

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 audited consolidated financial statements in the Company's Annual Report 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 unaudited Interim Consolidated Financial Information contains all necessary adjustments to present fairly the financial position, results of operations and cash flows for the reported interim periods.

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 nine-month and three-month periods ended September 30, 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.

Disclosures about the credit quality of financing receivables and the allowance for credit losses

In July 2010, an accounting standard update was issued that requires additional disclosures regarding (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. For disclosures as of the end of a reporting period this update is effective for the Company for the period ending December 31, 2010. For disclosures about activity during a reporting period, this update 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.

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Note 3. Acquisitions and increases in controlling interests

Acquisitions

Acquisitions in the nine and three months ended September 30, 2010 and 2009, (excluding the increase in controlling interest in India described separately below) were:

(\$ in millions, except number of acquired businesses)	Nine months ended September 30,		Three months ended September 30,	
	2010	2009	2010	2009
Acquisitions (net of cash acquired) ⁽¹⁾	1,291	155	137	100
Aggregate excess of purchase price over fair value of net assets acquired ⁽²⁾	1,123	146	65	39
Number of acquired businesses	7	7	1	2

(1) Including increases in minority and controlling interests (excluding India) and equity investments

(2) Recorded as goodwill

In the table above, \$1,074 million of the "Acquisitions" amount and \$1,007 million of the "Aggregate excess of purchase price over fair value of net assets acquired" amount relate to the acquisition of Ventyx, as described below.

Acquisitions of controlling interests have been accounted for under the acquisition method and have been included in the Company's Interim Consolidated Financial Information since the date of acquisition. The Company has not presented pro forma results of operations of the acquired businesses as the results are not significant to the Interim Consolidated Financial Information.

On June 1, 2010, the Company acquired all of the shares of Ventyx Inc., Ventyx Software Inc. and Ventyx Dutch Holding B.V., representing substantially all of the revenues, assets and liabilities of the Ventyx group. Ventyx provides software solutions to global energy, utility, communications and other asset-intensive businesses and was integrated into the network management business within the Power Systems segment to form a single unit for energy management software solutions. The preliminary purchase price amounted to \$1,074 million (net of \$31 million cash acquired).

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

The main items still to be finalized are: (i) the fair value of acquired intangible assets, (ii) the purchase price, (iii) income and non-income based taxes, (iv) the fair values of certain tangible assets acquired and liabilities assumed, and (v) the residual goodwill.

The preliminary purchase price, settled in cash, has been allocated as follows:

(\$ in millions)	Allocated amount	Weighted-average useful life
Capitalized software for sale	128	5 years
Customer relationships	122	9 years
Trade name	23	10 years
In-process research and development	24	5 years
Order backlog	15	8 years
Deferred tax liabilities	(117)	
Other assets and liabilities, net ⁽¹⁾	(128)	
Goodwill ⁽²⁾	1,007	
Total	1,074	

(1) Including debt assumed upon acquisition

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

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Changes in total goodwill in 2009 and the nine months ended September 30, 2010 were as follows:

(\$ in millions)	<u>Total</u>
Balance at January 1, 2009	2,817
Goodwill acquired during the year	147
Exchange rate differences	59
Other	3
Balance at December 31, 2009	3,026
Goodwill acquired during the period ⁽¹⁾	1,123
Exchange rate differences	(24)
Other	(1)
Balance at September 30, 2010	4,124

(1) Includes \$1,007 million in respect of Ventyx, which has been allocated to the Power Systems segment

Increase in controlling interests in India

In July 2010, the Company announced that it had been successful in its offer to increase its stake in ABB Limited, India (its publicly-listed subsidiary in India) from approximately 52 percent to 75 percent. Cash paid up to September 30, 2010, including transaction costs, amounted to \$954 million. The offer of 900 rupees per share resulted in a charge to "Capital stock and additional paid-in capital" of \$836 million, including expenses related to the transaction.

