

Notes to the Interim Consolidated Financial Information (unaudited)

Note 1. The Company and basis of presentation

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

The Company's Interim Consolidated Financial Information is prepared in accordance with United States of America generally accepted accounting principles (U.S. GAAP) for interim financial reporting. As such, the Interim Consolidated Financial Information does not include all the information and notes required under U.S. GAAP for annual consolidated financial statements. Therefore, such financial information should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2009.

The preparation of financial information in conformity with U.S. GAAP requires management to make assumptions and estimates that directly affect the amounts reported in the Interim Consolidated Financial Information. The accounting estimates that require the Company's most significant, difficult and subjective judgments include:

- assumptions and projections, principally related to future material, labor and project-related overhead costs, used in determining the percentage-of-completion on projects,
- estimates of loss contingencies associated with litigation or threatened litigation and other claims and inquires, environmental damages, product warranties, regulatory and other proceedings,
- assumptions used in the calculation of pension and postretirement benefits and the fair value of pension plan assets,
- recognition and measurement of current and deferred income tax assets and liabilities (including the measurement of uncertain tax positions),
- growth rates, discount rates and other assumptions used in the Company's annual goodwill impairment test,
- assumptions used in determining inventory obsolescence and net realizable value,
- growth rates, discount rates and other assumptions used to determine impairment of long-lived assets, and
- assessment of the allowance for doubtful accounts.

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

In the opinion of management, the Interim Consolidated Financial Information contains all necessary adjustments to present fairly the financial position, results of operations and cash flows for the reported interim periods.

The Interim Consolidated Financial Information is presented in United States dollars (\$) unless otherwise stated. Certain amounts reported for prior periods in the Interim Consolidated Financial Information have been reclassified to conform to the current year's presentation.

Note 2. Recent accounting pronouncements

Applicable in current period

Fair value measurements

As of January 1, 2010, the Company adopted an accounting standard update that requires additional disclosure for fair value measurements. The update requires that significant transfers in and out of fair value Level 1 (observable quoted prices) and Level 2 (observable inputs other than Level 1 inputs) be disclosed together with a description of the reasons for the transfers. Adoption of this update did not result in additional disclosure for the three-month period ended March 31, 2010, as there were no significant transfers between Level 1 and Level 2.

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Applicable for future periods

Fair value measurements

In January 2010, an accounting standard update was issued that requires additional disclosure for fair value measurements. The update requires disclosure, on a gross basis, about purchases, sales, issuances, and settlements of level 3 (significant unobservable inputs) instruments when reconciling the fair value measurements. This disclosure requirement is effective for the Company for periods beginning January 1, 2011. The Company does not believe that this new disclosure requirement will have a material impact on its consolidated financial statements.

Revenue recognition with multiple deliverable arrangements

In October 2009, an accounting standard update on revenue recognition with multiple deliverable arrangements was issued which amends the criteria for allocating consideration in multiple-deliverable revenue arrangements. It establishes a hierarchy of selling prices to determine the selling price of each specific deliverable that includes vendor-specific objective evidence (if available), third-party evidence (if vendor-specific evidence is not available), or estimated selling price if neither of the first two are available. This update also:

- eliminates the residual method for allocating revenue between the elements of an arrangement and requires that arrangement consideration be allocated at the inception of the arrangement, and
- expands the disclosure requirements regarding a vendor's multiple-deliverable revenue arrangements.

This update is effective for arrangements entered into by the Company or materially modified on or after January 1, 2011. The Company is currently evaluating the impact of this update.

Revenue arrangements that include software elements

In October 2009, an accounting standard update for the accounting of certain revenue arrangements that include software elements was issued. This update amends the existing guidance on revenue arrangements that contain both hardware and software elements. This update modifies the existing rules to exclude from the software revenue guidance (i) non-software components of tangible products and (ii) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality. Undelivered elements in the arrangement related to the non-software components also are excluded from this guidance. This update is effective for arrangements entered into by the Company or materially modified on or after January 1, 2011. The Company is currently evaluating the impact of this update.

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

At March 31, 2010, and December 31, 2009, cash and equivalents and marketable securities and short-term investments consisted of the following:

March 31, 2010						
(\$ in millions)	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value	Cash and equivalents	Marketable securities and short-term investments
Cash	1,249	-	-	1,249	1,249	-
Time deposits	6,475	-	-	6,475	5,052	1,423
<i>Securities held-to-maturity:</i>						
– Corporate commercial papers	155	-	-	155	100	55
– Other	-	-	-	-	-	-
<i>Debt securities available-for-sale:</i>						
– U.S. government obligations	120	4	(1)	123	-	123
– European government obligations	369	-	(1)	368	350	18
– Other government obligations	4	-	(1)	3	-	3
– Corporate	996	6	-	1,002	657	345
Equity securities available-for-sale	33	5	-	38	-	38
Total	9,401	15	(3)	9,413	7,408	2,005

