ABB Annual Report 2005
Financial review

Caution concerning forward-looking statements
The ABB Annual Report 2005 includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In the Operational review, such statements are included in the sections entitled "Letter from the Chairman, and President and CEO", "Targets and new divisional structure", and "People". In the Financial review, such statements are included in the section entitled "Management discussion and analysis". We have based these forward-looking statements largely on current expectations, estimates and projections about future events, financial trends and economic conditions affecting our business. The words "believe", "may", "will", "estimate", "continue", "target", "anticipate", "intend", "expect" and similar words and the express or implied discussion of strategy, plans or intentions are intended to identify forward-looking statements. These forward-looking statements are subject to risks, uncertainties and assumptions, including among other things, the following: (i) the difficulty of forecasting future market and economic conditions; (ii) the effects of, and changes in, laws, regulations, governmental policies, taxation, or accounting standards and practices; (iii) our ability to dispose of certain of our non-core businesses on terms and conditions acceptable to us; (iv) our ability to further reduce our indebtedness as planned; (v) the terms and conditions on which asbestos claims can be resolved; (vi) the effects of competition and changes in economic and market conditions in the product markets and geographic areas in which we operate; (vii) our ability to anticipate and react to technological change and evolving industry standards in the markets in which we operate; (viii) the timely development of new products, technologies, and services that are useful for our customers; (ix) unanticipated cyclical downturns in the industries that we serve; (x) the risks inherent in large, long-term projects served by parts of our business; (xi) the difficulties encountered in operating in emerging markets; (xii) the amount of revenues we are able to generate from backlog and orders received; (xiii) changes in interest rates and fluctuations in currency exchange rates and (xiv) other factors described in documents that we may furnish from time to time with the U.S. Securities and Exchange Commission, including our Annual Reports on Form 20-F. Although we believe that the expectations reflected in any such forward-looking statements are based on reasonable assumptions, we can give no assurance that they will be achieved. We undertake no obligation to update publicly or revise any forward-looking statements because of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking information, events and circumstances might not occur. Our actual results and performance could differ substantially from those anticipated in our forward-looking statements.

Financial review

Operating and financial review and prospects

About ABB

We are a leader in power and automation technologies that enable utility and industry customers to improve performance while lowering environmental impact. As of December 31, 2005, we employed approximately 103,500 people.

Our business is international in scope and we generate revenues in numerous currencies. We operate in approximately 100 countries, which we group in four main regions of the world: Europe; the Americas; Asia; and the Middle East and Africa (the MEA).

We are headquartered in Zurich, Switzerland, and our shares are traded on the stock exchanges in Zurich, Stockholm and New York (in the form of American Depositary Shares).

We were formed in 1988, when Asea AB of Sweden and BBC Brown Boveri of Switzerland merged. We reorganized our business in 1999 under a single parent holding company, ABB Ltd. Asea AB's history dates back to 1883. BBC Brown Boveri was founded in 1891.

Organizational structure

We manage our business based on a divisional structure. As of December 31, 2005, our core businesses comprised two divisions: Power Technologies and Automation Technologies. These, in turn, were subdivided into a total of five business areas, two in our Power Technologies division and three in our Automation Technologies division. In September 2005, we announced that we would amend our organizational structure by replacing the two core divisions by their respective business areas, creating a five-division structure with effect from January 1, 2006. Details of the new divisions are provided in the section below entitled "Supplemental information regarding our new organizational structure."

In addition, certain of our operations that are not integral to our focus on power and automation technologies and that we are considering for sale, winding down or otherwise exiting are classified in our Non-core activities division. Our Corporate/Other division comprises headquarters and stewardship, corporate research and development and other activities.

The businesses discussed below and the results of operations for our operating divisions in this report are presented under the organizational structure that existed as of December 31, 2005.

Our business divisions

Power Technologies

Our Power Technologies division serves electric, gas and water utilities, as well as industrial and commercial customers, with a broad range of products, systems and services for power transmission, distribution and power plant automation. The division had approximately 41,000 employees as of December 31, 2005 and generated $9.8 billion of revenues in 2005. Our Power Technologies division is organized in two business areas: Power Technology Products and Power Technology Systems.