Note 4. Cash and equivalents and marketable securities and short-term investments

At September 30, 2010, and December 31, 2009, cash and equivalents and marketable securities and short-term investments consisted of the following:

(\$ in millions)	<u>September 30, 2010</u>					Marketable securities and short-term investments
	<u>Cost basis</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>	<u>Cash and equivalents</u>	
Cash	1,644	-	-	1,644	1,644	-
Time deposits	3,129	-	-	3,129	2,921	208
<i>Securities held-to-maturity:</i>						
– Corporate commercial papers	-	-	-	-	-	-
– Other	-	-	-	-	-	-
<i>Debt securities available-for-sale:</i>						
– U.S. government obligations	145	9	-	154	-	154
– European government obligations	156	-	(1)	155	137	18
– Other government obligations	4	-	(1)	3	-	3
– Corporate	1,036	10	-	1,046	567	479
Equity securities available-for-sale	1,482	9	-	1,491	-	1,491
Total	7,596	28	(2)	7,622	5,269	2,353

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December 31, 2009

(\$ in millions)	December 31, 2009					Marketable securities and short-term investments
	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value	Cash and equivalents	
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 5. Financial instruments

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

Currency risk

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

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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 amounts		
	September 30, 2010	December 31, 2009	September 30, 2009
Foreign exchange contracts	17,573	14,446	13,408
Embedded foreign exchange derivatives	2,993	3,951	3,796
Interest rate contracts	2,533	2,860	2,627

Derivative commodity contracts:

Type of derivative	Unit	Total notional amounts		
		September 30, 2010	December 31, 2009	September 30, 2009
Copper swaps	metric tonnes	21,730	22,002	25,941
Aluminum swaps	metric tonnes	3,648	2,193	2,741
Nickel swaps	metric tonnes	29	24	24
Electricity futures	megawatt hours	1,541,896	1,330,978	1,681,237
Crude oil swaps	barrels	138,572	154,632	159,087

Equity derivatives:

At September 30, 2010, December 31, 2009, and September 30, 2009, the Company held 64 million, 64 million and 67 million cash-settled call options on ABB Ltd shares with a total fair value of \$57 million, \$64 million and \$84 million respectively.

Cash flow hedges

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

At September 30, 2010, and December 31, 2009, "Accumulated other comprehensive loss" included net unrealized gains of \$93 million and \$20 million, respectively, net of tax, on derivatives designated as cash flow hedges. Of the amount at September 30, 2010, net gains of \$56 million are expected to be reclassified to earnings in the following twelve months. At September 30, 2010, the longest maturity of a derivative classified as a cash flow hedge was 65 months.

During the nine and three months ended September 30, 2010, net of tax gains of \$2 million and \$2 million respectively, were reclassified into earnings as a result of the discontinuance of cash flow hedge accounting. During the nine and three months ended September 30, 2010, net of tax gains of \$2 million and \$2 million respectively, were recognized in earnings due to ineffectiveness in cash flow hedge relationships. In the nine and three months ended September 30, 2009, net of tax gains of \$1 million and \$2 million respectively were reclassified into earnings as a result of the discontinuance of cash flow hedge accounting. Net of tax gains of \$7 million and \$3 million, respectively, for the nine and three months ended September 30, 2009, were included in earnings due to ineffectiveness in cash flow hedge relationships.

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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:

Nine months ended September 30, 2010

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 (losses) recognized in income (ineffective portion and amount excluded from effectiveness testing)	
	(\$ in millions)	Location	(\$ in millions)	Location	(\$ in millions)
Foreign exchange contracts	96	Total revenues	19	Total revenues	2
		Total cost of sales	(3)	Total cost of sales	-
Commodity contracts	3	Total cost of sales	6	Total cost of sales	-
Cash-settled call options	(2)	SG&A expenses ⁽²⁾	(8)	SG&A expenses ⁽²⁾	-
Total	97		14		2

Nine months ended September 30, 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 (losses) recognized in income (ineffective portion and amount excluded from effectiveness testing)	
	(\$ in millions)	Location	(\$ in millions)	Location	(\$ in millions)
Foreign exchange contracts	81	Total revenues	(83)	Total revenues	9
		Total cost of sales	7	Total cost of sales	-
Commodity contracts	21	Total cost of sales	(36)	Total cost of sales	1
Cash-settled call options	-	SG&A expenses ⁽²⁾	-	SG&A expenses ⁽²⁾	-
Total	102		(112)		10