December 31, 2009						
(\$ in millions)	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value	Cash and equivalents	Marketable securities and short-term investments
Cash	1,381	-	-	1,381	1,381	-
Time deposits	6,170	-	-	6,170	4,474	1,696
<i>Securities held-to-maturity:</i>						
– Corporate commercial papers	413	-	-	413	223	190
– Other	43	-	-	43	-	43
<i>Debt securities available-for-sale:</i>						
– U.S. government obligations	110	4	(1)	113	-	113
– European government obligations	737	-	(2)	735	717	18
– Other government obligations	4	-	(1)	3	-	3
– Corporate	603	5	-	608	324	284
Equity securities available-for-sale	71	15	-	86	-	86
Total	9,532	24	(4)	9,552	7,119	2,433

Note 4. Financial instruments

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

Currency risk

Due to the global nature of its operations, many of the Company's subsidiaries are exposed to currency risk in their operating activities from entering into transactions in currencies other than their functional currency. To manage such currency risks, the Company's policies require its subsidiaries to hedge their foreign currency exposures from binding sales and purchase contracts denominated in foreign currencies, as well as at least fifty percent of the anticipated foreign currency denominated sales volume of standard

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products and related foreign currency denominated purchases over the next twelve months. Forward foreign exchange contracts are the main instrument used to protect the Company against the volatility of future cash flows (caused by changes in exchange rates) of contracted and forecasted sales and purchases denominated in foreign currencies.

Commodity risk

Various commodity products are used in the Company's manufacturing activities. Consequently it is exposed to volatility in future cash flows arising from changes in commodity prices. To manage such commodity price risk, the Company's policies require that its subsidiaries hedge commodity price risk exposures from binding purchase contracts, as well as at least fifty percent of the anticipated commodity purchases over the next twelve months. Swap contracts on various commodities (primarily copper) are used to manage the associated price risks.

Interest rate risk

The Company has issued bonds at fixed rates and in currencies other than the issuing entity's functional currency. Interest rate swaps and cross-currency swaps are used to manage the interest rate and foreign currency risk associated with such debt. In addition, from time to time, the Company uses instruments such as interest rate swaps, bond futures or forward rate agreements to manage interest rate risk arising from the Company's balance sheet structure but does not designate such instruments as hedges.

Equity risk

The Company is exposed to fluctuations in the fair value of its warrant appreciation rights (WARs) issued under its management incentive plan. A WAR gives its holder the right to receive cash equal to the market price of an equivalent listed warrant on the date of exercise. To eliminate such risk, the Company has purchased cash-settled call options which entitle the Company to receive amounts equivalent to its obligations under the outstanding WARs.

In general, while the Company's primary objective in its use of derivatives is to minimize exposures arising from its business, certain derivatives are designated and qualify for hedge accounting treatment while others either are not designated or do not qualify for hedge accounting.

Volume of derivative activity

The gross notional amounts of outstanding derivatives (whether designated as hedges or not) were as follows:

Foreign exchange and interest rate derivatives:

Type of derivative (\$ in millions)	Total notional amount	
	March 31, 2010	December 31, 2009
Foreign exchange contracts	13,007	14,446
Embedded foreign exchange derivatives	3,355	3,951
Interest rate contracts	2,557	2,860

Derivative commodity contracts:

Type of derivative	Unit	Total notional amount	
		March 31, 2010	December 31, 2009
Copper swaps	metric tonnes	22,275	22,002
Aluminum swaps	metric tonnes	3,464	2,193
Nickel swaps	metric tonnes	16	24
Electricity futures	megawatt hours	1,454,348	1,330,978
Crude oil swaps	barrels	139,580	154,632

Equity derivatives:

At March 31, 2010 and December 31, 2009, the Company held 57 million and 64 million cash-settled call options on ABB Ltd shares with a total fair value of \$66 million and \$64 million respectively.

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Cash flow hedges

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

At March 31, 2010 and December 31, 2009, "Accumulated other comprehensive loss" included \$38 million and \$20 million, respectively, of unrealized gains, net of tax, on derivatives designated as cash flow hedges. Of the amount at March 31, 2010, net gains of \$18 million are expected to be reclassified to earnings in the following twelve months. At March 31, 2010, the longest maturity of a derivative classified as a cash flow hedge was 71 months.

During the three months ended March 31, 2010 and 2009, no amounts were reclassified into earnings as a result of the discontinuance of cash flow hedge accounting, and net of tax gains of \$0 million and \$1 million, respectively, were included in earnings due to ineffectiveness in cash flow hedge relationships.

The pre-tax effects of derivative instruments, designated and qualifying as cash flow hedges, on "Accumulated other comprehensive loss" and the Consolidated Income Statements were as follows:

Three months ended March 31, 2010					
Type of derivative designated as a cash flow hedge	Gains recognized in OCI ⁽¹⁾ on derivatives (effective portion)	Gains (losses) reclassified from OCI ⁽¹⁾ into income (effective portion)		Gains recognized in income (ineffective portion and amount excluded from effectiveness testing)	
	(\$ in millions)	Location	(\$ in millions)	Location	(\$ in millions)
Foreign exchange contracts	28	Total revenues	15	Total revenues	-
		Total cost of sales	(1)	Total cost of sales	-
Commodity contracts	4	Total cost of sales	1	Total cost of sales	-
Cash-settled call options	5	Selling, general and administrative expenses	(1)	Selling, general and administrative expenses	-
Total	37		14		-