Our Power Technology Products business area generated 63 percent of the revenues of our Power Technologies division in 2005, and had approximately 28,500 employees as of December 31, 2005. This business area, which includes our medium-voltage products, high-voltage products and transformers businesses, develops, manufactures and sells a wide range of products, such as high- and medium-voltage switchgear, breakers for all current and voltage levels, power and distribution transformers and cables, apparatus and sensors. Our Power Technology Products business area sells primarily to utilities, distributors, wholesalers, installers and original equipment manufacturers in the utilities and power generation industries.

Our Power Technology Systems business area generated 37 percent of the revenues of our Power Technologies division in 2005, and had approximately 12,500 employees as of December 31, 2005. This business area offers automation, control and protection systems and related services for power plants and power transmission and distribution networks, as well as utility communication systems and transmission and distribution substations, flexible alternating current transmission systems (FACTS) and high-voltage direct current (HVDC) systems. Our FACTS and HVDC businesses, which are based on technologically advanced products designed to increase transmission capacity and stability in power networks, are supported by our in-house power semiconductor factory. This business area sells primarily to the utilities and power generation industries.

Automation Technologies

Our Automation Technologies division provides products, systems, software and services for the automation and optimization of industrial and commercial processes. The division had approximately 57,000 employees as of December 31, 2005 and generated $12.2 billion of revenues in 2005. Our Automation Technologies division is organized in three business areas: Automation Products, Process Automation and Manufacturing Automation.

Our Automation Products business area generated 47 percent of the revenues of our Automation Technologies division in 2005, and had approximately 29,000 employees as of December 31,

2005. Products in this business area include low- and medium-voltage drives and low- and high-voltage motors that are used in the marine, power, transportation, manufacturing and process industries. Our Automation Products business area also offers low-voltage products and systems for power quality and protection, wire management, switching and motor control, as well as power electronics systems that are sold to metals smelters, railway manufacturers and power plants, instrumentation products to measure flow, pressure, temperature and level, and liquid and gas analyzers, recorders, controllers and positioners. This business area sells many of its automation products through distributors, wholesalers, installers, and original equipment manufacturers.

Our Process Automation business area generated 40 percent of the revenues of our Automation Technologies division in 2005, and had approximately 23,000 employees as of December 31, 2005. This business area includes control, plant optimization, automation products and solutions, industry-specific application knowledge and services for the pulp and paper, metals and minerals, chemical and pharmaceutical, oil and gas, utility automation, marine and turbocharging industries. Key customer benefits include improved asset productivity and energy savings.

Our Manufacturing Automation business area generated 13 percent of the revenues of our Automation Technologies division in 2005, and had approximately 5,000 employees as of December 31, 2005. Our Manufacturing Automation business area sells robots and related equipment and software to the automotive, material handling, foundry and packaging industries. This business area also develops standardized manufacturing cells for machine tending, welding, cutting, painting and finishing and provides packaged systems to automobile manufacturers for press automation, paint process automation and power train assembly. This business area's research and development and manufacturing locations are concentrated near major automotive centers in the United States and Sweden.

Non-core activities

Our Non-core activities division as of December 31, 2005 constituted primarily the Oil, Gas and Petrochemicals, Building Systems, Equity Ventures and our remaining Structured Finance businesses and Other Non-core activities. This division generated revenues in 2005 of approximately $1.4 billion, and had approximately 4,000 employees as of December 31, 2005.

Our Oil, Gas and Petrochemicals business is principally a full service engineering company that serves the downstream oil, gas and petrochemicals markets. The downstream markets typically relate to the processing and transportation of hydrocarbon raw materials in and through refineries, petrochemicals and chemical plants and pipelines. In addition to expertise in engineering, procurement and construction (EPC) projects to engineering and project management services, this business also licenses process technologies to the refining, petrochemicals and polymer industries. In July 2004, we divested substantially all of our Oil, Gas and Petrochemicals business operating in the upstream oil, gas and petrochemicals markets. We refer to this divested portion as the Upstream Oil, Gas and Petrochemicals business.