Three months ended September 30, 2010

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 (losses) recognized in income (ineffective portion and amount excluded from effectiveness testing)	
	(\$ in millions)	Location	(\$ in millions)	Location	(\$ in millions)
Foreign exchange contracts	99	Total revenues	3	Total revenues	2
		Total cost of sales	-	Total cost of sales	-
Commodity contracts	5	Total cost of sales	2	Total cost of sales	-
Cash-settled call options	6	SG&A expenses ⁽²⁾	(1)	SG&A expenses ⁽²⁾	-
Total	110		4		2

Three months ended September 30, 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 (losses) recognized in income (ineffective portion and amount excluded from effectiveness testing)	
	(\$ in millions)	Location	(\$ in millions)	Location	(\$ in millions)
Foreign exchange contracts	80	Total revenues	(23)	Total revenues	6
		Total cost of sales	2	Total cost of sales	-
Commodity contracts	11	Total cost of sales	(7)	Total cost of sales	(1)
Cash-settled call options	(6)	SG&A expenses ⁽²⁾	-	SG&A expenses ⁽²⁾	-
Total	85		(28)		5

(1) OCI represents “Accumulated other comprehensive loss”

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

Derivative gains of \$8 million and derivative losses of \$86 million, both net of tax, were reclassified from “Accumulated other comprehensive loss” to earnings during the nine months ended September 30, 2010 and 2009, respectively. During the three months ended September 30, 2010 and 2009, derivative gains of \$4 million and losses of \$21 million, both net of tax, were reclassified to earnings, respectively.

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Fair value hedges

To reduce its interest rate and foreign currency exposures arising primarily from its debt issuance activities, the Company uses interest rate swaps. Where such instruments are designated as fair value hedges, the changes in 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 nine and three months ended September 30, 2010 and 2009, was not significant.

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

Nine months ended September 30, 2010				
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	2	Interest and other finance expense	(2)
Cross-currency swaps	Interest and other finance expense	-	Interest and other finance expense	-
Total		2		(2)

Nine months ended September 30, 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	50	Interest and other finance expense	(50)
Cross-currency swaps	Interest and other finance expense	3	Interest and other finance expense	(3)
Total		53		(53)

Three months ended September 30, 2010				
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	(2)	Interest and other finance expense	2
Cross-currency swaps	Interest and other finance expense	-	Interest and other finance expense	-
Total		(2)		2

Three months ended September 30, 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	11	Interest and other finance expense	(11)
Cross-currency swaps	Interest and other finance expense	-	Interest and other finance expense	-
Total		11		(11)

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.

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

The gains (losses) recognized in the Consolidated Income Statements on derivatives not designated in hedging relationships are included in the table below:

(\$ in millions)		Gains (losses) recognized in income			
		Nine months ended September 30,		Three months ended September 30,	
Type of derivative	Location	2010	2009	2010	2009
Not designated as a hedge					
Foreign exchange contracts:	Total revenues	332	327	310	233
	Total cost of sales	(181)	(168)	(75)	(63)
	Interest and other finance expense	403	28	78	8
Embedded foreign exchange contracts:	Total revenues	(214)	(177)	(89)	(94)
	Total cost of sales	22	21	33	12
Commodity contracts:	Total cost of sales	7	72	14	22
Cross-currency swaps:	Interest and other finance expense	-	-	-	2
Interest rate swaps:	Interest and other finance expense	-	2	-	1
Cash-settled call options:	Interest and other finance expense	-	(1)	1	(1)
Total		369	104	272	120

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

(\$ in millions)	September 30, 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"
<i>Derivatives designated as hedging instruments:</i>				
Foreign exchange contracts	97	54	16	7
Commodity contracts	4	-	-	-
Interest rate contracts	-	77	-	-
Cash-settled call options	29	26	-	-
Total	130	157	16	7
<i>Derivatives not designated as hedging instruments:</i>				
Foreign exchange contracts	379	69	134	41
Commodity contracts	15	1	4	-
Interest rate contracts	-	-	-	1
Cash-settled call options	-	2	-	-
Embedded foreign exchange derivatives	31	10	147	41
Total	425	82	285	83
Total fair value	555	239	301	90

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(\$ in millions)	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"
<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 September 30, 2010, and December 31, 2009, have been presented on a gross basis.

