significant acquisitions in 2014 or 2013; the largest acquisition during this two-year period was Power-One, acquired in July 2013.

The principal acquisition in 2012 was Thomas & Betts, which was acquired in May 2012. 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 complementary combination of Thomas & Betts' electrical components and ABB's low-voltage protection, control and measurement products creates a broader low-voltage portfolio (in our Low Voltage Products division) that can be distributed through Thomas & Betts' network of more than 6,000 distributor locations and wholesalers in North America, and through ABB's well-established distribution channels in Europe and Asia.

Divestments

During 2014, ABB divested several businesses which were primarily its Full Service business, the Meyer Steel Structures business of Thomas & Betts, the heating, ventilation and air conditioning (HVAC) business of Thomas & Betts and the Power Solutions business of Power-One. Total cash proceeds from all business divestments during 2014 amounted to \$1,090 million, net of transaction costs and cash disposed.

There were no significant divestments in 2013 and 2012.

For more information on our divestments, see "Note 3 Acquisitions and business divestments" to our Consolidated Financial Statements.

Exchange rates

We report our financial results in U.S. dollars. Due to our global operations, a significant amount of our revenues, expenses, assets and liabilities are denominated in other currencies. As a consequence, movements in exchange rates between currencies may affect: (i) our profitability, (ii) the comparability of our results between periods, and (iii) the reported carrying value of our assets and liabilities.

We translate non-USD denominated results of operations, assets and liabilities to USD in our Consolidated Financial Statements. Balance sheet items are translated to USD using year-end currency exchange rates. Income statement and cash flow items are translated to USD using the relevant monthly average currency exchange rate.

Increases and decreases in the value of the USD against other currencies will affect the reported results of operations in our Consolidated Income Statements and the value of certain of our assets and liabilities in our Consolidated Balance Sheets, even if our results of operations or the value of those assets and liabilities have not changed in their original currency. As foreign exchange rates impact our reported results of operations and the reported value of our assets and liabilities, changes in foreign exchange rates could significantly affect the comparability of our reported results of operations between periods and result in significant changes to the reported value of our assets, liabilities and stockholders' equity.

While we operate globally and report our financial results in USD, exchange rate movements between the USD and both the EUR and the CHF are of particular importance to us due to (i) the location of our significant operations and (ii) our corporate headquarters being in Switzerland.

The exchange rates between the USD and the EUR and the USD and the CHF at December 31, 2014, 2013 and 2012, were as follows:

Exchange rates into \$	2014	2013	2012
EUR 1.00	1.22	1.38	1.32
CHF 1.00	1.01	1.12	1.09

The average exchange rates between the USD and the EUR and the USD and the CHF for the years ended December 31, 2014, 2013 and 2012, were as follows:

Exchange rates into \$	2014	2013	2012
EUR 1.00	1.33	1.33	1.29
CHF 1.00	1.09	1.08	1.07

When we incur expenses that are not denominated in the same currency as the related revenues, foreign exchange rate fluctuations could affect our profitability. To mitigate the impact of exchange rate movements on our profitability, it is our policy to enter into forward foreign exchange contracts to manage the foreign exchange transaction risk of our operations.

In 2014, approximately 81 percent of our consolidated revenues were reported in currencies other than the USD. The following percentages of consolidated revenues were reported in the following currencies:

- Euro, approximately 20 percent,
- Chinese renminbi, approximately 11 percent, and
- Swedish krona, approximately 5 percent.

In 2014, approximately 79 percent of our cost of sales and selling, general and administrative expenses were reported in currencies other than the USD. The following percentages of consolidated cost of sales and selling, general and administrative expenses were reported in the following currencies:

- Euro, approximately 19 percent,
- Chinese renminbi, approximately 10 percent,
- Swedish krona, approximately 5 percent, and
- Canadian dollar, approximately 5 percent.

We also incur expenses other than cost of sales and selling, general and administrative expenses in various currencies.

The results of operations and financial position of many of our subsidiaries outside of the United States are reported in the currencies of the countries in which those subsidiaries are located. We refer to these currencies as "local currencies". Local currency financial information is then translated into USD at applicable exchange rates for inclusion in our Consolidated Financial Statements.

The discussion of our results of operations below provides certain information with respect to orders, revenues, income from operations and other measures as reported in USD (as well as in local currencies). We measure period-to-period variations in local currency results by using a constant foreign exchange rate for all periods under comparison. Differences in our results of operations in local currencies as compared to our results of operations in USD are caused exclusively by changes in currency exchange rates.

While we consider our results of operations as measured in local currencies to be a significant indicator of business performance, local currency information should not be relied upon to the exclusion of U.S. GAAP financial measures. Instead, local currencies reflect an additional measure of comparability and provide a means of viewing aspects of our operations that, when viewed together with the U.S. GAAP results, provide a more complete understanding of factors and trends affecting the business. As local currency information is not standardized, it may not be possible to compare

our local currency information to other companies' financial measures that have the same or a similar title. We encourage investors to review our financial statements and publicly-filed reports in their entirety and not to rely on any single financial measure.

Transactions with affiliates and associates

In the normal course of our business, we purchase products from, sell products to and engage in other transactions with entities in which we hold an equity interest. The amounts involved in these transactions are not material to ABB Ltd. Also, in the normal course of our business, we engage in transactions with businesses that we have divested. We believe that the terms of the transactions we conduct with these companies are negotiated on an arm's length basis.

Orders

Our policy is to book and report an order when a binding contractual agreement has been concluded with a customer covering, at a minimum, the price and scope of products or services to be supplied, the delivery schedule and the payment terms. The reported value of an order corresponds to the undiscounted value of revenues that we expect to recognize following delivery of the goods or services subject to the order, less any trade discounts and excluding any value added or sales tax. The value of orders received during a given period of time represents the sum of the value of all orders received during the period, adjusted to reflect the aggregate value of any changes to the value of orders received during the period and orders existing at the beginning of the period. These adjustments, which may in the aggregate increase or decrease the orders reported during the period, may include changes in the estimated order price up to the date of contractual performance, changes in the scope of products or services ordered and cancellations of orders.

The undiscounted value of revenues we expect to generate from our orders at any point in time is represented by our order backlog. Approximately 16 percent of the value of total orders we recorded in 2014 were "large orders," which we define as orders from third parties involving a value of at least \$15 million for products or services. Approximately 43 percent of the total value of large orders in 2014 were recorded by our Power Systems division and approximately 35 percent in our Process Automation division. The other divisions accounted for the remainder of the total large orders recorded during 2014. The remaining portion of total orders recorded in 2014 was "base orders," which we define as orders from third parties with a value of less than \$15 million for products or services.

The level of orders fluctuates from year to year. Portions of our business involve orders for long-term projects that can take months or years to complete and many large orders result in revenues in periods after the order is booked. Consequently, the level of large orders and orders generally cannot be used to accurately predict future revenues or operating performance. Orders that have been placed can be cancelled, delayed or modified by the customer. These actions can reduce or delay any future revenues from the order or may result in the elimination of the order.

Performance measures

We evaluate the performance of our divisions primarily based on orders received, revenues and Operational EBITDA.

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

From 2015, performance of our divisions will be primarily based on orders received, revenues and Operational EBITA.

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

See "Note 23 Operating segment and geographic data" to our Consolidated Financial Statements for a reconciliation of the total consolidated Operational EBITDA to income from continuing operations before taxes.

Analysis of results of operations

Our consolidated results from operations were as follows:

(\$ in millions, except per share data in \$)	2014	2013	2012
Orders	41,515	38,896	40,232
Order backlog at December 31,	24,900	26,046	29,298
Revenues	39,830	41,848	39,336
Cost of sales	(28,615)	(29,856)	(27,958)
Gross profit	11,215	11,992	11,378
Selling, general and administrative expenses	(6,067)	(6,094)	(5,756)
Non-order related research and development expenses	(1,499)	(1,470)	(1,464)
Other income (expense), net	529	(41)	(100)
Income from operations	4,178	4,387	4,058
Net interest and other finance expense	(282)	(321)	(220)
Provision for taxes	(1,202)	(1,122)	(1,030)
Income from continuing operations, net of tax	2,694	2,944	2,808
Income (loss) from discontinued operations, net of tax	24	(37)	4
Net income	2,718	2,907	2,812
Net income attributable to noncontrolling interests	(124)	(120)	(108)
Net income attributable to ABB	2,594	2,787	2,704
Amounts attributable to ABB shareholders:			
Income from continuing operations, net of tax	2,570	2,824	2,700
Net income	2,594	2,787	2,704
Basic earnings per share attributable to ABB shareholders:			
Income from continuing operations, net of tax	1.12	1.23	1.18
Net income	1.13	1.21	1.18
Diluted earnings per share attributable to ABB shareholders:			
Income from continuing operations, net of tax	1.12	1.23	1.18
Net income	1.13	1.21	1.18

A more detailed discussion of the orders, revenues, Operational EBITDA and income from operations for our divisions follows in the sections of "Divisional analysis" below entitled "Discrete Automation and Motion", "Low Voltage Products", "Process Automation", "Power Products", "Power Systems" and "Corporate and Other". Orders and revenues of our divisions include interdivisional transactions which are eliminated in the "Corporate and Other" line in the tables below.

Orders

(\$ in millions)	2014	2013	2012	% Change	
				2014	2013
Discrete Automation and Motion	10,559	9,771	9,625	8%	2%
Low Voltage Products	7,550	7,696	6,720	(2)%	15%
Process Automation	8,577	8,000	8,704	7%	(8)%
Power Products	10,764	10,459	11,040	3%	(5)%
Power Systems	6,871	5,949	7,973	15%	(25)%
Operating divisions	44,321	41,875	44,062	6%	(5)%
Corporate and Other ⁽¹⁾	(2,806)	(2,979)	(3,830)	n.a.	n.a.
Total	41,515	38,896	40,232	7%	(3)%

⁽¹⁾ Includes interdivisional eliminations

In 2014, total order volume increased 7 percent (9 percent in local currencies) and increased across all divisions except Low Voltage Products. Orders increased primarily due to higher large orders while base orders also increased. In the automation divisions, orders were supported by customer investments to improve operational efficiency and an increase in the demand for services. In the power divisions, the key demand drivers such as capacity expansion in emerging markets, upgrading of aging infrastructure in mature markets and the integration of renewable energy supplies into power grids, remained intact.

In 2014, orders in the Discrete Automation and Motion division grew 8 percent (10 percent in local currencies) on higher orders in all businesses and supported by the impact of including Power-One for the full year in 2014. Orders decreased 2 percent in the Low Voltage Products division (flat in local currencies) as the impacts of divesting the HVAC and Steel Structures businesses offset the order increases which were realized in most of the division's other businesses. Orders in the Process Automation division increased 7 percent (10 percent in local currencies) on significantly higher large orders in the marine sector compared to the previous year. Orders increased 3 percent (5 percent in local currencies) in the Power Products division, supported by the industry sector and continued selective investments in large transmission projects. In the Power Systems division, orders grew 15 percent (20 percent in local currencies), driven primarily by the receipt of several large orders.

During 2014, base orders grew 2 percent (4 percent in local currencies) reflecting the global economic conditions which showed positive trends but remained mixed in certain markets. Following a weak large order intake in 2013, large orders increased 45 percent (50 percent in local currencies) in 2014. Successful sales efforts resulted in orders from the 2013 tender backlog successfully turning into orders in 2014. This allowed large orders to grow significantly, particularly in the Process Automation and Power Systems divisions.