Three months ended March 31, 2009					
Type of derivative designated as a cash flow hedge	Gains (losses) recognized in OCI ⁽¹⁾ on derivatives (effective portion)	Gains (losses) reclassified from OCI ⁽¹⁾ into income (effective portion)		Gains recognized in income (ineffective portion and amount excluded from effectiveness testing)	
	(\$ in millions)	Location	(\$ in millions)	Location	(\$ in millions)
Foreign exchange contracts	(51)	Total revenues	(28)	Total revenues	2
		Total cost of sales	-	Total cost of sales	-
Commodity contracts	12	Total cost of sales	(12)	Total cost of sales	-
Cash-settled call options	(5)	Selling, general and administrative expenses	(7)	Selling, general and administrative expenses	-
Total	(44)		(47)		2

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

The amount of derivative gains (losses), net of tax, reclassified from "Accumulated other comprehensive loss" to earnings during the three months ended March 31, 2010 and 2009, was \$11 million and \$(35) million, respectively.

Fair value hedges

To reduce its interest rate and foreign currency exposures arising primarily from its debt issuance activities, the Company uses interest rate and cross-currency swaps. Where such instruments are designated as fair value hedges, the changes in fair value of these instruments, as well as the changes in fair value of the risk component of the underlying debt being hedged, are recorded as offsetting gains and losses in "Interest and other finance expense". Hedge ineffectiveness in the three months ended March 31, 2010 and 2009, was not significant.

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

Three months ended March 31, 2010			
Type of derivative designated as a fair value hedge	Gains recognized in income on derivatives designated as fair value hedges		Losses recognized in income on hedged item
	Location	(\$ in millions)	Location (\$ in millions)
Interest rate contracts	Interest and other finance expense	11	Interest and other finance expense (11)
Cross-currency swaps	Interest and other finance expense	-	Interest and other finance expense -
Total		11	(11)

Three months ended March 31, 2009			
Type of derivative designated as a fair value hedge	Gains (losses) recognized in income on derivatives designated as fair value hedges		Gains (losses) recognized in income on hedged item
	Location	(\$ in millions)	Location (\$ in millions)
Interest rate contracts	Interest and other finance expense	45	Interest and other finance expense (45)
Cross-currency swaps	Interest and other finance expense	(1)	Interest and other finance expense 1
Total		44	(44)

Derivatives not designated in hedge relationships

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

Furthermore, under certain circumstances, the Company is required to split and account separately for foreign currency derivatives that are embedded within certain binding sales or purchase contracts denominated in a currency other than the functional currency of the subsidiary and the counterparty. The gains (losses) recognized in the Consolidated Income Statements on such derivatives are included in the table below:

(\$ in millions)		Gains (losses) recognized in income	
Type of derivative not designated as a hedge	Location	Three months ended March 31,	
		2010	2009
Foreign exchange contracts:	Total revenues	94	(9)
	Total cost of sales	(95)	(79)
	Interest and other finance expense	83	24
Embedded foreign exchange contracts:	Total revenues	(94)	(51)
	Total cost of sales	9	(8)
Commodity contracts:	Total cost of sales	6	28
Cross-currency swaps:	Interest and other finance expense	-	(3)
Total		3	(98)

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

March 31, 2010				
	Derivative assets		Derivative liabilities	
	Current in "Other current assets"	Non-current in "Other non-current assets"	Current in "Provisions and other current liabilities"	Non-current in "Other non-current liabilities"
(\$ in millions)				
<i>Derivatives designated as hedging instruments:</i>				
Foreign exchange contracts	48	51	22	11
Commodity contracts	7	-	-	-
Interest rate contracts	-	85	-	-
Cash-settled call options	36	27	-	-
Total	91	163	22	11
<i>Derivatives not designated as hedging instruments:</i>				
Foreign exchange contracts	256	37	124	32
Commodity contracts	27	1	5	-
Interest rate contracts	1	-	1	2
Cash-settled call options	-	3	-	-
Embedded foreign exchange derivatives	46	6	128	41
Total	330	47	258	75
Total fair value	421	210	280	86

December 31, 2009				
	Derivative assets		Derivative liabilities	
	Current in "Other current assets"	Non-current in "Other non-current assets"	Current in "Provisions and other current liabilities"	Non-current in "Other non-current liabilities"
(\$ in millions)				
<i>Derivatives designated as hedging instruments:</i>				
Foreign exchange contracts	45	34	17	9
Commodity contracts	8	-	-	-
Interest rate contracts	-	75	-	-
Cash-settled call options	38	24	-	-
Total	91	133	17	9
<i>Derivatives not designated as hedging instruments:</i>				
Foreign exchange contracts	207	50	125	30
Commodity contracts	29	1	7	-
Interest rate contracts	2	-	2	1
Cash-settled call options	-	2	-	-
Embedded foreign exchange derivatives	78	13	98	27
Total	316	66	232	58
Total fair value	407	199	249	67

Although the Company is party to close-out netting agreements with most derivative counterparties, the fair values in the tables above and in the Consolidated Balance Sheets at March 31, 2010, and December 31, 2009, have been presented on a gross basis.