Note 6. Fair values

The Company uses fair value measurement principles to record certain financial assets and liabilities on a recurring basis and, when necessary, to record certain non-financial assets at fair value on a non-recurring basis, as well as to determine fair value disclosures for certain financial instruments carried at amortized cost in the financial statements. Financial assets and liabilities recorded at fair value on a recurring basis include foreign currency, commodity, 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.

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

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observable and unobservable. In these cases, the fair value measurement is classified as Level 2 unless the unobservable portion of the adjustment or the unobservable input to the valuation model is significant, in which case the fair value measurement would be classified as Level 3. Assets and liabilities valued using Level 2 inputs include investments in certain funds, 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.

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 September 30, 2010 and December 31, 2009:

(\$ in millions)	September 30, 2010			Total fair value
	Level 1	Level 2	Level 3	
Assets				
Available-for-sale securities in "Cash and equivalents"				
Debt securities—European government obligations	137	-	-	137
Debt securities—Corporate	-	567	-	567
Available-for-sale securities in "Marketable securities and short-term investments"				
Equity securities	3	1,488	-	1,491
Debt securities—U.S. government obligations	154	-	-	154
Debt securities—European government obligations	18	-	-	18
Debt securities—Other government obligations	3	-	-	3
Debt securities—Corporate	-	479	-	479
Derivative assets—current in "Other current assets"	3	552	-	555
Derivative assets—non-current in "Other non-current assets"	-	239	-	239
Total	318	3,325	-	3,643
Liabilities				
Derivative liabilities—current in "Provisions and other current liabilities"	4	297	-	301
Derivative liabilities—non-current in "Other non-current liabilities"	-	90	-	90
Total	4	387	-	391

Notes to the Interim Consolidated Financial Information (unaudited)

(\$ 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. Where the Company has invested in shares of funds, which do not have readily determinable fair values, Net Asset Value (NAV) is used as a practical expedient of fair value (without any adjustment) as these funds invest in high-quality, short-term fixed income securities which are accounted for at fair value. As the Company has the ability to redeem its shares in such funds at NAV without any restrictions, notice period or further funding commitments, NAV is considered Level 2.
- *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 nine and three months ended September 30, 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 (see Note 4).

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-

Notes to the Interim Consolidated Financial Information (unaudited)

term loans granted at September 30, 2010, were \$58 million and \$60 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 September 30, 2010, were \$2,080 million and \$2,161 million, respectively, and at December 31, 2009, were \$2,172 million and \$2,273 million, respectively.

Note 7. 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.

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".

Notes to the Interim Consolidated Financial Information (unaudited)

The impact of the above Nuclear Technology and other environmental obligations on the Company's Consolidated Income Statements was not significant for the nine and three months ended September 30, 2010 and 2009.

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

(\$ in millions)	Nine months ended September 30,		Three months ended September 30,	
	2010	2009	2010	2009
Cash expenditures:				
Nuclear Technology business	15	7	6	2
Various businesses	4	13	1	3
	19	20	7	5

The Company has estimated further expenditures of \$5 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)	September 30, 2010	December 31, 2009
Provision balance relating to:		
Nuclear Technology business	215	230
Various businesses	66	67
	281	297
Environmental provisions included in:		
Provisions and other current liabilities	29	29
Other non-current liabilities	252	268
	281	297

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

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 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 was not significant for the nine and three months ended September 30, 2010 and 2009.