In 2013, total order volume declined 3 percent (3 percent in local currencies) as lower large orders were not offset by base order growth. Orders were supported by our automation divisions where customer investments to improve operational efficiency and the demand for services increased during the year. Despite strong project tendering activity, some customers delayed order awards due to macroeconomic uncertainties and this resulted in order declines in the power divisions compared to 2012.

Supported by growth in the second half of the year, orders in the Discrete Automation and Motion division grew 2 percent (2 percent in local currencies) in 2013, as higher orders in the Robotics business and the positive impact of acquiring Power-One more than compensated the decreases in the Motors and Generators business. Orders increased 15 percent (14 percent in local currencies) in the Low Voltage Products division, due primarily to the impact of including Thomas & Betts for the full year in 2013 (compared to approximately seven months in 2012). In addition, orders in all businesses in this division grew except the Low Voltage Systems business. Orders in the Process Automation division decreased 8 percent (8 percent in local currencies) as stable orders in the product businesses were more than offset by the impact of lower large orders. Orders decreased 5 percent (5 percent in local currencies) in the Power Products division, mainly driven by lower transformer orders. Significantly lower large orders led to a decline of 25 percent (25 percent in local currencies) in orders in the Power Systems division as customers postponed large investments and as a result of our order selectivity and focus on higher-margin business that is part of the division's strategic repositioning (announced in December 2012).

During 2013, base orders grew 2 percent (2 percent in local currencies) as the economic environment improved in the second half of 2013. As fewer large orders from projects in the Power Systems and Process Automation divisions were received, large orders declined 31 percent (31 percent in local currencies).

We determine the geographic distribution of our orders based on the location of the customer, which may be different from the ultimate destination of the products' end use. The geographic distribution of our consolidated orders was as follows:

(\$ in millions)				% Change	
	2014	2013	2012	2014	2013
Europe	14,246	13,334	13,512	7%	(1)%
The Americas	11,957	11,365	12,152	5%	(6)%
Asia	11,215	10,331	10,346	9%	–
Middle East and Africa	4,097	3,866	4,222	6%	(8)%
Total	41,515	38,896	40,232	7%	(3)%

Orders in 2014 grew in all regions on higher orders in both power and automation. Orders in Europe increased 7 percent (9 percent in local currencies) driven by increases in large orders. Orders were higher in the United Kingdom, Sweden, Finland, France, Switzerland, Spain and the Netherlands, offsetting lower orders in Germany, Italy, Norway and Russia. Orders increased 5 percent (9 percent in local currencies) in the Americas on higher base and large orders in the U.S., Canada, Brazil and Argentina. In Asia, orders grew 9 percent (11 percent in local currencies) on higher orders in China, South Korea, India and Japan while orders were lower in Australia. Orders increased in MEA by 6 percent (9 percent in local currencies) supported by growth in Saudi Arabia while orders decreased in the United Arab Emirates and South Africa.

Orders in 2013 declined 6 percent (5 percent in local currencies) in the Americas, driven by lower orders in Brazil and lower large orders in the power sector in the U.S. and Canada. However, orders in the U.S. remained stable as base order growth (due primarily to the impact of including Thomas & Betts for the full year in 2013) compensated lower large power orders. In Asia, orders remained unchanged (increased 1 percent in local currencies) as growth in the automation divisions was offset by lower orders in the power businesses, primarily in India and Australia. China returned to growth as most divisions received higher orders than in the previous year from that country. Europe declined 1 percent (decrease of 3 percent in local currencies), as a moderate increase in the industrial sectors was offset by lower orders in the power divisions. Order growth in Germany, France and Spain mostly compensated declines in Italy, the United Kingdom, Russia as well as in most Nordic countries. Orders decreased in MEA by 8 percent (7 percent in local currencies) as large orders received in Kuwait and the United Arab Emirates could not offset lower large orders from the power sector in Saudi Arabia and Iraq, as well as from the oil and gas sector in Oman.

Order backlog

(\$ in millions)	December 31,			% Change	
	2014	2013	2012	2014	2013
Discrete Automation and Motion	4,385	4,351	4,426	1%	(2)%
Low Voltage Products	891	1,057	1,117	(16)%	(5)%
Process Automation	5,661	5,772	6,416	(2)%	(10)%
Power Products	7,791	7,946	8,493	(2)%	(6)%
Power Systems	8,246	9,435	12,107	(13)%	(22)%
Operating divisions	26,974	28,561	32,559	(6)%	(12)%
Corporate and Other ⁽¹⁾	(2,074)	(2,515)	(3,261)	n.a.	n.a.
Total	24,900	26,046	29,298	(4)%	(11)%

⁽¹⁾ Includes interdivisional eliminations

In 2014, consolidated order backlog decreased 4 percent (increased 5 percent in local currencies). Order backlog in all divisions reflected the effects of significant foreign currency changes as the U.S. dollar strengthened during 2014 against substantially all currencies. In the Discrete Automation and Motion, Process Automation and Power Products divisions, order backlog increased in local currencies as a result of growth in global industrial demand. Order backlog in the Process Automation division also increased due to large orders received in the marine and oil and gas sectors. Order backlog in the Low Voltage Products division decreased in local currencies due to divestments during 2014. Order backlog in the Power Systems division decreased 4 percent in local currencies as the impacts of higher large orders during 2014 were more than offset by the impacts of the run off of the order backlog in the businesses affected by the Power Systems repositioning announced in 2012 and the exit from the solar EPC business announced in 2014.

In 2013, consolidated order backlog declined 11 percent (10 percent in local currencies) with decreases in all divisions but primarily decreases in the Power Systems and Process Automation divisions. The decrease in the Power Systems division was due mainly to customers postponing investments, resulting in delays in the award of large orders, as well as reduced order intake resulting from the division's increased project selectivity, as part of the division's repositioning announced in December 2012. Order backlog in the Process Automation division decreased primarily due to a reduction in large orders received in the industrial sector. Despite an improvement of the macroeconomic environment in the second half of the year, order backlog in the Low Voltage Products division as well as in the Discrete Automation and Motion division was below the respective levels at the end of 2012.

Revenues

(\$ in millions)	2014	2013	2012	% Change	
				2014	2013
Discrete Automation and Motion	10,142	9,915	9,405	2%	5%
Low Voltage Products	7,532	7,729	6,638	(3)%	16%
Process Automation	7,948	8,497	8,156	(6)%	4%
Power Products	10,333	11,032	10,717	(6)%	3%
Power Systems	7,020	8,375	7,852	(16)%	7%
Operating divisions	42,975	45,548	42,768	(6)%	7%
Corporate and Other ⁽¹⁾	(3,145)	(3,700)	(3,432)	n.a.	n.a.
Total	39,830	41,848	39,336	(5)%	6%

⁽¹⁾ Includes interdivisional eliminations

Revenues in 2014 decreased 5 percent (2 percent in local currencies) due primarily to the impacts of the lower opening order backlog in the Power Systems and Process Automation divisions compared to the beginning of 2013 and the impacts of business divestments.

On a divisional basis, revenues grew 2 percent (4 percent in local currencies) in the Discrete Automation and Motion division, supported by growth in the Robotics business and also due to the impact of including Power-One for the full year in 2014. In the Low Voltage Products division, revenues decreased 3 percent (flat in local currencies) as steady to higher revenues in most businesses were offset by decreases in revenues resulting from divestments. Revenues in the Process Automation division decreased 6 percent (4 percent in local currencies) due to the effects of the lower opening order backlog, primarily in the systems businesses and were also impacted by the exit from a large service contract in the fourth quarter of 2013. Revenues in the Power Products division decreased 6 percent (4 percent in local currencies) mainly reflecting the low opening order backlog. In the Power Systems division, revenues decreased 16 percent (13 percent in local currencies) due to the lower opening order backlog in all businesses.

Revenues in 2013 increased 6 percent (7 percent in local currencies) due primarily to execution from prior year's high order backlog and due to the impact of including Thomas & Betts for the full year in 2013.

Revenues in 2013 rose 5 percent (5 percent in local currencies) in the Discrete Automation and Motion division as the Robotics business grew for the fourth consecutive year. In the Low Voltage Products division, revenues grew 16 percent (16 percent in local currencies) as most businesses recorded higher revenues, and due to the impact of including Thomas & Betts for the full year in 2013. Revenues in the Process Automation division were 4 percent higher (5 percent in local currencies) in 2013, supported by the execution of orders from the 2012 order backlog, especially in the marine, mining, and oil and gas sectors. Revenues in the Power Products division increased 3 percent (3 percent in local currencies), as all businesses reported higher revenues, assisted by strong order execution from the 2012 order backlog. In the Power Systems division, revenues increased 7 percent (8 percent in local currencies) on execution from the 2012 order backlog, led by the Power Generation and Grid Systems businesses.

We determine the geographic distribution of our revenues based on the location of the customer, which may be different from the ultimate destination of the products' end use. The geographic distribution of our consolidated revenues was as follows:

(\$ in millions)	2014	2013	2012	% Change	
				2014	2013
Europe	13,674	14,385	14,073	(5)%	2%
The Americas	11,482	12,115	10,699	(5)%	13%
Asia	10,874	11,230	10,750	(3)%	4%
Middle East and Africa	3,800	4,118	3,814	(8)%	8%
Total	39,830	41,848	39,336	(5)%	6%

In 2014, revenues declined in all regions. In Europe, revenues decreased 5 percent (3 percent in local currencies) as revenue increases in Norway, the United Kingdom, France, Switzerland and Spain were more than offset by revenue declines in Germany, Italy, Sweden, Finland, Russia and the Netherlands. Revenues from the Americas declined 5 percent (2 percent in local currencies). Revenues were steady in the U.S. and included the impacts of including Power-One for a full year in 2014 while revenues declined in Canada and Brazil. Revenues from Asia decreased 3 percent (1 percent in local currencies) as revenues were flat in China while decreases were realized in India, South Korea and Australia. Revenues in MEA declined 8 percent (6 percent in local currencies) as a result of lower revenues in Saudi Arabia and South Africa in the power divisions while revenues increased in the United Arab Emirates.

In 2013, revenues in Europe increased 2 percent (flat in local currencies) with higher revenues in all divisions except Power Systems. Revenue increases in Sweden, Norway, the United Kingdom, Finland, France and the Netherlands more than offset revenue declines in Germany, Italy, Switzerland and Spain. Revenues from the Americas increased 13 percent (15 percent in local currencies) with higher revenues in all five divisions, and from the impact of including Thomas & Betts for the full year in 2013. Revenues increased at a double-digit rate in the U.S., Canada and Brazil, the main markets in this region. Revenues from Asia increased 4 percent (6 percent in local currencies) with stable or higher revenues in all divisions except Power Products. The revenue increase in Asia was due to higher revenues from the Low Voltage Products division, as well as the successful execution, in the Process Automation division, of marine orders for the oil and gas sector in China and South Korea. In India revenues grew moderately. Revenues in MEA grew by 8 percent (11 percent in local currencies) primarily from increases in the Power Products division, while revenues from the oil and gas sector declined. Saudi Arabia, South Africa and Iraq recorded significant revenue increases.