Note 5. Fair values

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

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

The levels of the fair value hierarchy are as follows:

- Level 1: Valuation inputs consist of quoted prices in an active market for identical assets or liabilities (observable quoted prices). Assets and liabilities valued using Level 1 inputs include exchange-traded equity securities, listed derivatives which are actively traded such as foreign exchange futures and specific government securities.
- Level 2: Valuation inputs consist of observable inputs (other than Level 1 inputs) such as actively quoted prices for similar assets, quoted prices in inactive markets and inputs other than quoted prices such as interest rate yield curves, credit spreads, or inputs derived from other observable data by interpolation, correlation, regression or other means. The adjustments applied to quoted prices or the inputs used in valuation models may be both observable and unobservable. In these cases, the fair value measurement is classified as Level 2 unless the unobservable portion of the adjustment or the unobservable input to the valuation model is significant, in which case the fair value measurement would be classified as Level 3. Assets and liabilities valued using Level 2 inputs include interest rate swaps, cross-currency swaps, commodity swaps, cash-settled call options, as well as foreign exchange forward contracts and foreign exchange swaps.
- Level 3: Valuation inputs are based on the Company's assumptions of relevant market data (unobservable inputs).

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

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

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Recurring fair value measures

The following tables show the fair value of financial assets and liabilities measured at fair value on a recurring basis at March 31, 2010 and December 31, 2009:

(\$ in millions)	March 31, 2010			Total fair value
	Level 1	Level 2	Level 3	
Assets				
Available-for-sale securities in "Cash and equivalents"				
Debt securities—European government obligations	350	-	-	350
Debt securities—Corporate	-	657	-	657
Available-for-sale securities in "Marketable securities and short-term investments"				
Equity securities	-	38	-	38
Debt securities—U.S. government obligations	123	-	-	123
Debt securities—European government obligations	18	-	-	18
Debt securities—Other government obligations	3	-	-	3
Debt securities—Corporate	-	345	-	345
Derivative assets—current in "Other current assets"	3	418	-	421
Derivative assets—non-current in "Other non-current assets"	-	210	-	210
Total	497	1,668	-	2,165
Liabilities				
Derivative liabilities—current in "Provisions and other current liabilities"	5	275	-	280
Derivative liabilities—non-current in "Other non-current liabilities"	-	86	-	86
Total	5	361	-	366

(\$ in millions)	December 31, 2009			Total fair value
	Level 1	Level 2	Level 3	
Assets				
Available-for-sale securities in "Cash and equivalents"				
Debt securities—European government obligations	717	-	-	717
Debt securities—Corporate	-	324	-	324
Available-for-sale securities in "Marketable securities and short-term investments"				
Equity securities	49	37	-	86
Debt securities—U.S. government obligations	113	-	-	113
Debt securities—European government obligations	18	-	-	18
Debt securities—Other government obligations	3	-	-	3
Debt securities—Corporate	-	284	-	284
Derivative assets—current in "Other current assets"	6	401	-	407
Derivative assets—non-current in "Other non-current assets"	-	199	-	199
Total	906	1,245	-	2,151
Liabilities				
Derivative liabilities—current in "Provisions and other current liabilities"	7	242	-	249
Derivative liabilities—non-current in "Other non-current liabilities"	-	67	-	67
Total	7	309	-	316

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

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

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

Non-recurring fair value measures

There were no significant non-recurring fair value measurements during the three months ended March 31, 2010 and 2009.

Disclosure about financial instruments carried on a cost basis

Cash and equivalents, receivables, accounts payable, short-term debt and current maturities of long-term debt: The carrying amounts approximate the fair values as the items are short-term in nature.

Marketable securities and short-term investments: Includes time deposits and held-to-maturity securities, whose carrying amounts approximate their fair values.

Financing receivables (non-current portion): Financing receivables (including loans granted) are carried at amortized cost, less an allowance for credit losses, if required. Fair values are determined using a discounted cash flow methodology based upon loan rates of similar instruments and reflecting appropriate adjustments for non-performance risk. The carrying values and estimated fair values of long-term loans granted at March 31, 2010, were \$95 million and \$96 million, respectively, and at December 31, 2009, were \$96 million and \$95 million, respectively.

Long-term debt (non-current portion): Fair values of public bond issues are based on quoted market prices. The fair values of other debt are based on the present value of future cash flows, discounted at estimated borrowing rates for similar debt instruments, or in the case of private placement bond or note issuances, using the relevant borrowing rates derived from interest rate swap curves. The carrying values and estimated fair values of long-term debt at March 31, 2010, were \$2,061 million and \$2,160 million, respectively, and at December 31, 2009, were \$2,172 million and \$2,273 million, respectively.