Notes to the Interim Consolidated Financial Information (unaudited)

The effect of asbestos obligations on the Company's Consolidated Statements of Cash Flows was as follows:

(\$ in millions)	Nine months ended September 30,		Three months ended September 30,	
	2010	2009	2010	2009
Payments	25	-	-	-

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

(\$ in millions)	September 30, 2010	December 31, 2009
Asbestos provisions included in:		
Provisions and other current liabilities	28	28
Other non-current liabilities	-	25
	28	53

Included in the asbestos provisions at September 30, 2010, is a payment of \$25 million to the CE Asbestos PI Trust, payable in 2011, if the Company attains an "Earnings before interest and taxes" 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

In October 2009, the European Commission announced its decision regarding its investigation into alleged anti-competitive practices of certain manufacturers of power transformers. The European Commission 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 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. The Company has now been

Notes to the Interim Consolidated Financial Information (unaudited)

informed that the European Commission has closed its investigation into this matter. No fine has been imposed on the Company.

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

Suspect payments

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

In September 2010, the Company reached settlements with the DoJ and the SEC regarding their investigations into these matters and into suspect payments involving certain of the Company's subsidiaries in the United Nations Oil-for-Food Program. In connection with these settlements, the Company agreed to make payments to the DoJ and SEC totaling \$58.3 million. One subsidiary of the Company pled guilty to one count of conspiracy to violate the anti-bribery provisions of the U.S. Foreign Corrupt Practices Act and one count of violating those provisions. The Company entered into a deferred prosecution agreement and settled civil charges brought by the SEC. These settlements resolved the foregoing investigations.

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 September 30, 2010, the Company recognized aggregate liabilities of \$208 million included in "Provisions and other current liabilities" and in "Other non-current liabilities" and \$58 million in "Accounts payable, other", totaling \$266 million, for the above regulatory, compliance and legal contingencies. At December 31, 2009, the Company recognized aggregate liabilities of \$300 million, 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.

Notes to the Interim Consolidated Financial Information (unaudited)

(\$ in millions)	September 30, 2010		December 31, 2009	
	Maximum potential payments	Carrying amount of liabilities	Maximum potential payments	Carrying amount of liabilities
Performance guarantees	127	1	214	1
Financial guarantees	90	-	91	-
Indemnification guarantees	203	1	282	1
Total	420	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 standby letters of credit. The significant performance guarantees are described below.

The Company retained obligations for guarantees related to the Power Generation business contributed in mid-1999 to the former ABB Alstom Power NV joint venture (Alstom Power NV). The guarantees primarily consist of performance guarantees and other miscellaneous guarantees under certain contracts such as indemnification for personal injuries and property damages, taxes and compliance with labor laws, environmental laws and patents. 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 \$87 million and \$99 million at September 30, 2010 and December 31, 2009, respectively. 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 \$28 million and \$98 million at September 30, 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 at both September 30, 2010 and December 31, 2009 was approximately \$6 million.

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 \$12 million and \$15 million at September 30, 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 September 30, 2010 and December 31, 2009, the Company had \$90 million and \$91 million, respectively, of financial guarantees outstanding. Of each of those amounts, \$22 million was issued on behalf of companies in which the Company currently has or formerly had an equity interest. The guarantees outstanding 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 significant indemnification guarantees are described below.

The Company delivered to the purchasers of Lummus guarantees related to assets and liabilities divested in 2007. The maximum liability relating to this business, pursuant to the sales agreement, at each of September 30, 2010 and December 31, 2009, was \$50 million.

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 September 30, 2010 and December 31, 2009, of \$147 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 December 31, 2009, related to this business, was \$87 million. During the third quarter of 2010, a settlement agreement was reached and consequently the Company had no further liability with respect to these guarantees at September 30, 2010.

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, was as follows:

(\$ in millions)	<u>2010</u>	<u>2009</u>
Balance at January 1,	1,280	1,105
Claims paid in cash or in kind	(142)	(141)
Net increase to provision for changes in estimates, warranties issued and warranties expired	137	154
Exchange rate differences	9	53
Balance at September 30,	<u>1,284</u>	<u>1,171</u>

Note 8. 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.