Cost of sales

Cost of sales consists primarily of labor, raw materials and component costs but also includes indirect production costs, expenses for warranties, contract and project charges, as well as order-related development expenses incurred in connection with projects for which corresponding revenues have been recognized.

In 2014, cost of sales decreased 4 percent (1 percent in local currencies) to \$28,615 million. As a percentage of revenues, cost of sales increased from 71.3 percent in 2013 to 71.8 percent in 2014. Cost of sales as a percentage of revenues decreased in most divisions as benefits from cost savings more than offset the impacts from price pressures in certain markets. However, the consolidated cost of sales as a percentage of revenues was higher due to high project-related costs in the Power Systems division and the dilutive impact on margins from the Power-One acquisition in the Discrete Automation and Motion division.

In 2013, cost of sales increased 7 percent (8 percent in local currencies) to \$29,856 million. As a percentage of revenues, cost of sales increased from 71.1 percent in 2012 to 71.3 percent in 2013. Despite margin improvements in the Low Voltage Products division, cost of sales as a percentage of revenues increased due to a negative business mix and margin reductions on the execution of lower margin orders from the backlog in the Power Products division. Furthermore, additional negative impacts from project-related charges in the Power Systems division were recorded. Cost of sales as a percentage of service revenues decreased due to productivity gains and a positive business mix.

Selling, general and administrative expenses

The components of selling, general and administrative expenses were as follows:

(\$ in millions)	2014	2013	2012
Selling expenses	4,054	4,071	3,862
<i>Selling expenses as a percentage of orders received</i>	9.8%	10.5%	9.6%
General and administrative expenses	2,013	2,023	1,894
<i>General and administrative expenses as a percentage of revenues</i>	5.1%	4.8%	4.8%
Total selling, general and administrative expenses	6,067	6,094	5,756
<i>Total selling, general and administrative expenses as a percentage of revenues</i>	15.2%	14.6%	14.6%
<i>Total selling, general and administrative expenses as a percentage of the average of orders received and revenues</i>	14.9%	15.1%	14.5%

In 2014, general and administrative expenses remained stable compared to 2013 (increased 2 percent in local currencies). As a percentage of revenues, general and administrative expenses increased from 4.8 percent to 5.1 percent mainly due to the impact of lower revenues.

In 2013, general and administrative expenses increased 7 percent (7 percent in local currencies) driven partly by the incremental costs of newly-acquired companies and investment in information technology infrastructure. However, general and administrative expenses as a percentage of revenues, remained unchanged.

In 2014, selling expenses remained stable compared to 2013 (increased 2 percent in local currencies). Selling expenses as a percentage of orders received decreased from 10.5 percent to 9.8 percent mainly due to the impact of higher orders received.

In 2013, selling expenses increased 5 percent (5 percent in local currencies) mainly due to the increase in the number of sales-related employees added in certain key markets.

In 2014, selling, general and administrative expenses remained stable compared to 2013 (increased 2 percent in local currencies) and as a percentage of the average of orders and revenues, selling, general and administrative expenses decreased from 15.1 percent to 14.9 percent as the impact of lower revenues was more than offset by the impact of higher orders.

In 2013, selling, general and administrative expenses increased 6 percent (6 percent in local currencies). As a percentage of the average of orders and revenues, selling, general and administrative expenses increased 0.6 percentage-points to 15.1 percent, primarily due to the decrease in orders received and increased selling expenses (explained above).

Non-order related research and development expenses

In 2014, non-order related research and development expenses increased 2 percent compared to 2013 (4 percent in local currencies).

In 2013, non-order related research and development expenses remained flat (declined 1 percent in local currencies).

Non-order related research and development expenses as a percentage of revenues increased to 3.8 percent in 2014, after decreasing to 3.5 percent in 2013 from 3.7 percent in 2012.

Other income (expense), net

(\$ in millions)	2014	2013	2012
Restructuring and restructuring-related expenses ⁽¹⁾	(37)	(45)	(54)
Net gain from sale of property, plant and equipment	17	18	26
Asset impairments	(34)	(29)	(111)
Net gain (loss) from sale of businesses	543	(16)	(2)
Income from equity-accounted companies and other income (expense)	40	31	41
Total	529	(41)	(100)

⁽¹⁾ Excluding asset impairments

“Other income (expense), net” primarily includes certain restructuring and restructuring-related expenses, gains and losses from sale of businesses and sale of property, plant and equipment, recognized asset impairments, as well as our share of income or loss from equity-accounted companies. “Other income (expense), net” was an income of \$529 million in 2014, compared with an expense of \$41 million in 2013, mostly due to the impact of the net gains recorded in 2014 from the sale of HVAC, Power Solutions, Steel Structures and Full Service businesses.

In 2013, “Other income (expense), net” decreased to an expense of \$41 million from \$100 million in 2012, mostly due to the impact in 2012 of \$87 million of impairments recognized for certain equity-method investments.

Income from operations

(\$ in millions)	2014	2013	2012	% Change ⁽¹⁾	
				2014	2013
Discrete Automation and Motion	1,422	1,458	1,469	(2)%	(1)%
Low Voltage Products	1,475	1,092	856	35%	28%
Process Automation	1,003	990	912	1%	9%
Power Products	1,204	1,331	1,328	(10)%	–
Power Systems	(360)	171	7	n.a.	n.a.
Operating divisions	4,744	5,042	4,572	(6)%	10%
Corporate and Other	(569)	(650)	(524)	n.a.	n.a.
Intersegment elimination	3	(5)	10	n.a.	n.a.
Total	4,178	4,387	4,058	(5)%	8%

⁽¹⁾ Certain percentages are stated as n.a. as the computed change would not be meaningful.

In 2014 and 2013, changes in income from operations were a result of the factors discussed above and in the divisional analysis below.

Net interest and other finance expense

Net interest and other finance expense consists of “Interest and dividend income” offset by “Interest and other finance expense”.

“Interest and other finance expense” includes interest expense on our debt, the amortization of upfront transaction costs associated with long-term debt and committed credit facilities, commitment fees on credit facilities, foreign exchange gains and losses on financial items and gains and losses on marketable securities.

(\$ in millions)	2014	2013	2012
Interest and dividend income	80	69	73
Interest and other finance expense	(362)	(390)	(293)
Net interest and other finance expense	(282)	(321)	(220)

In 2014, “Interest and other finance expense” decreased compared to 2013, mainly resulting from (i) the maturity of a bond in June 2013 and (ii) the reduction in interest expense resulting from an additional interest rate swap entered into during 2014 – see “Note 12 Debt” to our Consolidated Financial Statements.

In 2013, “Interest and other finance expense” increased compared to 2012, mainly resulting from (i) the increase in interest expense, as bonds issued in 2012 were outstanding for a full year in 2013, and (ii) interest expense in 2012 included a release of provisions for expected interest due on certain income tax obligations, primarily due to the favorable resolution of a tax dispute – see “Note 16 Taxes” to our Consolidated Financial Statements.

Provision for taxes

(\$ in millions)	2014	2013	2012
Income from continuing operations before taxes	3,896	4,066	3,838
Provision for taxes	(1,202)	(1,122)	(1,030)
Effective tax rate for the year	30.9%	27.6%	26.8%

In 2014, the tax rate of 30.9% included the effects of taxes on net gains on sale of businesses. Included in the provision for taxes of \$1,202 million were taxes of \$279 million relating to \$543 million of gains on sale of businesses. These divestment transactions increased the effective tax rate as gains were realized primarily in higher-tax jurisdictions and the goodwill allocated to the divested businesses was not deductible for tax purposes. Excluding the effects of these divestment transactions, the effective tax rate for 2014 would have been 27.5%.

The provision for taxes in 2014 included a net increase of valuation allowance on deferred taxes of \$52 million, as we determined it was not more likely than not that such deferred tax assets would be realized. This amount included an expense of \$31 million related to certain of our operations in South America.

The provision for taxes in 2013 included a net increase in valuation allowance on deferred taxes of \$31 million, as we determined it was not more likely than not that such deferred tax assets would be realized. This amount included an expense of \$104 million related to certain of our operations in Central Europe and South America. It also included a benefit of \$42 million related to certain of our operations in Central Europe.

The provision for taxes in 2012 included a net increase in valuation allowance on deferred taxes of \$44 million, as we determined it was not more likely than not that such deferred tax assets would be realized. This amount included \$36 million related to certain of our operations in Central Europe.

The provision for taxes in 2014, 2013 and 2012, also included tax credits, arising in foreign jurisdictions, for which the technical merits did not allow a benefit to be taken.

Income from continuing operations, net of tax

As a result of the factors discussed above, income from continuing operations, net of tax, decreased \$250 million to \$2,694 million in 2014 compared to 2013, and increased \$136 million to \$2,944 million in 2013 compared to 2012.

Income (loss) from discontinued operations, net of tax

The loss (net of tax) from discontinued operations for 2013 related primarily to provisions for certain environmental obligations. The income from discontinued operations, net of tax, for 2014 and 2012 was not significant.

Net income attributable to ABB

As a result of the factors discussed above, net income attributable to ABB decreased \$193 million to \$2,594 million in 2014 compared to 2013, and increased \$83 million to \$2,787 million in 2013 compared to 2012.

Earnings per share attributable to ABB shareholders

(in \$)	2014	2013	2012
Income from continuing operations, net of tax:			
Basic	1.12	1.23	1.18
Diluted	1.12	1.23	1.18
Net income attributable to ABB:			
Basic	1.13	1.21	1.18
Diluted	1.13	1.21	1.18

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 our share-based payment arrangements. See "Note 20 Earnings per share" to our Consolidated Financial Statements.

Divisional analysis

Discrete Automation and Motion

The financial results of our Discrete Automation and Motion division were as follows:

(\$ in millions)	2014	2013	2012	% Change	
				2014	2013
Orders	10,559	9,771	9,625	8%	2%
Order backlog at Dec. 31,	4,385	4,351	4,426	1%	(2)%
Revenues	10,142	9,915	9,405	2%	5%
Income from operations	1,422	1,458	1,469	(2)%	(1)%
Operational EBITDA	1,760	1,783	1,735	(1)%	3%

Orders

Orders in 2014 increased 8 percent (10 percent in local currencies) as orders were higher in all businesses. Order increases in the Power Conversion business were driven by strong rail orders and the inclusion of Power-One for a full year in 2014 compared to 5 months in 2013. Orders grew in the Robotics business as demand increased from general industry while large order demand from the automotive sector was lower. Orders in the Drives and Controls and the Motors and Generators businesses increased due to higher service orders as well as the receipt of large marine orders in 2014.

Orders in 2013 were up 2 percent (2 percent in local currencies) as both the growth in orders in our Robotics business and the impact of including Power-One (acquired July 2013) were partly offset by decreases in orders in our Motors and Generators business. Orders were negatively impacted by weak industrial demand in mature markets and reduced growth rates in emerging markets compared to 2012. In the Robotics business, strong demand from the automotive sector generated high levels of orders, while orders in the Motors and Generators business were lower due to weak market demand for industrial motors. In addition, orders increased due to large orders received from rail customers in our Power Conversion business. Orders in the Drives and Controls business were steady compared to 2012.