Note 6. Commitments and contingencies

Contingencies – Environmental

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

Contingencies related to former Nuclear Technology business

The Company retains liabilities for certain specific environmental remediation costs at two sites in the United States that were operated by its former subsidiary, ABB CE-Nuclear Power Inc., which the Company sold to British Nuclear Fuels PLC (BNFL) in 2000. Pursuant to the sale agreement with BNFL, the Company has retained the environmental liabilities associated with its Combustion Engineering Inc. subsidiary's Windsor, Connecticut, facility and agreed to reimburse BNFL for a share of the costs that BNFL incurs for environmental liabilities associated with its former Hematite, Missouri, facility. The primary environmental liabilities associated with these sites relate to the costs of remediating radiological and chemical contamination. Such costs are not incurred until a facility is taken out of use and generally are then incurred over a number of years. Although it is difficult to predict with accuracy the amount of time it may take to remediate this contamination, based on available information, the Company believes that it may take at least until 2012 at the Windsor site and at least until 2015 at the Hematite site.

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Under the terms of the sale agreement, BNFL is responsible to have the remediation of the Hematite site performed in a cost efficient manner and pursue recovery of remediation costs from other potentially responsible parties as conditions for obtaining cost sharing contributions from the Company.

Westinghouse Electric Company LLC (Westinghouse), BNFL's former subsidiary, now oversees remediation activities at the Hematite site. Westinghouse was acquired during 2006 by a consortium led by Toshiba Corporation, Japan. Since then, Westinghouse's efforts were focused on modifying, finalizing and obtaining regulatory approval of its draft decommissioning plan for the Hematite site.

During 2007, the Company reached an agreement with U.S. government agencies to transfer oversight of the remediation of the portion of the Windsor site under the U.S. Government's Formerly Utilized Sites Remedial Action Program from the U.S. Army Corps of Engineers to the Nuclear Regulatory Commission which has oversight responsibility for the remaining radiological areas of that site and the Company's radiological license for the site.

Contingencies related to other present and former facilities primarily in North America

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

The impact of the above environmental obligations on "Income from discontinued operations, net of tax", was not significant for the three months ended March 31, 2010 and 2009. The impact of the above obligations on "Income from continuing operations, net of tax" was not significant for the three months ended March 31, 2010 and 2009.

The total effect of the above Nuclear Technology and other environmental obligations on the Company's Consolidated Statements of Cash Flows was as follows:

(\$ in millions)	Three months ended March 31,	
	2010	2009
Cash expenditures:		
Nuclear Technology business	4	3
Various businesses	2	7
	6	10

The Company has estimated further expenditures of \$23 million for the remainder of 2010.

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

(\$ in millions)	March 31, 2010	December 31, 2009
Provision balance relating to:		
Nuclear Technology business	226	230
Various businesses	65	67
	291	297
Environmental provisions included in:		
Provisions and other current liabilities	29	29
Other non-current liabilities	262	268
	291	297

Provisions for the above estimated losses have not been discounted.

Asbestos obligations

The Company's Combustion Engineering Inc. subsidiary (CE) was a co-defendant in a large number of lawsuits claiming damage for personal injury resulting from exposure to asbestos. A smaller number of claims were also brought against the Company's former Lummus subsidiary as well as against other entities of the Company. Separate plans of reorganization for CE and Lummus, as amended, were filed under Chapter 11 of the U.S. Bankruptcy Code. The CE plan of reorganization and the Lummus plan of

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reorganization (collectively, the Plans) became effective on April 21, 2006 and August 31, 2006, respectively.

Under the Plans, separate personal injury trusts were created and funded to settle future asbestos-related claims against CE and Lummus and on the respective Plan effective dates, channeling injunctions were issued pursuant to Section 524(g) of the U.S. Bankruptcy Code under which all present and future asbestos-related personal injury claims filed against the Company and its affiliates and certain other entities that relate to the operations of CE and Lummus are channeled to the CE Asbestos PI Trust or the Lummus Asbestos PI Trust, respectively.

The effect of asbestos obligations on the Company's Consolidated Income Statements and Statements of Cash Flows was not significant for the three months ended March 31, 2010 and 2009.

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

(\$ in millions)	March 31, 2010	December 31, 2009
Asbestos provisions included in:		
Provisions and other current liabilities	28	28
Other non-current liabilities	25	25
	53	53

Included in the asbestos provisions above are two additional payments of \$25 million each to the CE Asbestos PI Trust. One additional payment of \$25 million is payable in 2010 as the Company attained an earnings before interest and taxes (EBIT) margin in excess of 9 percent for 2009. The other payment of \$25 million is payable in 2011 if the Company attains an EBIT margin of 9.5 percent in 2010. If the Company is found by the U.S. Bankruptcy Court (the Bankruptcy Court) to have defaulted on its asbestos payment obligations, the CE Asbestos PI Trust may petition the Bankruptcy Court to terminate the CE channeling injunction and the protections afforded by that injunction to the Company and other entities of the Company, as well as certain other entities, including Alstom SA.

Contingencies – Regulatory, Compliance and Legal

Gas Insulated Switchgear business

In May 2004, the Company announced that it had undertaken an internal investigation which uncovered that certain of its employees together with employees of other companies active in the Gas Insulated Switchgear business were involved in anti-competitive practices. The Company has reported such practices upon identification to the appropriate antitrust authorities, including the European Commission. The European Commission announced its decision in January 2007 and granted the Company full immunity from fines assessed to the Company of euro 215 million under the European Commission's leniency program.