Notes to the Interim Consolidated Financial Information (unaudited)

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

(\$ in millions)	Nine months ended September 30,			
	2010	2009	2010	2009
	Defined pension benefits		Other postretirement benefits	
Service cost	156	123	2	1
Interest cost	286	328	9	10
Expected return on plan assets	(311)	(295)	-	-
Amortization of prior service cost	19	11	(8)	(8)
Amortization of net actuarial loss	52	54	4	4
Curtailments, settlements and special termination benefits	2	2	-	-
Net periodic benefit cost	204	223	7	7

(\$ in millions)	Three months ended September 30,			
	2010	2009	2010	2009
	Defined pension benefits		Other postretirement benefits	
Service cost	58	47	1	-
Interest cost	104	116	3	4
Expected return on plan assets	(113)	(105)	-	-
Amortization of prior service cost	7	4	(3)	(3)
Amortization of net actuarial loss	12	22	1	1
Curtailments, settlements and special termination benefits	1	1	-	-
Net periodic benefit cost	69	85	2	2

Employer contributions were as follows:

(\$ in millions)	Nine months ended September 30,			
	2010	2009	2010	2009
	Defined pension benefits		Other postretirement benefits	
Contributions to defined benefit pension and other postretirement benefit plans	180	232	12	10
Discretionary contributions to defined benefit pension plans	-	16	-	-

(\$ in millions)	Three months ended September 30,			
	2010	2009	2010	2009
	Defined pension benefits		Other postretirement benefits	
Contributions to defined benefit pension and other postretirement benefit plans	69	96	6	3
Discretionary contributions to defined benefit pension plans	-	-	-	-

The Company expects to make cash and non-cash contributions totaling approximately \$495 million and \$18 million to its defined benefit pension plans and other postretirement benefit plans, respectively, for the full year 2010.

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Note 9. Stockholders' equity

In February 2008, the Company announced a share-buyback program of 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 under the program in 2009 and 2010.

At the Annual General Meeting in April 2010, shareholders agreed to a proposal to cancel the 22.675 million shares that were purchased under the program. The shares were cancelled in July 2010, reducing the number of issued shares. Also at the meeting, shareholders approved the payment of a dividend in the form of a nominal value reduction of 0.51 Swiss francs per share. The dividend was paid in July 2010 and amounted to \$1,112 million.

Separately, during the second and third quarters of 2010, the Company purchased on the open market an aggregate of 7.1 million of its own shares for use in connection with its employee incentive plans. These transactions resulted in an increase in "Treasury stock" of \$120 million.

Note 10. Earnings per share

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

Basic earnings per share

(\$ in millions, except per share data in \$)	Nine months ended September 30,		Three months ended September 30,	
	2010	2009	2010	2009
<i>Amounts attributable to ABB shareholders:</i>				
Income from continuing operations	1,864	2,335	776	1,030
Income (loss) from discontinued operations, net of tax	(3)	26	(2)	4
Net income	1,861	2,361	774	1,034
Weighted-average number of shares outstanding (in millions)	2,287	2,283	2,284	2,283
<i>Basic earnings per share attributable to ABB shareholders:</i>				
Income from continuing operations	0.82	1.02	0.34	0.45
Income (loss) from discontinued operations, net of tax	(0.01)	0.01	-	-
Net income	0.81	1.03	0.34	0.45

Notes to the Interim Consolidated Financial Information (unaudited)

Diluted earnings per share

(\$ in millions, except per share data in \$)	Nine months ended September 30,		Three months ended September 30,	
	2010	2009	2010	2009
<i>Amounts attributable to ABB shareholders:</i>				
Income from continuing operations	1,864	2,335	776	1,030
Income (loss) from discontinued operations, net of tax	(3)	26	(2)	4
Net income	1,861	2,361	774	1,034
Weighted-average number of shares outstanding (in millions)	2,287	2,283	2,284	2,283
<i>Effect of dilutive securities:</i>				
Call options and shares	5	3	4	6
Dilutive weighted-average number of shares outstanding (in millions)	2,292	2,286	2,288	2,289
<i>Diluted earnings per share attributable to ABB shareholders:</i>				
Income from continuing operations	0.81	1.02	0.34	0.45
Income (loss) from discontinued operations, net of tax	-	0.01	-	-
Net income	0.81	1.03	0.34	0.45