The geographic distribution of orders for our Discrete Automation and Motion division was as follows:

(in %)	2014	2013	2012
Europe	39	38	37
The Americas	32	32	34
Asia	26	27	26
Middle East and Africa	3	3	3
Total	100	100	100

In 2014, the geographical split of orders was consistent with 2013. Larger rail orders in the Power Conversion business from Sweden and Switzerland compensated for other market weakness in Europe. The Americas maintained their share of global orders as orders received in the U.S. increased due to the inclusion of the solar business of Power-One for a full year while the rest of the Americas was steady. The share of orders from Asia was supported by growth in China offsetting the impacts of order declines in India.

In 2013, the geographic distribution of our orders remained similar to 2012. Large orders in the Robotics business contributed to the increase in the share of orders from Asia, while fewer large orders were received in the Americas, reducing its share. In addition, the weak demand for motors in the U.S. also reduced the share of orders from the Americas. The share of orders from Europe increased slightly due to several larger traction orders in our Power Conversion business.

Order backlog

Order backlog in 2014 increased 1 percent (9 percent in local currencies) assisted by the receipt of large rail orders in Sweden and Switzerland which will primarily be delivered after 2015.

Order backlog in 2013 was 2 percent lower (1 percent in local currencies) compared to 2012, as both an increase in order backlog in Robotics and the increase in order backlog from acquiring Power-One were more than offset by a decrease in order backlog in the Drives and Controls, and Motors and Generators businesses.

Revenues

In 2014, revenues grew 2 percent (4 percent in local currencies) due to the impact of including Power-One for a full year in 2014 and growth in the Robotics business. Revenues were also supported by a 9 percent increase in service revenues (12 percent in local currencies). Revenues in the Drives and Controls, and Motors and Generators businesses declined due to a weak opening order backlog for mid- and large-sized medium voltage drives and high voltage motors.

In 2013, revenues increased 5 percent (5 percent in local currencies) due to the impact of including Power-One as well as growth in the Robotics and Drives and Controls businesses. However, revenue decreases in the Motors and Generators business lowered the overall growth rate of the division.

The geographic distribution of revenues for our Discrete Automation and Motion division was as follows:

(in %)	2014	2013	2012
Europe	37	39	37
The Americas	33	32	33
Asia	27	26	27
Middle East and Africa	3	3	3
Total	100	100	100

In 2014, the share of revenues from Europe declined due to lower revenues in the Drives and Controls, and Motors and Generators businesses. The Americas' share of revenues increased and was supported by the inclusion of Power-One for a full year in 2014. Revenues in Asia were supported by high automotive revenues in Robotics in China.

In 2013, Europe's share of total revenues increased as several large projects were executed from the 2012 order backlog. Revenue growth was achieved in Sweden, Norway, Italy, Finland and Switzerland. The share of the Americas decreased as revenue growth in Brazil and Canada was offset by a revenue decrease in the U.S. Asia's share of revenues declined as revenues in India, Australia and South Korea were lower than 2012, while China recorded moderate growth.

Income from operations

In 2014, income from operations was lower than 2013, despite higher revenues, due to price pressures affecting gross margin and higher depreciation costs. Lower revenues in the Drives and Controls, and Motors and Generators businesses also led to reduced income from operations. Robotics had a higher contribution to income from operations due to increased revenues and improved gross margins while margins were lower in the Power Conversion business due to the dilutive effects of Power-One.

In 2013, income from operations was stable compared to 2012. The benefit of higher revenues was offset by a reduction in operating margins, primarily due to changes in product mix. In addition, higher depreciation expense, the costs of acquiring Power-One and higher restructuring-related costs compared with 2012, negatively impacted income from operations in 2013. Depreciation and amortization increased to \$285 million in 2013, mainly due to the acquisition of Power-One.

Operational EBITDA

The reconciliation of income from operations to Operational EBITDA for the Discrete Automation and Motion division was as follows:

(\$ in millions)	2014	2013	2012
Income from operations	1,422	1,458	1,469
Depreciation and amortization	309	285	263
Restructuring and restructuring-related expenses	25	19	(4)
Gains and losses on sale of businesses, acquisition-related expenses and certain non-operational items	—	33	8
FX/commodity timing differences in income from operations	4	(12)	(1)
Operational EBITDA	1,760	1,783	1,735

In 2014, Operational EBITDA declined 1 percent compared to 2013, primarily due to the reasons described under "Income from operations", excluding the explanations related to the reconciling items in the table above.

In 2013, Operational EBITDA increased 3 percent compared to 2012, primarily due to the reasons described under "Income from operations", excluding the explanations related to the reconciling items in the table above.

Fiscal year 2015 outlook

The speed and direction of global economic development is currently uncertain. There continue to be some positive indicators in the U.S., and China is expected to continue to grow. Many economies in Europe, however, are expected to remain weak. Despite this mixed outlook, we expect customers to continue to invest in safe, efficient and flexible automation, and in sustainable transport and infrastructure, which will support the performance of the Discrete Automation and Motion division in 2015.

Low Voltage Products

The financial results of our Low Voltage Products division were as follows:

	2014	2013	2012	% Change	
(\$ in millions)				2014	2013
Orders	7,550	7,696	6,720	(2)%	15%
Order backlog at Dec. 31,	891	1,057	1,117	(16)%	(5)%
Revenues	7,532	7,729	6,638	(3)%	16%
Income from operations	1,475	1,092	856	35%	28%
Operational EBITDA	1,429	1,468	1,219	(3)%	20%

Orders

In 2014, orders decreased 2 percent (flat in local currencies) as order growth in most businesses was offset by the impact of the divestments of HVAC and Steel Structures. Order growth was highest in the Wiring Accessories business and orders also grew in the Breakers and Switches, Enclosures, and Control Products businesses while orders in the Low Voltage Systems business were steady. Product businesses grew despite a challenging macroeconomic environment in Europe, lower investments in the construction market in China and political instability in certain Eastern European countries.

Orders increased 15 percent (14 percent in local currencies) in 2013, driven primarily by the impact of including Thomas & Betts for the full year in 2013. In addition, orders grew moderately in most product businesses, while in the systems business orders decreased.

The geographic distribution of orders for our Low Voltage Products division was as follows:

(in %)	2014	2013	2012
Europe	39	39	43
The Americas	30	32	26
Asia	24	22	24
Middle East and Africa	7	7	7
Total	100	100	100

In 2014, the share of orders from the Americas decreased primarily due to the impact of the divestments in the year, which were mainly based in the U.S. and Canada. The share of orders in Asia increased, partially driven by systems orders in China.

In 2013, the share of orders from the Americas increased and the share of orders from both Europe and Asia decreased, due primarily to the impact of including Thomas & Betts for the full year in 2013, which operates primarily in the U.S. and Canada.

Order backlog

In 2014, order backlog decreased 16 percent (9 percent in local currencies), driven mainly by the impacts of business divestments in the year.

In 2013, order backlog decreased 5 percent (4 percent in local currencies), driven mainly by certain product businesses.

Revenues

In 2014, revenues decreased 3 percent (flat in local currencies) as steady to higher revenues in most businesses were offset by the impacts of divested businesses. Revenues grew slightly in the Breakers and Switches and Low Voltage Systems businesses while revenues were flat in the Enclosures and Control Products businesses.

In 2013, revenues increased 16 percent (16 percent in local currencies) primarily due to the impact of including Thomas & Betts for the full year in 2013. In addition, revenues grew in our product businesses, while revenues were lower in the systems business.

The geographic distribution of revenues for our Low Voltage Products division was as follows:

(in %)	2014	2013	2012
Europe	40	39	43
The Americas	30	33	26
Asia	23	22	24
Middle East and Africa	7	6	7
Total	100	100	100

In 2014, the share of revenues from the Americas decreased primarily due to the impact of divestments in the year. The share of revenues from Asia and MEA increased slightly, partially attributable to increased systems revenues in China and Saudi Arabia respectively.

In 2013, the share of revenues from the Americas increased and the share of revenues from both Europe and Asia decreased, due primarily to the impact of including Thomas & Betts for the full year in 2013.

Income from operations

In 2014, income from operations increased 35 percent, primarily due to gains from the sales of businesses divested in the year. Depreciation and amortization of \$301 million was lower than 2013, due to the impacts of business divestments in 2014. However, income from operations was impacted by a negative product mix.

In 2013, income from operations increased 28 percent, due mainly to the impact of including Thomas & Betts for the full year in 2013 and also due to the inclusion in 2012 of \$106 million of acquisition-related expenses and certain non-operational items (which mainly included certain employee-related expenses and transaction costs for Thomas & Betts). Depreciation and amortization of \$323 million was higher than in 2012, due primarily to including Thomas & Betts for a full year. In addition, the change in geographic distribution of revenues in 2013, as well as a different revenue mix between products and systems, increased profitability.

Operational EBITDA

The reconciliation of income from operations to Operational EBITDA for the Low Voltage Products division was as follows:

(\$ in millions)	2014	2013	2012
Income from operations	1,475	1,092	856
Depreciation and amortization	301	323	250
Restructuring and restructuring-related expenses	45	31	23
Gains and losses on sale of businesses, acquisition-related expenses and certain non-operational items	(407)	16	106
FX/commodity timing differences in income from operations	15	6	(16)
Operational EBITDA	1,429	1,468	1,219

In 2014, Operational EBITDA decreased 3 percent compared to 2013, primarily due to the reasons described under "Income from operations", excluding the explanations related to the reconciling items in the table above.

In 2013, Operational EBITDA increased 20 percent compared to 2012, primarily due to the reasons described under "Income from operations", excluding the explanations related to the reconciling items in the table above.

Fiscal year 2015 outlook

The global demand outlook for 2015 in our key industry and transport and infrastructure markets varies by region and sector. There are some positive indicators in North America and slow growth in Europe is expected to remain. Economic growth in China is forecasted to continue. Customer spending to improve industrial and building efficiency is expected to support the business in 2015, along with further investments in electrical marine propulsion and rail transport.

Process Automation

The financial results of our Process Automation division were as follows:

				% Change	
(\$ in millions)	2014	2013	2012	2014	2013
Orders	8,577	8,000	8,704	7%	(8)%
Order backlog at Dec. 31,	5,661	5,772	6,416	(2)%	(10)%
Revenues	7,948	8,497	8,156	(6)%	4%
Income from operations	1,003	990	912	1%	9%
Operational EBITDA	1,029	1,096	1,003	(6)%	9%

Orders

Orders in 2014 increased 7 percent (10 percent in local currencies), mainly due to high demand from the marine sector, especially for LNG vessels. Orders in the oil and gas businesses also increased while orders in the mining businesses remained at low levels as most mining customers delayed or postponed capital investments. Orders in the metals businesses also remained at low levels due to overcapacity issues affecting our customers. Other customers such as steel companies are focusing their spending on operating expenses and not on capital investment due to profitability

pressures affecting their industry. The paper industry in North America, South America and parts of Asia, however, has improved and has started to increase its level of capital investment.

Orders in 2013 declined 8 percent (8 percent in local currencies), reflecting the response of our customers to ongoing economic uncertainty. Order declines were primarily due to reductions in large orders as tender activity for major expansion projects decreased across most sectors. Orders during the year largely reflected customer investment in productivity improvements for existing assets rather than investment in capacity expansion. Orders from the oil and gas and marine sectors remained strong but were lower than in 2012, while orders from metals and pulp and paper customers decreased.