The Company continues to cooperate with other antitrust authorities in several locations globally, including Brazil, which are investigating anti-competitive practices related to Gas Insulated Switchgear. At this stage of the proceedings, no reliable estimate of the amount of potential fines, if any, can be made.

Power Transformers business

The European Commission has recently concluded an investigation into alleged anti-competitive practices of certain manufacturers of power transformers. The European Commission announced its decision in October 2009 and fined the Company euro 33.75 million (equivalent to \$49 million on date of payment).

The German Antitrust Authority (*Bundeskartellamt*) and other antitrust authorities are also reviewing those alleged practices which relate to the German market and other markets. Management is cooperating fully with the authorities in their investigations. The Company anticipates that the German Antitrust Authority's review will result in an unfavorable outcome with respect to the alleged anti-competitive practices and expects that a fine will be imposed. At this stage of the proceedings with the other antitrust authorities, no reliable estimate of the amount of potential fines, if any, can be made.

Cables business

The Company's cables business is under investigation for alleged anti-competitive practices. Management is cooperating fully with the antitrust authorities in their investigations. An informed

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judgment about the outcome of these investigations or the amount of potential loss for the Company, if any, relating to these investigations cannot be made at this stage.

FACTS business

In January 2010, the European Commission conducted raids at the premises of the Company's flexible alternating current transmission systems (FACTS) business in Sweden as part of its investigation into alleged anti-competitive practices of certain FACTS manufacturers. Management is cooperating fully with the European Commission in its investigation. An informed judgment about the outcome of this investigation or the amount of potential loss for the Company, if any, relating to this investigation cannot be made at this stage.

Suspect payments

In April 2005, the Company voluntarily disclosed to the United States Department of Justice (DoJ) and the United States Securities and Exchange Commission (SEC) certain suspect payments in its network management unit in the United States. Subsequently, the Company made additional voluntary disclosures to the DoJ and the SEC regarding suspect payments made by other Company subsidiaries in a number of countries in the Middle East, Asia, South America and Europe as well as by its former Lummus business. These payments were discovered by the Company as a result of the Company's internal audit program and compliance reviews. The payments may be in violation of the Foreign Corrupt Practices Act or other applicable laws. The Company is cooperating with the relevant authorities regarding these issues and is continuing its internal investigations and compliance reviews. The Company anticipates an unfavorable outcome with respect to the investigation of these suspect payments and expects that fines will be imposed.

Earnings overstatement in an Italian subsidiary

In September 2004, the Company restated its Consolidated Financial Statements for all prior periods as a result of earnings overstatements by a business unit of the Company's Power Products division (part of the former Power Technologies division) in Italy. The restatement followed an internal investigation by the Company which revealed that the business unit had overstated earnings before interest and taxes and net income, as well as that certain employees had participated in arranging improper payments to an employee of an Italian power generation company in order to obtain a contract. The Company reported this matter to the Italian authorities, as well as to the SEC and the DoJ. In 2009, the Company settled matters with the Italian authorities and the case was dismissed. The Company cannot reasonably predict what action, if any, the SEC or the DoJ may take.

General

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

At March 31, 2010 and December 31, 2009, the Company accrued aggregate liabilities of \$280 million and \$300 million, respectively, included in provisions and other current liabilities and in other non-current liabilities for the above regulatory, compliance and legal contingencies. As it is not possible to make an informed judgment on the outcome of certain matters and as it is not possible, based on information currently available to management, to estimate the maximum potential liability on other matters, there could be material adverse outcomes beyond the amounts accrued.

Guarantees

General

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

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(\$ in millions)	March 31, 2010		December 31, 2009	
	Maximum potential payments	Carrying amount of liabilities	Maximum potential payments	Carrying amount of liabilities
Performance guarantees	208	1	214	1
Financial guarantees	91	-	91	-
Indemnification guarantees	277	1	282	1
Total	576	2	587	2

Performance guarantees

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

The Company retained obligations for guarantees related to the Power Generation business contributed in mid-1999 to the former ABB Alstom Power NV joint venture (Alstom Power NV). The guarantees primarily consist of performance guarantees, advance payment guarantees and other miscellaneous guarantees under certain contracts such as indemnification for personal injuries and property damages, taxes and compliance with labor laws, environmental laws and patents. The guarantees are related to projects which are expected to be completed by 2013 but in some cases have no definite expiration date. In May 2000, the Company sold its interest in Alstom Power NV to Alstom SA (Alstom). As a result, Alstom and its subsidiaries have primary responsibility for performing the obligations that are the subject of the guarantees. Further, Alstom, the parent company and Alstom Power NV, have undertaken jointly and severally to fully indemnify and hold harmless the Company against any claims arising under such guarantees. Management's best estimate of the total maximum potential exposure of quantifiable guarantees issued by the Company on behalf of its former Power Generation business was approximately \$99 million at both March 31, 2010 and December 31, 2009. The Company has not experienced any losses related to guarantees issued on behalf of the former Power Generation business.