Our Building Systems business designs, builds and maintains installations for industrial, infrastructure and commercial facilities. Actions to close down Building Systems operations in the United States and Egypt were continued in 2005 and the portion of this business in Luxembourg was sold.

Our Non-core activities division also contains our Equity Ventures and our remaining Structured Finance businesses and some minor businesses and activities that are being considered for sale or winding down. As of December 31, 2005, our Equity Ventures business managed investments in Colombia, India, Morocco, Ivory Coast and South Africa. Divestments in our Structured Finance business continued in 2005 as we completed the sale of our Leasing portfolio business in Finland.

Corporate/Other

Our Corporate/Other division comprises headquarters and stewardship activities, research and development activities and other activities. Our Corporate/Other division had approximately 1,500 employees as of December 31, 2005.

Headquarters and stewardship activities include the operations of our corporate headquarters in Zurich, Switzerland, as well as corresponding subsidiary operations in various countries. These activities cover staff functions with group-wide responsibilities, such as accounting, finance and controlling, internal audit, tax, financial advisory, legal affairs, risk management and insurance, communications, investor relations and human resources.

Group Research and Development consists of two laboratories: Power Technologies and Automation Technologies. Each laboratory collaborates with universities and other external partners to support our divisions in developing cross-divisional technology platforms, focusing on core areas of power, automation and emerging technologies. The R&D laboratories have operations in nine countries: the United States, Sweden, Switzerland, Finland, Poland, China, Germany, Norway and India.

Other activities include our Real Estate business and Group Treasury Operations. Effective January 1, 2006, our Real Estate business, which principally manages the use of our real estate assets and facilities, was reclassified from our Corporate/Other division to our Non-core activities division.

Application of critical accounting policies

General

We prepare our Consolidated Financial Statements in accordance with generally accepted accounting principles in the United States (U.S. GAAP).

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

We deem an accounting policy to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or if changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our Consolidated Financial Statements. We also deem an accounting policy to be critical when the application of such policy is essential to our ongoing operations. We believe the following critical accounting policies reflect significant estimates and assumptions that we use in preparing our Consolidated Financial Statements. These policies should be considered in reviewing our Consolidated Financial Statements.

Revenues and cost of sales recognition

We recognize revenues from the sale of manufactured products when persuasive evidence of an arrangement exists, the price is fixed and determinable, collectibility is reasonably assured and upon transfer of title, including the risks and rewards of ownership, to the customer. When multiple elements, such as products and services, are contained in a single arrangement or in a series of related arrangements with the same customer, we allocate revenue to each element based on its relative fair value, provided that such element meets the criteria for treatment as a separate unit of accounting. The allocation of the sales price between delivered elements and undelivered elements might affect the amount of revenue recorded in certain periods, but would not change the total revenue recognized on the contract.

Revenues from short-term or non-customer specific contracts to deliver products or services are recognized upon completion of required services to the customer. Revenues from contracts that contain customer acceptance provisions are deferred until customer acceptance occurs, or we have demonstrated the customer specified objective criteria or the contractual acceptance period has lapsed. As a result, judgment in the selection of revenue recognition methods must be made at inception of the arrangement.

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

Revenues under long-term contracts are recognized using the percentage-of-completion method of accounting. We principally use the cost-to-cost or delivery events methods to measure progress towards completion on contracts. We determine the method to be used by type of contract based on our experience and judgment as to which method best measures actual progress towards completion.

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

- unanticipated technical problems with equipment supplied or developed by us which may require that we incur additional costs to remedy;
- changes in the cost of components, materials or labor;
- difficulties in obtaining required governmental permits or approvals;
- project modifications creating unanticipated costs;
- suppliers' or subcontractors' failure to perform;
- penalties incurred as a result of not completing portions of the project in accordance with agreed upon time limits; and
- delays caused by unexpected conditions or events.