Note 11. Restructuring and related expenses

Cost take-out program

In December 2008, the Company announced a cost take-out program that aims to sustainably reduce the Company's cost of sales and general and administrative expenses. The savings are expected through ongoing initiatives, such as internal process improvements, low-cost sourcing, and further measures to adjust the Company's global manufacturing and engineering footprint to shifts in customer demand. In the course of this plan, the Company has implemented and will continue to execute various restructuring initiatives across all operating segments and regions. The Company expects to complete the cost take-out program by the end of 2010 with total expected costs amounting to less than \$1 billion.

The following table outlines the total amount of costs expected to be incurred, the costs incurred in 2010 and the cumulative costs incurred to date under the program per operating segment:

(\$ in millions)	Costs incurred in 2010	Cumulative costs incurred to date	Total expected costs
Power Products	21	99	150
Power Systems	25	116	150
Discrete Automation and Motion	25	246	300
Low Voltage Products	7	85	120
Process Automation	15	154	180
Corporate and Other	4	20	20
Total	97	720	920

The Company recorded the following expenses under this program:

(\$ in millions)	Nine months ended September 30,		Three months ended September 30,	
	2010	2009	2010	2009
Total cost of sales	49	105	2	24
Selling, general and administrative expenses	24	24	10	7
Other income (expense), net	24	38	8	10
Total	97	167	20	41

Notes to the Interim Consolidated Financial Information (unaudited)

The most significant individual exit plans within this program relate to the Robotics reorganization, the downsizing of the former Automation Products business in France and Germany, as well as the Power Systems business in Germany.

Robotics reorganization

In 2008, the Company initiated its plan to adjust its engineering, manufacturing and service capacities in the former Robotics segment, primarily in Western Europe and the U.S. as a result of the economic downturn in some of the segment's key markets and to increase the presence in emerging markets. This plan includes closing certain production lines as well as employment reductions. Effective January 1, 2010, the former Robotics operating segment became part of the Discrete Automation and Motion operating segment.

Liabilities associated with the Robotics reorganization consisted of the following:

(\$ in millions)	Employee severance costs	Contract settlement, loss order and other costs	Total
Liability at January 1, 2009	62	-	62
Expenses	76	48	124
Cash payments	(19)	(7)	(26)
Exchange rate differences	1	-	1
Change in estimates	(3)	-	(3)
Liability at December 31, 2009	117	41	158
Expenses	5	13	18
Cash payments	(45)	(9)	(54)
Exchange rate differences	(6)	2	(4)
Change in estimates	(6)	-	(6)
Liability at September 30, 2010	65	47	112

Downsizing the former Automation Products business in France and Germany

In 2008, the Company started to formulate its plan to downsize the production capacities in the former Automation Products business in France and Germany as a result of the economic downturn in some of this business' key markets. This plan includes closing certain production lines in both countries as well as employment reductions.

Liabilities associated with the downsizing of the former Automation Products business in France and Germany consisted of the following:

(\$ in millions)	Employee severance costs	Contract settlement, loss order and other costs	Total
Liability at January 1, 2009	6	-	6
Expenses	61	15	76
Cash payments	(3)	(3)	(6)
Liability at December 31, 2009	64	12	76
Expenses	8	-	8
Cash payments	(22)	(1)	(23)
Exchange rate differences	(2)	-	(2)
Change in estimates	-	-	-
Liability at September 30, 2010	48	11	59

Effective January 1, 2010, the former Automation Products segment has been reorganized into two new segments, Discrete Automation and Motion and Low Voltage Products and the instrumentation business was added to the Process Automation segment. As a consequence, the liabilities and expenses associated with the downsizing of the former Automation Products business in France and Germany are now primarily reported in the Low Voltage Products and Process Automation segment. In addition, the Company is executing numerous, individually insignificant restructuring initiatives in its automation segments across many countries.