The geographic distribution of orders for our Process Automation division was as follows:

(in %)	2014	2013	2012
Europe	33	37	37
The Americas	23	23	25
Asia	35	31	27
Middle East and Africa	9	9	11
Total	100	100	100

In 2014, the share of orders from Asia increased primarily due to the impacts of large orders received in South Korea from the LNG marine sector and strong order growth in China. Orders grew in MEA, allowing it to maintain its share of orders, and included the impact of the award of a gas treatment plant contract in Tunisia. The share of orders from the Americas remained steady. Growth in Brazil was offset by the effects of lower mining investments in Chile while North America grew slightly. Orders decreased in Europe which resulted in a reduction in the share of orders from Europe compared to 2013. Marine orders in Finland were offset by lower order intake in Germany and Southern Europe.

In 2013, the share of orders from Asia grew while declining in the Americas and MEA. In Asia, the increase was primarily from China, where higher orders were mainly driven by the marine sector while the mining sector remained weak. South Korea also remained strong in the marine sector. In Europe, the offshore oil and gas market in the North Sea continued to see capital investments based on high oil prices and improving reservoir assessment technology. The European shipbuilding sector also saw renewed activity, although economic constraints such as overcapacity and the lack of financing have affected this sector. Overall, Europe, with the same share of orders as in 2012, had a moderate decrease in orders, although still at high levels. Orders in the Americas were impacted by a reduction in investments made by the mining sector, while the MEA region decreased primarily due to a reduction in large orders received from the oil and gas sector.

Order backlog

Order backlog at December 31, 2014, was 2 percent lower compared to 2013. In local currencies, order backlog was 9 percent higher, reflecting the higher order intake during the year, especially large orders.

Order backlog at December 31, 2013, was 10 percent lower (8 percent in local currencies) than in 2012, reflecting the impact of a reduction in order intake during the year.

Revenues

In 2014, revenues were down 6 percent (4 percent in local currencies) reflecting the impacts of lower order intake in the previous year. Revenue decreases were more significant in the systems businesses, especially in mining systems, due to the weak opening order backlog while revenues in the oil and gas businesses increased. Product revenues were flat. Revenues in the Measurement Products business grew slightly but were offset by a decline in revenues in the Control Technologies business. Product revenues in the Turbo-charging business increased slightly compared to the low levels last year. Revenues were also impacted by the exit in 2013 from a large service contract.

Although orders decreased in 2013, revenues were 4 percent higher than 2012 (5 percent in local currencies) as we executed on projects in the order backlog from 2012. Revenue growth resulted primarily from the systems businesses, particularly in the marine and mining sectors. Revenues in our product businesses grew moderately, particularly in Measurement Products and Control Technologies. Lifecycle services also showed modest growth.

The geographic distribution of revenues for our Process Automation division was as follows:

(in %)	2014	2013	2012
Europe	35	36	37
The Americas	23	24	23
Asia	33	32	30
Middle East and Africa	9	8	10
Total	100	100	100

The regional distribution of revenues in 2014 did not change significantly compared to 2013. Revenue share declines were realized in Europe and the Americas, while Asia and MEA increased. In Europe, revenues declined as result of an exit in 2013 from a large service contract in Finland and lower revenues in Sweden. In the Americas, lower opening order backlog in the mining business led to lower revenues in Chile and Peru, which more than offset growth in the U.S. The revenue share from Asia increased slightly while the revenue increase in MEA was mainly from Algeria and the United Arab Emirates.

In 2013, revenues grew across most regions. The share of revenues from Asia increased as revenues grew in South Korea and China with high demand from the marine sector, while in Australia revenues grew in the oil and gas and mining sectors. The share of revenues from the Americas also increased as revenues grew primarily in South America, driven by the mining sector in Chile and Peru while revenue levels in North America were maintained. Although the share of revenues from Europe decreased, revenues from Europe increased, mainly from higher revenues in the oil and gas sector in Northern Europe, while the rest of Europe was slightly lower. The share of revenues from MEA was lower primarily due to the timing of large projects in Africa.

Income from operations

In 2014, income from operations increased compared to 2013, mainly due to the gain on sale of the Full Service business partially offset by the impact of lower revenues.

In 2013, income from operations increased primarily due to higher revenues, as well as a favorable product mix resulting from stronger growth rates in our higher-margin businesses. Improved project execution in the systems businesses and strict cost control also contributed to the increase.

Operational EBITDA

The reconciliation of income from operations to Operational EBITDA for the Process Automation division was as follows:

(\$ in millions)	2014	2013	2012
Income from operations	1,003	990	912
Depreciation and amortization	88	87	82
Restructuring and restructuring-related expenses	43	31	28
Gains and losses on sale of businesses, acquisition-related expenses and certain non-operational items	(113)	(6)	2
FX/commodity timing differences in income from operations	8	(6)	(21)
Operational EBITDA	1,029	1,096	1,003

In 2014, Operational EBITDA decreased 6 percent compared to 2013, primarily due to the reasons described under "Income from operations", excluding the explanations related to the reconciling items in the table above.

In 2013, Operational EBITDA increased 9 percent compared to 2012, primarily due to the reasons described under "Income from operations", excluding the explanations related to the reconciling items in the table above.

Fiscal year 2015 outlook

The outlook for 2015 is mixed and varies by industry. While the oil and gas sector has recently been a key growth driver, the decrease in oil prices is expected to lead to lower and/or delayed capital expenditures by our upstream oil and gas customers. However, mid- and downstream activities such as refining, chemicals and petrochemicals may see increased investment. The marine market is expected to continue to be strong, while demand from the mining segment is forecast to remain at low levels. The metals industry still suffers from overcapacity, while the pulp and paper industry is expected to grow moderately, especially in the emerging markets.

Power Products

The financial results of our Power Products division were as follows:

(\$ in millions)	2014	2013	2012	% Change	
				2014	2013
Orders	10,764	10,459	11,040	3%	(5)%
Order backlog at Dec. 31,	7,791	7,946	8,493	(2)%	(6)%
Revenues	10,333	11,032	10,717	(6)%	3%
Income from operations	1,204	1,331	1,328	(10)%	–
Operational EBITDA	1,519	1,637	1,585	(7)%	3%

Orders

In 2014, orders increased 3 percent (5 percent in local currencies), supported by the industry sector and continued selective investments in large transmission projects.

In 2013, orders decreased 5 percent (5 percent in local currencies), as a result of a challenging market environment and restrained investment by power utilities. Although demand in the industrial and distribution sectors continued to offer opportunities, order intake was affected by lower demand in the power transmission sector.

The geographic distribution of orders for our Power Products division was as follows:

(in %)	2014	2013	2012
Europe	28	31	33
The Americas	29	28	27
Asia	29	29	29
Middle East and Africa	14	12	11
Total	100	100	100

In 2014, the share of orders from the Americas increased, mainly driven by the transmission sector. The continued development of power infrastructure investments led to a higher share of orders in MEA. Asia maintained its share of total orders with India showing growth and China remaining stable. Europe's share of orders declined, reflecting the difficult market conditions throughout the year.

In 2013, the higher share of orders from MEA reflected continued development of power infrastructure in the region. The share of the Americas was steady, mainly driven by distribution upgrades. Asia maintained its share of total orders with China showing growth while Australia declined, as demand from industrial customers was lower, especially the mining sector. Europe's share of orders declined, reflecting the current market uncertainty.

Order backlog

In 2014, order backlog decreased 2 percent (increased 6 percent in local currencies) compared to 2013. In local currencies, the order backlog increased in all businesses resulting from higher orders during the year.

In 2013, order backlog decreased 6 percent (5 percent in local currencies) compared to 2012. This resulted from lower order intake (described above) and the higher revenues executed from the 2012 backlog.

Revenues

In 2014, revenues in the Power Products division decreased 6 percent (4 percent in local currencies), mainly reflecting the impact of the lower opening order backlog. Service revenues continued to grow and represented a higher share of the total division revenues compared to 2013.

In 2013, revenues increased 3 percent (3 percent in local currencies), mainly reflecting the execution of the 2012 order backlog. This included the execution of orders with longer lead times, as well as higher revenues from industries typically having a shorter lead time, such as the distribution and industry sectors. Service revenues continued to grow but represented the same share of total division revenues as in 2012.

The geographic distribution of revenues for our Power Products division was as follows:

(In %)	2014	2013	2012
Europe	32	32	32
The Americas	26	27	27
Asia	31	30	32
Middle East and Africa	11	11	9
Total	100	100	100

In 2014, the shares of revenues from both Europe and MEA remained unchanged, reflecting the current economic environment. The share of revenues from the Americas was lower as revenues in certain key markets decreased slightly compared to 2013. The increase in the share of revenues from Asia was primarily driven by revenue increases in India.

In 2013, the shares of revenues from both the Americas and Europe remained unchanged, reflecting the current economic environment. The share of revenues from Asia fell as revenues in certain key markets decreased slightly compared to 2012. The increase in the share of revenues from MEA was primarily driven by revenue increases in Saudi Arabia.

Income from operations

In 2014, income from operations was lower compared to 2013 primarily reflecting lower revenues, higher charges relating to FX/commodity timing differences and higher selling expenses resulting from investments made in the sales function.

In 2013, income from operations was at the same level as 2012, as benefits from higher revenues were mostly offset by higher non-operational charges and higher depreciation and amortization. Operating margins were maintained as price pressure from lower margin orders in the backlog was largely offset by cost savings. In 2013, the gains from FX/commodity timing differences were lower than in 2012. Restructuring-related expenses were at the same level as 2012.

Operational EBITDA

The reconciliation of income from operations to Operational EBITDA for the Power Products division was as follows:

(\$ in millions)	2014	2013	2012
Income from operations	1,204	1,331	1,328
Depreciation and amortization	217	223	209
Restructuring and restructuring-related expenses	51	66	65
Gains and losses on sale of businesses, acquisition-related expenses and certain non-operational items	16	19	1
FX/commodity timing differences in income from operations	31	(2)	(18)
Operational EBITDA	1,519	1,637	1,585

In 2014, Operational EBITDA decreased 7 percent compared to 2013, primarily due to the reasons described under "Income from operations", excluding the explanations related to the reconciling items in the table above.

In 2013, Operational EBITDA increased 3 percent compared to 2012, primarily due to the reasons described under "Income from operations", excluding the explanations related to the reconciling items in the table above.

Fiscal year 2015 outlook

Utility investments continue to be restrained based on the overall macroeconomic environment. The power transmission sector is still seeing selective project investments, driven by new infrastructure demand in emerging markets and the need for grid upgrades, improved power reliability and environmental concerns in the mature markets. Power distribution demand is expected to be stable. Investments by industrial customers vary across geographies and sectors and remain largely focused on sectors such as heavy industries. The overall market remains competitive.