The Company retained obligations for guarantees related to the Upstream Oil and Gas business sold in 2004. The guarantees primarily consist of performance guarantees and have original maturity dates ranging from one to seven years. The maximum amount payable under the guarantees was approximately \$95 million and \$98 million at March 31, 2010 and December 31, 2009, respectively. The Company has the ability to recover potential payments under these guarantees through certain backstop guarantees. The maximum potential recovery under these backstop guarantees was approximately \$6 million at both March 31, 2010 and December 31, 2009.

The Company retained obligations for guarantees related to the Building Systems business in Germany sold in 2007. The guarantees primarily consist of performance guarantees and have original maturity dates ranging from one to thirteen years. The maximum amount payable under the guarantees was approximately \$13 million and \$15 million at March 31, 2010 and December 31, 2009, respectively.

Financial guarantees

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

At both March 31, 2010 and December 31, 2009, the Company had \$91 million of financial guarantees outstanding. Of this amount, \$22 million was issued on behalf of companies in which the Company currently has or formerly had an equity interest. The guarantees have various maturity dates. The majority of the durations run to 2013, with the longest expiring in 2021.

Indemnification guarantees

The Company has indemnified certain purchasers of divested businesses for potential claims arising from the operations of the divested businesses. To the extent the maximum loss related to such indemnifications could not be calculated, no amounts have been included under maximum potential

Notes to the Interim Consolidated Financial Information (unaudited)

payments in the table above. Indemnifications for which maximum losses could not be calculated include indemnifications for legal claims.

The Company delivered to the purchasers of Lummus guarantees related to assets and liabilities divested in 2007. The maximum liability at each of March 31, 2010 and December 31, 2009, of \$50 million, relating to these businesses will reduce over time, pursuant to the sales agreements.

The Company delivered to the purchasers of its interest in Jorf Lasfar guarantees related to assets and liabilities divested in 2007. The maximum liability at March 31, 2010 and December 31, 2009, of \$146 million and \$145 million, respectively, relating to this business, is subject to foreign exchange fluctuations.

The Company delivered to the purchaser of the Reinsurance business guarantees related to assets and liabilities divested in 2004. The maximum liability at March 31, 2010 and December 31, 2009, of \$81 million and \$87 million, respectively, related to this business, will reduce over time, pursuant to the sales agreement, and subject to foreign exchange fluctuations.

In addition, with respect to the sale of Lummus, the Company retained certain liabilities, including for potential fines and penalties connected with suspect payments made prior to completion of the sale. The Company has disclosed these suspect payments to the SEC and DoJ. The Company believes that an unfavorable outcome is likely and has recorded a provision as discussed in more detail in the "Suspect payments" disclosures section above.

Product and order related contingencies

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

The reconciliation of the "Provision for warranties", including guarantees of product performance, is as follows:

(\$ in millions)	2010	2009
Balance at January 1,	1,280	1,105
Claims paid in cash or in kind	(35)	(41)
Net increase to provision for changes in estimates, warranties issued and warranties expired	20	15
Exchange rate differences	(37)	(53)
Balance at March 31,	1,228	1,026

Note 7. Employee benefits

The Company operates pension plans, including defined benefit, defined contribution and termination indemnity plans in accordance with local regulations and practices. These plans cover a large portion of the Company's employees and provide benefits to employees in the event of death, disability, retirement, or termination of employment. Certain of these plans are multi-employer plans. The Company also operates other postretirement benefit plans in certain countries.

Some of these plans require employees to make contributions and enable employees to earn matching or other contributions from the Company. The funding policies of the Company's plans are consistent with the local government and tax requirements. The Company has several pension plans that are not required to be funded pursuant to local government and tax requirements. The Company uses a December 31 measurement date for its plans.

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Net periodic benefit cost consisted of the following:

(\$ in millions)	Three months ended March 31,			
	2010	2009	2010	2009
	Pension benefits		Other benefits	
Service cost	51	39	1	1
Interest cost	96	107	3	3
Expected return on plan assets	(105)	(99)	-	-
Amortization of prior service cost	7	2	(2)	-
Amortization of net actuarial loss	18	-	1	-
Curtailments, settlements and special termination benefits	-	1	-	-
Net periodic benefit cost	67	50	3	4

Employer contributions were as follows:

(\$ in millions)	Three months ended March 31,			
	2010	2009	2010	2009
	Pension benefits		Other benefits	
Contributions to pension and other postretirement plans	56	53	6	4
Discretionary contributions to pension plans	-	16	-	-

The Company expects to contribute approximately \$266 million and \$18 million to its pension benefit plans and other benefit plans, respectively, for the full year 2010.

Note 8. Stockholders' equity

In February 2008, the Company announced a share-buyback program up to a maximum value of 2.2 billion Swiss francs (equivalent to \$2 billion at then-current exchange rates) with the intention of completing the buyback program prior to the Annual General Meeting of Shareholders in 2010 and of proposing the cancellation of the shares at that meeting. Up to December 31, 2008, a total of 22.675 million shares were repurchased under the program at a total cost of 652 million Swiss francs (\$619 million, using exchange rates effective at the respective repurchase dates). The repurchased shares are included in "Treasury stock". In February 2009, the Company stated that given the market uncertainty, the Company was not actively pursuing new purchases under the program. Consequently, no repurchases took place in 2009 and in the three months ended March 31, 2010. A proposal will be put to the Annual General Meeting in April 2010 to cancel the 22.675 million shares.