Notes to the Interim Consolidated Financial Information (unaudited)

Downsizing the Power Systems business in Germany

In 2009, the Company initiated its plan to adjust its engineering and service capacities in the Power Systems business in Germany as a result of the economic downturn in some of the segment's key markets and to increase the presence in emerging markets. This plan mainly includes employment reductions.

Liabilities associated with the downsizing of the Power Systems business in Germany consisted of the following:

(\$ in millions)	Employee severance costs	Contract settlement, loss order and other costs	Total
Liability at January 1, 2009	-	-	-
Expenses	37	6	43
Liability at December 31, 2009	37	6	43
Expenses	2	-	2
Cash payments	(3)	(2)	(5)
Exchange rate differences	(4)	1	(3)
Change in estimates	(9)	-	(9)
Liability at September 30, 2010	23	5	28

In addition, the Company is executing numerous, individually insignificant restructuring initiatives in its Power Systems business across many countries.

At September 30, 2010, the balance of restructuring and related liabilities is primarily included in "Provisions and other current liabilities".

Note 12. 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 nine and three months ended September 30, 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.

Notes to the Interim Consolidated Financial Information (unaudited)

- **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.

The following tables summarize information for each segment:

Nine months ended September 30, 2010				
(\$ in millions)	Third party revenues	Intersegment revenues	Total revenues	Earnings before interest and taxes⁽¹⁾
Power Products	6,048	1,238	7,286	1,169
Power Systems	4,557	141	4,698	106
Discrete Automation and Motion	3,494	466	3,960	641
Low Voltage Products	3,099	201	3,300	608
Process Automation	5,168	163	5,331	555
Corporate and Other	44	1,077	1,121	(239)
Intersegment elimination	-	(3,286)	(3,286)	-
Consolidated	22,410	-	22,410	2,840

Nine months ended September 30, 2009				
(\$ in millions)	Third party revenues	Intersegment revenues	Total revenues	Earnings before interest and taxes⁽¹⁾
Power Products	6,762	1,368	8,130	1,474
Power Systems	4,503	138	4,641	322
Discrete Automation and Motion	3,331	604	3,935	514
Low Voltage Products	2,762	200	2,962	370
Process Automation	5,629	156	5,785	473
Corporate and Other	47	1,129	1,176	175
Intersegment elimination	-	(3,595)	(3,595)	-
Consolidated	23,034	-	23,034	3,328

Notes to the Interim Consolidated Financial Information (unaudited)

Three months ended September 30, 2010

(\$ in millions)	Third party revenues	Intersegment revenues	Total revenues	Earnings before interest and taxes ⁽¹⁾
Power Products	2,036	403	2,439	404
Power Systems	1,626	53	1,679	102
Discrete Automation and Motion	1,302	158	1,460	268
Low Voltage Products	1,117	70	1,187	245
Process Automation	1,804	55	1,859	207
Corporate and Other	18	380	398	(70)
Intersegment elimination	-	(1,119)	(1,119)	-
Consolidated	7,903	-	7,903	1,156

Three months ended September 30, 2009

(\$ in millions)	Third party revenues	Intersegment revenues	Total revenues	Earnings before interest and taxes ⁽¹⁾
Power Products	2,371	452	2,823	477
Power Systems	1,566	46	1,612	117
Discrete Automation and Motion	1,097	183	1,280	159
Low Voltage Products	993	59	1,052	148
Process Automation	1,867	59	1,926	161
Corporate and Other	16	384	400	357
Intersegment elimination	-	(1,183)	(1,183)	-
Consolidated	7,910	-	7,910	1,419

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

Total assets⁽¹⁾

(\$ in millions)	September 30, 2010	December 31, 2009
Power Products	7,198	6,918
Power Systems	6,134	4,617
Discrete Automation and Motion	3,546	3,370
Low Voltage Products	2,933	2,731
Process Automation	4,692	4,571
Corporate and Other	10,796	12,521
Consolidated	35,299	34,728

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