Power Systems

The financial results of our Power Systems division were as follows:

(\$ in millions)	2014	2013	2012	% Change	
				2014	2013
Orders	6,871	5,949	7,973	15%	(25)%
Order backlog at Dec. 31,	8,246	9,435	12,107	(13)%	(22)%
Revenues	7,020	8,375	7,852	(16)%	7%
Income from operations	(360)	171	7	n.a.	n.a.
Operational EBITDA	5	419	290	(99)%	44%

Orders

In 2014, orders increased 15 percent (20 percent in local currencies) compared with 2013, mainly due to a higher level of large orders in the Grid Systems business following the \$800 million award in the United Kingdom for a HVDC subsea power connection in northern Scotland and a \$400 million HVDC project in Canada to provide the first electricity link between the island of Newfoundland and the North American power grid. In addition, large orders in

2014 included a \$110 million substation order in Saudi Arabia which will support grid interconnection and boost electricity transmission capacity. Initiatives to drive base order growth, combined with early signs of stabilization in the utility sector, contributed to modest growth in base orders. The overall market remains highly competitive, especially in certain higher-growth regions such as the Middle East.

The Power Systems division continues to be selective, focusing on higher-margin projects and those with higher pull-through of other ABB products.

Order intake in 2013 was 25 percent lower (25 percent in local currencies), as customers postponed investments and delayed the award of large orders. In addition, we increased our project selectivity and focused on higher-margin business as part of the division's strategic repositioning. Power infrastructure spending was restrained due to economic uncertainties in most regions, while transmission utilities continued to invest selectively, focusing on additional capacity in emerging markets while mature markets focused mainly on grid upgrades. Large orders in 2013 included a \$110 million order for a HVDC converter station to facilitate the connection of the Lithuanian and Polish power grids, an \$80 million order to power Canada's largest solar photovoltaic plant, and substation orders of \$160 million in Kuwait to help strengthen the country's power grid and support its growing infrastructure. Price pressure, resulting from ongoing macroeconomic weakness in certain key geographical markets, also negatively impacted our order levels in 2013.

The geographic distribution of orders for our Power Systems division was as follows:

(in %)	2014	2013	2012
Europe	42	35	30
The Americas	25	25	31
Asia	17	17	18
Middle East and Africa	16	23	21
Total	100	100	100

In the Power Systems division, the change in the geographic share of orders often reflects changes in the geographical locations of large orders. In 2014, the share of orders from Europe increased due to the award of the HVDC project in Scotland. The share of orders in the Americas and Asia remained stable with growth in both large and base orders. Orders from MEA decreased, mainly due to the timing of large order awards, resulting in a reduction of order share relative to the other regions.

In 2013, orders declined across all regions compared to 2012. The order decrease in the Americas mainly resulted from the strong level of large orders in 2012. Regionally, the percentage of our orders from Europe was the highest, although both large and base orders were lower than in the previous year.

Order backlog

Order backlog at December 31, 2014, was \$8,246 million, a decrease of 13 percent (4 percent in local currencies) compared with 2013. Although order backlog was supported by the large orders received in 2014, order backlog decreased in 2014 as the division continued to run off the remaining orders in businesses affected by the repositioning of the Power Systems division announced in 2012

and the businesses affected by the exiting of the solar EPC business announced in 2014.

Order backlog at December 31, 2013, was \$9,435 million, a decrease of 22 percent (21 percent in local currencies) compared with 2012. Order backlog was impacted significantly by the lower level of large orders received in 2013, particularly the lack of very large project orders which typically have execution times stretching over several years.

Revenues

Revenues in 2014 decreased 16 percent (13 percent in local currencies), due mainly to the effects of weak order intake in 2013 and the resulting lower opening order backlog at the beginning of 2014. Revenues decreased in all businesses compared to 2013. In addition, revenues in 2014 were negatively impacted by execution delays in selected projects.

Revenues in 2013 increased 7 percent (8 percent in local currencies), with growth in all businesses. The increase was achieved primarily through the execution of projects from the 2012 order backlog. The strong order backlog level at the beginning of 2013 provided the division a strong base from which to generate revenues in 2013 and more than compensated for the lower level of orders received in 2013.

The geographic distribution of revenues for our Power Systems division was as follows:

(in %)	2014	2013	2012
Europe	38	36	40
The Americas	23	23	19
Asia	19	20	19
Middle East and Africa	20	21	22
Total	100	100	100

The regional distribution of revenues reflects the geographical end-user markets of the projects we are executing, and consequently varies over time. In 2014, revenues decreased in all regions compared to 2013. Europe remained our largest region in terms of revenues, followed again by the Americas. The largest revenue decrease was recorded in MEA, and partly related to lower revenues in Iraq and Saudi Arabia compared to 2013, following a lower opening order backlog.

In 2013, Europe was the largest region in terms of revenues, despite a decrease in share of revenues compared to previous year. The higher share of revenues from the Americas was due primarily to execution in 2013 of projects from the 2012 order backlog in the U.S. and Brazil.

Income from operations

In 2014, the Power Systems division realized a loss from operations of \$360 million compared to an income from operations of \$171 million in 2013, due primarily to lower revenues and project-related charges, mainly for offshore wind projects and solar EPC contracts. Income from operations also included a \$115 million negative impact related to FX/commodity timing differences compared with a \$40 million positive impact in 2013. Restructuring-related expenses in 2014 of \$63 million were lower than the \$101 million in 2013, and included charges to adjust the size and cost structure of certain operations in response to lower order backlog and an increased focus on white collar productivity. Cost savings from supply chain management and operational excellence activities helped mitigate higher research and development spending, and the impact of low margin projects executed from the order backlog.

In 2013, income from operations increased to \$171 million, from \$7 million in 2012, due partly to the impacts on 2012 from the repositioning of the Power Systems division. Income from operations in 2013 was also negatively impacted by operational charges in the fourth quarter of approximately \$260 million, a significant portion of which related to certain offshore wind projects, where severe winter storms in the North Sea caused time delays and increased costs. The remaining operational charges in the fourth quarter related to project cost increases in certain projects in other businesses. Restructuring-related expenses in 2013 of \$101 million were higher than the \$52 million in 2012, and included charges to adjust the size of certain operations in response to lower order intake. However, income from operations benefitted from the contribution of higher revenues and lower research and development spending. Additionally, cost savings from supply chain management and operational excellence activities helped mitigate the impact of price pressures in projects executed from the order backlog.

Operational EBITDA

The reconciliation of income from operations to Operational EBITDA for the Power Systems division was as follows:

(\$ in millions)	2014	2013	2012
Income from operations	(360)	171	7
Depreciation and amortization	175	183	174
Restructuring and restructuring-related expenses	63	101	52
Gains and losses on sale of businesses, acquisition-related expenses and certain non-operational items	12	4	70
FX/commodity timing differences in income from operations	115	(40)	(13)
Operational EBITDA	5	419	290

In 2014, Operational EBITDA decreased compared to 2013, primarily due to the reasons described under "Income from operations", excluding the explanations related to the reconciling items in the table above.

In 2013, Operational EBITDA increased 44 percent compared to 2012, primarily due to the reasons described under "Income from operations", excluding the explanations related to the reconciling items in the table above.

Fiscal year 2015 outlook

Utilities are expected to continue to make selective investments in, for example, power infrastructure to add capacity in emerging markets, and upgrading aging infrastructure in mature markets. Integrating renewable energy sources into existing grids, improving overall grid efficiency and the development of more reliable, flexible and smarter grids will also support the business. The timing of these investments can vary significantly by region and customer and depends on both short-term macroeconomic conditions, long-term demand forecasts, and regulatory and policy developments, among other factors.

Corporate and Other

Income from operations for Corporate and Other was as follows:

(\$ in millions)	2014	2013	2012
Corporate headquarters and stewardship	(369)	(372)	(341)
Corporate research and development	(174)	(187)	(192)
Corporate real estate	44	49	50
Other	(70)	(140)	(41)
Total Corporate and Other	(569)	(650)	(524)

In 2014, Corporate headquarters and stewardship costs were at the same level as the previous year. In 2013, Corporate headquarters and stewardship costs increased by \$31 million, primarily due to increases in personnel expenses and additional investments in information systems infrastructure.

In 2014, Corporate research and development costs totaled \$174 million, lower than in 2013. In 2013, Corporate research and development costs totaled \$187 million, marginally lower than the costs reported in 2012.

Corporate real estate primarily includes the income from property rentals and gains from the sale of real estate properties. In 2014, 2013 and 2012, income from operations in Corporate real estate includes gains of \$17 million, \$23 million and \$26 million, respectively, from the sales of real estate property in various countries.

"Other" consists of operational costs of our Global Treasury Operations, operating income or loss in non-core businesses and certain other charges such as costs and penalties associated with legal cases, environmental expenses and impairment charges related to investments. In 2014, "Other" declined primarily due to lower charges in connection with legal compliance cases and lower environmental expenses. In 2013, "Other" included primarily certain legal compliance cases, certain environmental expenses, acquisition-related expenses, the loss on sale of a non-core business and the impairment of certain investments. In 2012, "Other" primarily included the release of a compliance-related provision, partially offset by a provision for certain pension claims in the U.S. and charges from the impairments of our investments in the shares of a public company.

Restructuring

Cost savings initiative

In 2014, 2013 and 2012, we executed cost saving measures to sustainably reduce our costs and protect our profitability. Costs associated with these measures amounted to \$235 million, \$252 million and \$180 million in 2014, 2013 and 2012, respectively. Estimated cost savings initiatives amounted to around \$1.1 billion in 2014, \$1.2 billion in 2013 and \$1.1 billion in 2012. These savings were achieved by optimizing global sourcing (excluding changes in commodity prices), through reductions to general and administrative expenses, as well as adjustments to our global manufacturing and engineering footprint.

Liquidity and capital resources

Principal sources of funding

We meet our liquidity needs principally using cash from operations, proceeds from the issuance of debt instruments (bonds and commercial paper), and short-term bank borrowings.

During 2014, 2013 and 2012, our financial position was strengthened by the positive cash flow from operating activities of \$3,845 million, \$3,653 million and \$3,779 million, respectively.

Our net debt is shown in the table below:

December 31, (\$ in millions)	2014	2013
Cash and equivalents	5,443	6,021
Marketable securities and short-term investments	1,325	464
Short-term debt and current maturities of long-term debt	(353)	(453)
Long-term debt	(7,338)	(7,570)
Net debt		
(defined as the sum of the above lines)	(923)	(1,538)

Net debt at December 31, 2014, decreased \$615 million compared to December 31, 2013, as cash flows from operating activities during 2014 of \$3,845 million and proceeds from sales of businesses and equity-accounted companies (net of cash disposed and transaction costs) of \$1,110 million more than offset the cash outflows for the payment of dividends (\$1,973 million), purchases of property, plant and equipment and intangible assets (\$1,026 million) and amounts paid to purchase treasury stock (\$1,003 million). See "Financial Position", "Investing activities" and "Financing activities" for further details.

Our Group Treasury Operations is responsible for providing a range of treasury management services to our group companies, including investing cash in excess of current business requirements. At December 31, 2014 and 2013, the proportion of our aggregate "Cash and equivalents" and "Market-

able securities and short-term investments" managed by our Group Treasury Operations amounted to approximately 60 percent and 55 percent, respectively.