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Note 9. Earnings per share

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

Basic earnings per share

(\$ in millions, except per share data in \$)	Three months ended March 31,	
	2010	2009
<i>Amounts attributable to ABB shareholders:</i>		
Income from continuing operations	463	641
Income from discontinued operations, net of tax	1	11
Net income	464	652
Weighted-average number of shares outstanding (in millions)	2,290	2,283
<i>Basic earnings per share attributable to ABB shareholders:</i>		
Income from continuing operations	0.20	0.28
Income from discontinued operations, net of tax	-	0.01
Net income	0.20	0.29

Diluted earnings per share

(\$ in millions, except per share data in \$)	Three months ended March 31,	
	2010	2009
<i>Amounts attributable to ABB shareholders:</i>		
Income from continuing operations	463	641
Income from discontinued operations, net of tax	1	11
Net income	464	652
Weighted-average number of shares outstanding (in millions)	2,290	2,283
<i>Effect of dilutive securities:</i>		
Call options and shares	5	2
Dilutive weighted-average number of shares outstanding (in millions)	2,295	2,285
<i>Diluted earnings per share attributable to ABB shareholders:</i>		
Income from continuing operations	0.20	0.28
Income from discontinued operations, net of tax	-	0.01
Net income	0.20	0.29

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Note 10. Operating segment data

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

Effective January 1, 2010, the Company reorganized its automation segments to align their activities more closely with those of its customers. The former Automation Products segment has been reorganized into two new segments, Discrete Automation and Motion and Low Voltage Products. The former Robotics segment has been incorporated into the new Discrete Automation and Motion segment, while the Process Automation segment remains unchanged except for the addition of the instrumentation business from the Automation Products segment. The Power Products and Power Systems segments remain unchanged. Segment information for the three months ended March 31, 2009 and at December 31, 2009, has been reclassified to reflect these organizational changes.

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

- **Power Products:** manufactures and sells high- and medium- voltage switchgear and apparatus, circuit breakers for all current and voltage levels, power and distribution transformers and sensors for electric, gas and water utilities and for industrial and commercial customers.
- **Power Systems:** designs, installs and upgrades high-efficiency transmission and distribution systems and power plant automation and electrification solutions, including monitoring and control products and services and incorporating components manufactured by both the Company and by third parties.
- **Discrete Automation and Motion:** manufactures and sells motors, generators, variable speed drives, programmable logic controllers, rectifiers, excitation systems, robotics, and related services for a wide range of applications in factory automation, process industries, and utilities.
- **Low Voltage Products:** manufactures products and systems that provide protection, control and measurement for electrical installations, enclosures, switchboards, electronics and electromechanical devices for industrial machines, plants and related service. The segment further makes intelligent building control systems for home and building automation to improve comfort, energy efficiency and security.
- **Process Automation:** develops and sells control and plant optimization systems, automation products and solutions, including instrumentation, as well as industry-specific application knowledge and services for the oil, gas and petrochemicals, metals and minerals, marine and turbocharging, pulp and paper, and utility automation industries.
- **Corporate and Other:** includes headquarters, central research and development, the Company's real estate activities, Group treasury operations and other minor activities.

The Company evaluates performance of its segments based on earnings before interest and taxes, which excludes interest and dividend income, interest and other finance expense, provision for taxes, and income (loss) from discontinued operations, net of tax. The Company presents segment revenues, earnings before interest and taxes and total assets. The Company accounts for intersegment sales and transfers as if the sales and transfers were to third parties, at current market prices.

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The following tables summarize information for each segment:

(\$ in millions)	Three months ended March 31, 2010				March 31, 2010
	Third party revenues	Intersegment revenues	Total revenues	Earnings before interest and taxes ⁽¹⁾	Total assets ⁽¹⁾
Power Products	1,898	421	2,319	348	7,037
Power Systems	1,337	47	1,384	(14)	4,733
Discrete Automation and Motion	1,059	154	1,213	168	3,143
Low Voltage Products	948	63	1,011	150	2,741
Process Automation	1,680	55	1,735	159	4,184
Corporate and Other	12	353	365	(102)	12,490
Intersegment elimination	-	(1,093)	(1,093)	-	-
Consolidated	6,934	-	6,934	709	34,328

(\$ in millions)	Three months ended March 31, 2009				December 31, 2009
	Third party revenues	Intersegment revenues	Total revenues	Earnings before interest and taxes ⁽¹⁾	Total assets ⁽¹⁾
Power Products	2,025	443	2,468	442	6,918
Power Systems	1,377	40	1,417	83	4,617
Discrete Automation and Motion	1,099	202	1,301	165	3,370
Low Voltage Products	868	65	933	127	2,731
Process Automation	1,824	54	1,878	146	4,571
Corporate and Other	16	361	377	(101)	12,521
Intersegment elimination	-	(1,165)	(1,165)	-	-
Consolidated	7,209	-	7,209	862	34,728

(1) Earnings before interest and taxes and Total assets are after intersegment eliminations and therefore refer to third party activities and assets only.