Throughout 2014 and 2013, the investment strategy for cash (in excess of current business requirements) has generally been to invest in short-term time deposits with maturities of less than 3 months, supplemented at times by investments in corporate commercial paper, AAA-rated money market liquidity funds, and in some cases, government securities. During 2014, we also placed limited funds in connection with reverse repurchase agreements and invested in floating-rate notes. With ongoing credit risk concerns in the eurozone economic area, we restrict our bank exposures in the eurozone area. We continue to also restrict the counterparties with whom we are prepared to place cash and we limit our deposits with certain banks in the eurozone. We actively monitor credit risk in our investment portfolio and hedging activities. Credit risk exposures are controlled in accordance with policies approved by our senior management to identify, measure, monitor and control credit risks. We closely monitor developments in the credit markets and make appropriate changes to our investment policy as deemed necessary. The rating criteria we require for our counterparts have remained unchanged during 2014 (compared to 2013) as follows – a minimum rating of A/A2 for our banking counterparts, while the minimum required rating for investments in short-term corporate paper is A-1/P-1. In addition to rating criteria, we have specific investment parameters and approved instruments as well as restricting the types of investments we make. These parameters are closely monitored on an ongoing basis and amended as we consider necessary.

We believe the cash flows generated from our business, supplemented, when necessary, through access to the capital markets (including short-term commercial paper) and our credit facilities are sufficient to support business operations, capital expenditures, business acquisitions, the payment of dividends to shareholders and contributions to pension plans. Due to the nature of our operations, our cash flow from operations generally tends to be weaker in the first half of the year than in the second half of the year. Consequently, we believe that our ability to obtain funding from these sources will continue to provide the cash flows necessary to satisfy our working capital and capital expenditure requirements, as well as meet our debt repayments and other financial commitments for the next 12 months. See "Disclosures about contractual obligations and commitments".

Debt and interest rates

Total outstanding debt was as follows:

December 31, (\$ in millions)	2014	2013
Short-term debt and current maturities of long-term debt	353	453
Long-term debt:		
Bonds	7,126	7,414
Other long-term debt	212	156
Total debt	7,691	8,023

The decrease in short-term debt in 2014 was primarily due to repayments of borrowings in various countries partially offset by an increase in issued commercial paper (\$120 million outstanding at December 31, 2014, compared to \$100 million outstanding at December 31, 2013).

Our debt has been obtained in a range of currencies and maturities and on various interest rate terms. We use derivatives to manage the interest rate exposure arising on certain of our debt obligations. For example, we use interest rate swaps to effectively convert fixed rate debt into floating rate liabilities. After considering the effects of interest rate swaps, the effective average interest rate on our floating rate long-term debt (including current maturities) of \$2,318 million and our fixed rate long-term debt (including current maturities) of \$5,074 million was 1.1 percent and 3.2 percent, respectively. This compares with an effective rate of 1.2 percent for floating rate long-term debt of \$2,211 million and 3.1 percent for fixed-rate long-term debt of \$5,389 million at December 31, 2013.

For a discussion of our use of derivatives to modify the interest characteristics of certain of our individual bond issuances, see "Note 12 Debt" to our Consolidated Financial Statements.

Credit facility

During 2014, we replaced our \$2 billion multicurrency revolving credit facility, maturing in 2015, with a new \$2 billion revolving multicurrency credit facility, maturing in 2019. In 2015 and 2016, we have the option to extend the maturity of the new facility to 2020 and 2021, respectively.

No amount was drawn under either of the committed credit facilities at December 31, 2014 and 2013. The replacement facility is for general corporate purposes. The facility contains cross-default clauses whereby an event of default would occur if we were to default on indebtedness, as defined in the facility, at or above a specified threshold.

The credit facility does not contain financial covenants that would restrict our ability to pay dividends or raise additional funds in the capital markets. For further details of the credit facility, see "Note 12 Debt" to our Consolidated Financial Statements.

Commercial paper

At December 31, 2014, we had in place two commercial paper programs:

- a \$2 billion commercial paper program for the private placement of U.S. dollar-denominated commercial paper in the United States, and
- a \$2 billion Euro-commercial paper program for the issuance of commercial paper in a variety of currencies (which replaced the previous \$1 billion Euro-commercial paper program in February 2014)

At December 31, 2014, \$120 million was outstanding under the \$2 billion program in the United States, compared to \$100 million outstanding at December 31, 2013.

No amount was outstanding under the \$2 billion Euro-commercial paper program at December 31, 2014. No amounts were outstanding at December 31, 2013 either under our previous \$1 billion Euro-commercial paper program or under the 5 billion Swedish krona program that was terminated in 2014.

European program for the issuance of debt

The European program for the issuance of debt allows the issuance of up to (the equivalent of) \$8 billion in certain debt instruments. The terms of the program do not obligate any third party to extend credit to us and the terms and possibility of issuing any debt under the program are determined with respect to, and as of the date of issuance of, each debt instrument. At December 31, 2014, it was more than 12 months since the program had been updated. New bonds could be issued under the program but cannot be listed without us formally updating the program. At December 31, 2014 and 2013, one bond (principal amount of EUR 1,250 million and due in 2019) having a carrying amount of \$1,518 million and \$1,722 million, respectively, was outstanding under this program.

Australian program for the issuance of debt

During 2012, we set up a program for the issuance of up to AUD 1 billion (equivalent to approximately \$819 million, using December 31, 2014 exchange rates) of medium-term notes and other debt instruments. The terms of the program do not obligate any third party to extend credit to us and the terms and possibility of issuing any debt under the program are determined with respect to, and as of the date of issuance of, each debt instrument. At both December 31, 2014 and 2013, one bond, having a principal amount of AUD 400 million and maturing in 2017, was outstanding under the program. The carrying amount of the bond at December 31, 2014 and 2013 was \$335 million and \$353 million, respectively.

Credit ratings

Credit ratings are assessments by the rating agencies of the credit risk associated with ABB and are based on information provided by us or other sources that the rating agencies consider reliable. Higher ratings generally result in lower borrowing costs and increased access to capital markets. Our ratings are of "investment grade" which is defined as Baa3 (or above) from Moody's and BBB- (or above) from Standard & Poor's.

At both December 31, 2014 and 2013, our long-term debt was rated A2 by Moody's and A by Standard & Poor's.

Limitations on transfers of funds

Currency and other local regulatory limitations related to the transfer of funds exist in a number of countries where we operate, including: Algeria, Argentina, Chile, Egypt, India, Indonesia, Kazakhstan, Korea, Malaysia, Peru, Russia, South Africa, Taiwan, Thailand, Turkey and to a certain extent, China. Funds, other than regular dividends, fees or loan repayments, cannot be readily transferred offshore from these countries and are therefore deposited and used for working capital needs in those countries. In addition, there are certain countries where, for tax reasons, it is not considered optimal to transfer the cash offshore. As a consequence, these funds are not available within our Group Treasury Operations to meet short-term cash obligations outside the relevant country. The above described funds are reported as cash in our Consolidated Balance Sheets, but we do not consider these funds immediately available for the repayment of debt outside the respective countries where the cash is situated, including those described above. At December 31, 2014 and 2013, the balance of "Cash and equivalents" and "Marketable securities and other short-term investments" under such limitations (either regulatory or sub-optimal from a tax perspective) totaled approximately \$1,498 million and \$1,785 million, respectively.

During 2014, we continued to direct our subsidiaries in countries with restrictions to place such cash with our core banks or investment grade banks, in order to minimize credit risk on such cash positions. We continue to closely monitor the situation to ensure bank counterparty risks are minimized.

Financial position

Balance sheets

Current assets		
December 31, (\$ in millions)	2014	2013
Cash and equivalents	5,443	6,021
Marketable securities and short-term investments	1,325	464
Receivables, net	11,078	12,146
Inventories, net	5,376	6,004
Prepaid expenses	218	252
Deferred taxes	902	832
Other current assets	644	706
Total current assets	24,986	26,425

For a discussion on cash and equivalents, see "Liquidity and Capital Resources – Principal sources of funding" for further details.

Marketable securities and short-term investments increased in 2014 due to higher amounts invested in available-for-sale securities, increases in time deposits and investments made in reverse repurchase agreements (see "Cash flows-Investing activities" below).

Receivables decreased 8.8 percent. In local currencies, Receivables decreased 1.7 percent primarily due to the impacts of divestments. For details on the components of Receivables, see "Note 7 Receivables, net". Inventories decreased 10.5 percent (increased 1.1 percent in local currencies) compared to 2013. Excluding the impacts of divestments, Inventories increased 2.9 percent in local currencies.

For a summary of the components of deferred tax assets and liabilities, see "Note 16 Taxes" to our Consolidated Financial Statements.

The decrease in "Other current assets" is due primarily to a reduction in the fair value of current derivative assets.

Current liabilities		
December 31, (\$ in millions)	2014	2013
Accounts payable, trade	4,765	5,112
Billings in excess of sales	1,455	1,714
Short-term debt and current maturities of long-term debt	353	453
Advances from customers	1,624	1,726
Deferred taxes	289	259
Provisions for warranties	1,148	1,362
Other provisions	1,689	1,807
Other current liabilities	4,257	4,242
Total current liabilities	15,580	16,675

Accounts payable decreased 6.8 percent. In local currencies, Accounts payable increased 1.8 percent due primarily to an increase in days payables outstanding of approximately 2 days. Billings in excess of sales decreased 15.1 percent compared to 2013. In local currencies, Billings in excess of sales decreased 7.0 percent due to the timing of billings and collections for contracts under the percentage-of-completion or completed-contract methods. Advances from customers declined 5.9 percent. In local currencies, Advances increased 2.3 percent primarily due to the receipt of advances on projects in the Process Automation division. Provisions for warranties decreased 15.7 percent. In local currencies, Provisions for warranties decreased 6.5 percent primarily due to the settlement of warranty claims exceeding the current year warranty expense. Other provisions decreased 6.5 percent (increased 0.9 percent in local currencies). Other current liabilities increased 0.4 percent. In local currencies, Other current liabilities increased 9.3 percent primarily due to an increase in the fair value of current derivatives classified as liabilities.

Non-current assets		
December 31, (\$ in millions)	2014	2013
Property, plant and equipment, net	5,652	6,254
Goodwill	10,053	10,670
Other intangible assets, net	2,702	3,297
Prepaid pension and other employee benefits	70	93
Investments in equity-accounted companies	177	197
Deferred taxes	511	370
Other non-current assets	727	758
Total non-current assets	19,892	21,639

Property, plant and equipment decreased 9.6 percent. In local currencies, Property, plant and equipment was flat as the impacts from sales of businesses and the current year depreciation was offset by capital expenditures.

Goodwill decreased 5.8 percent. In local currencies Goodwill decreased 2.1 percent primarily due to goodwill allocated to businesses divested during 2014. Other intangible assets decreased 18.0 percent (14.0 percent in local currencies) primarily due to amortization recorded during 2014 and a reduction of intangibles on sales of businesses. See "Note 11 Goodwill and other intangible assets" to our Consolidated Financial Statements.

Non-current liabilities		
December 31, (\$ in millions)	2014	2013
Long-term debt	7,338	7,570
Pension and other employee benefits	2,394	1,639
Deferred taxes	1,165	1,265
Other non-current liabilities	1,586	1,707
Total non-current liabilities	12,483	12,181

Pension and other employee benefits increased 46.1 percent (54.9 percent in local currencies) primarily due to actuarial losses resulting from a decrease in the weighted-average discount rate used to determine the pension benefit obligation at December 31, 2014 (see "Note 17 Employee benefits" to our Consolidated Financial Statements). See "Liquidity and Capital Resources – Debt and interest rates" for information on long-term debt. For a breakdown of other non-current li-

abilities, see "Note 13 Other provisions, other current liabilities and other non-current liabilities" to our Consolidated Financial Statements. For further explanation regarding deferred taxes, refer to "Note 16 Taxes" to our Consolidated Financial Statements.

Cash flows

In the Consolidated Statements of Cash Flows, the effects of discontinued operations are not segregated.

The Consolidated Statements of Cash Flows can be summarized as follows:

(\$ in millions)	2014	2013	2012
Net cash provided by operating activities	3,845	3,653	3,779
Net cash used in investing activities	(1,121)	(717)	(5,575)
Net cash provided by (used in) financing activities	(3,024)	(3,856)	3,762
Effects of exchange rate changes on cash and equivalents	(278)	66	90
Net change in cash and equivalents – continuing operations	(578)	(854)	2,056

Operating activities

(\$ in millions)	2014	2013	2012
Net income	2,718	2,907	2,812
Depreciation and amortization	1,305	1,318	1,182
Total adjustments to reconcile net income to net cash provided by operating activities (excluding depreciation and amortization)	(367)	(54)	196
Total changes in operating assets and liabilities	189	(518)	(411)
Net cash provided by operating activities	3,845	3,653	3,779

Operating activities in 2014 provided net cash of \$3,845 million, an increase from 2013 of 5.3 percent. The increase was driven primarily by improvements in net working capital management but offset partially by the cash impacts of the lower net income in 2014. Net income in 2014 also included \$543 million of net gains from the sale of businesses which are not considered operating activities and thus are adjusted for in order to reconcile net income to net cash provided by operating activities.

Operating activities in 2013 provided net cash of \$3,653 million, a decrease from 2012 of 3.3 percent. The decrease was partially due to higher net working capital requirements, particularly for unbilled receivables for long-term projects, but mitigated partly by cash inflows resulting from improved inventory management. Although net income increased during 2013, non-cash reconciling adjustments, primarily relating to deferred income taxes, resulted in a decrease in the cash impacts of net income compared to 2012.

Investing activities

(\$ in millions)	2014	2013	2012
Purchases of marketable securities (available-for-sale)	(1,430)	(526)	(2,288)
Purchases of short-term investments	(1,465)	(30)	(67)
Purchases of property, plant and equipment and intangible assets	(1,026)	(1,106)	(1,293)
Acquisition of businesses (net of cash acquired) and increases in cost- and equity-accounted companies	(70)	(914)	(3,694)
Proceeds from sales of marketable securities (available-for-sale)	361	1,367	1,655
Proceeds from maturity of marketable securities (available-for-sale)	523	118	–
Proceeds from short-term investments	1,011	47	27
Proceeds from sales of property, plant and equipment	33	80	40
Proceeds from sales of businesses (net of cash disposed and transaction costs) and cost- and equity-accounted companies	1,110	62	16
Other investing activities	(168)	185	29
Net cash used in investing activities	(1,121)	(717)	(5,575)

Net cash used in investing activities in 2014 was \$1,121 million, compared to \$717 million in 2013. Higher proceeds from sales of businesses were offset by net purchases of marketable securities while in 2013, there were net sales of marketable securities. In addition, purchases of property, plant, and equipment was lower in 2014 than 2013.

During 2014, we received net pre-tax proceeds from sales of businesses and cost- and equity-accounted companies of \$1,110 million, primarily from the divestment of the Full Service business, the Steel Structures business of Thomas & Betts, the HVAC business of Thomas & Betts and the Power Solutions business of Power-One.

Total cash disbursements for the purchase of property, plant and equipment and intangibles were lower in 2014 compared to 2013, partly due to changes in foreign exchange rates. The total purchases of \$1,026 million included \$724 million for construction in progress (generally for buildings and other property facilities), \$188 million for the purchase of machinery and equipment, \$38 million for the purchase of land and buildings, and \$76 million for the purchase of intangible assets.

During 2014, we increased the amount of our excess liquidity invested in marketable securities and short-term investments with maturities between 3 months and 1 year. Amounts were invested primarily in commercial paper, reverse repurchase agreements and time deposits. The increase in these investments during 2014 resulted in a net outflow of \$1,000 million.

Net cash used in investing activities in 2013 was \$717 million, compared to \$5,575 million in 2012. The decrease is mainly attributable to lower amounts paid for the acquisition of businesses in 2013, lower purchases of property, plant and equipment, and the impact from net sales of marketable securities in 2013 compared with net purchases in 2012.

Cash paid for acquisitions (net of cash acquired) during 2013 amounted to \$914 million, primarily relating to the acquisition of Power-One for \$737 million.

Total cash disbursements for the purchase of property, plant and equipment and intangibles in 2013 decreased compared to 2012, as we reduced the amount of investment in capacity expansion compared to 2012. The total of \$1,106 million included \$776 million for construction in progress, \$206 million for the purchase of machinery and equipment, \$48 million for the purchase of land and buildings, and \$76 million for the purchase of intangible assets.

To obtain necessary funds to make dividend payments, bond repayments, and to fund acquisitions during 2013, we reduced our amount invested in marketable securities and short-term investments, resulting in net proceeds of \$976 million.

Total cash disbursements for the purchase of property, plant and equipment and intangibles in 2012 of \$1,293 million included \$885 million for construction in progress, \$248 million for the purchase of machinery and equipment, \$83 million for the purchase of land and buildings, and \$77 million for the purchase of intangible assets.

Net cash used in investing activities in 2012 included \$3,694 million for acquisitions of businesses, primarily Thomas & Betts. During 2012, we increased the amount invested in marketable securities and short-term investments resulting in a net outflow of \$673 million.

Financing activities

(\$ in millions)	2014	2013	2012
Net changes in debt with maturities of 90 days or less	(103)	(697)	570
Increase in debt	150	492	5,986
Repayment of debt	(90)	(1,893)	(1,104)
Delivery of shares	38	74	90
Purchases of treasury stock	(1,003)	–	–
Dividends paid	(1,841)	(1,667)	(1,626)
Dividends paid to noncontrolling shareholders	(132)	(149)	(121)
Other financing activities	(43)	(16)	(33)
Net cash provided by (used in) financing activities	(3,024)	(3,856)	3,762

Our financing activities primarily include debt transactions (both from the issuance of debt securities and borrowings directly from banks), dividends paid and share transactions.

In 2014, the net cash outflow for debt with maturities of 90 days or less was primarily related to repayments made of borrowings in various countries offset by a small increase in the amount outstanding under our commercial paper program in the United States. In 2013, the net cash outflow from changes in debt with maturities of 90 days or less principally reflects a reduction in commercial paper outstanding while the 2012 net cash inflow primarily reflects a net issuance of commercial paper.

In 2014, increases in other debt included cash flows from additional borrowings in various countries. In 2013, the increase in debt primarily related to borrowings under borrowing facilities in various countries and issuances of commercial paper with maturities above 90 days. In 2012, the cash inflows from increases in debt primarily related to the issuance of the following bonds: EUR 1,250 million aggregate principal, \$1,250 million aggregate principal, \$750 million aggregate principal, \$500 million aggregate principal, AUD 400 million aggregate principal and CHF 350 million aggregate principal.

In 2014 repayment of debt reflects repayments of borrowings in various countries. During 2013, \$1,893 million of debt was repaid, partially reflecting the repayment at maturity of the 700 million euro bonds (equivalent to \$918 million at date of repayment). Other repayments during 2013 consisted mainly of repayments of commercial paper issuances having maturities above 90 days and repayments of other short-term debt. During 2012, \$1,104 million of debt was repaid, mainly reflecting the repayment of part of the debt assumed from the acquisition of Thomas & Betts (approximately \$320 million) and of other debt (primarily short-term bank borrowings).

In 2014, "Purchases of treasury stock" reflects the cash paid to purchase approximately 45 million of our own shares of which 33 million shares were purchased in connection with the share buyback program announced in September 2014.

Disclosures about contractual obligations and commitments

The contractual obligations presented in the table below represent our estimates of future payments under fixed contractual obligations and commitments. The amounts in the table may differ from those reported in our Consolidated Balance Sheet at December 31, 2014. Changes in our business needs, cancellation provisions and changes in interest rates, as well as actions by third parties and other factors, may cause these estimates to change. Therefore, our actual payments in future periods may vary from those presented in the table. The following table summarizes certain of our contractual obligations and principal and interest payments under our debt instruments, leases and purchase obligations at December 31, 2014.

		Less than	1-3 years	3-5 years	More than 5 years
Payments due by period	Total	1 year	years	years	5 years
(\$ in millions)					
Long-term debt obligations	7,184	25	2,009	1,877	3,273
Interest payments related to					
long-term debt obligations	1,832	213	387	320	912
Operating lease obligations	1,703	432	661	380	230
Capital lease obligations ⁽¹⁾	234	41	59	35	99
Purchase obligations	4,970	4,018	569	138	245
Total	15,923	4,729	3,685	2,750	4,759

⁽¹⁾ Capital lease obligations represent the total cash payments to be made in the future and include interest expense of \$88 million and executory costs of \$2 million.

In the table above, the long-term debt obligations reflect the cash amounts to be repaid upon maturity of those debt obligations. The cash obligations above will differ from the long-term debt balance reflected in "Note 12 Debt" to our Consolidated Financial Statements due to the impacts of fair value hedge accounting adjustments and premiums or discounts on certain debt. In addition, capital lease obligations are shown separately in the table above while they are combined with Long-term debt amounts in our Consolidated Balance Sheets.

We have determined the interest payments related to long-term debt obligations by reference to the payments due under the terms of our debt obligations at the time such obligations were incurred. However, we use interest rate swaps to modify the interest characteristics of certain of our debt obligations. The net effect of these swaps may be to increase or decrease the actual amount of our cash interest payment obligations, which may differ from those stated in the above table. For further details on our debt obligations and the related hedges, see "Note 12 Debt" to our Consolidated Financial Statements.

Of the total of \$829 million unrecognized tax benefits (net of deferred tax assets) at December 31, 2014, it is expected that \$69 million will be paid within less than a year. However, we cannot make a reasonably reliable estimate as to the related future payments for the remaining amount.

Off balance sheet arrangements

Commercial commitments

We disclose the maximum potential exposure of certain guarantees, as well as possible recourse provisions that may allow us to recover from third parties amounts paid out under such guarantees. The maximum potential exposure does not allow any discounting of our assessment of actual exposure under the guarantees. The information below reflects our maximum potential exposure under the guarantees, which is higher than our assessment of the expected exposure.

Guarantees

The following table provides quantitative data regarding our third-party guarantees. The maximum potential payments represent a worst-case scenario, and do not reflect our expected outcomes.

December 31, (\$ in millions)	Maximum potential payments	
	2014	2013
Performance guarantees	232	149
Financial guarantees	72	77
Indemnification guarantees	50	50
Total	354	276

The carrying amounts of liabilities recorded in the Consolidated Balance Sheets in respect of the above guarantees were not significant at December 31, 2014 and 2013, and reflect our best estimate of future payments, which we may incur as part of fulfilling our guarantee obligations.

In addition, in the normal course of bidding for and executing certain projects, we have 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. ABB 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 2014, 2013 and 2012.

For additional descriptions of our performance, financial and indemnification guarantees see "Note 15 Commitments and contingencies" to our Consolidated Financial Statements.