Changes in our initial assumptions, which we review on a regular basis between balance sheet dates, may result in revisions to estimated costs, current earnings and anticipated earnings. We recognize these changes in the period in which the changes in estimate are determined. By recognizing changes in estimates cumulatively, recorded revenue and costs to date reflect the current estimates of the stage of completion. Additionally, losses on long-term contracts are recognized in the period when they are identified and are based upon the anticipated excess of contract costs over the related contract revenues.

We accrue anticipated costs for warranties when we recognize the revenue on the related contracts. Warranty costs include calculated costs arising from imperfections in design, material and workmanship and performance guarantees on our products. Although we generally make assessments on an overall, statistical basis, we make individual assessments on contracts with risks resulting from order-specific conditions or guarantees. There is a risk that actual warranty costs may exceed the amounts provided for, which would result in a deterioration of earnings in the future when these actual costs are determined.

Revenues under cost-reimbursement contracts are recognized as costs are incurred. Shipping and handling costs are recorded as a component of cost of sales.

Accounting for discontinued operations

Our strategy is to focus on power and automation technologies for utility and industry customers. In accordance with our strategy, we have sold and plan to sell certain businesses that are not part of our core power and automation technologies businesses. Statement of Financial Accounting Standards No. 144 (SFAS 144), *Accounting for the Impairment or Disposal of Long-Lived Assets,* broadened the presentation of discontinued operations to include disposal transactions involving less than an entire reporting segment, when certain criteria are met. The purpose of SFAS 144 is to allow historically comparable data to be available to investors without the distortions created by divestments or the closure or abandonment of businesses, thereby improving the predictive value of financial statements. SFAS 144 requires the revenues and associated costs, net of taxes, of certain divestments and abandonments, to be classified as discontinued operations, net of taxes, below income from continuing operations in our Consolidated Income Statements and requires the related assets and liabilities to be classified as assets or liabilities held for sale and in discontinued operations in our Consolidated Balance Sheets.

In order to classify a business as a discontinued operation, SFAS 144 requires that certain criteria be met. In certain cases, significant interpretation is required to determine the appropriate classification. Changes in plans regarding the sale of a business may change our interpretation as to whether a business should be classified as a discontinued operation. Any such reclassification may have a material impact on our income from continuing operations and the individual components thereof.

In the Consolidated Statements of Cash Flows, we have included the businesses classified as discontinued operations together with continuing operations in the individual line items within cash from operating, investing and financing activities, as permitted by U.S. GAAP.

For a description of our discontinued operations, see the section below entitled "Discontinued operations" and Note 3 to our Consolidated Financial Statements.

Goodwill and other intangible assets

We review goodwill for impairment annually on October 1 and additionally whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with Statement of Financial Accounting Standards No. 142 (SFAS 142), *Goodwill and Other Intangible Assets.* SFAS 142 requires that a two-step impairment test be performed on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. Our reporting units are one level below the reportable segments identified in Note 25 to our Consolidated Financial Statements. We use a discounted cash flow model to determine the fair value of reporting units. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and no further testing is performed. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step to determine the implied fair value of the reporting unit's goodwill and compare it to the carrying value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we record an impairment loss equal to the difference.

The discounted cash flow model is dependent on a number of factors including estimates of future cash flows, appropriate discount rates and other variables, and requires that we make significant estimates and judgments involving variables such as sales volumes, sales prices, sales growth, production and operating costs, capital expenditures, market conditions and other economic factors. We base our fair value estimates on assumptions we believe to be reasonable, but which are unpredictable and inherently uncertain. Actual future results may differ from those estimates. Additionally, we also consider our market capitalization on the date we perform the analysis.

We review intangible assets in accordance with SFAS 144, and accordingly test for impairment upon the occurrence of certain triggering events, such as a decision to divest a business or projected losses of an entity.

We record any related impairment charge in other income (expense), net, in our Consolidated Income Statement, unless it is related to a discontinued operation, in which case the charge is recorded in loss from discontinued operations, net of tax.

Pension and postretirement benefits

As more fully described in Note 20 to our Consolidated Financial Statements, we operate pension plans that cover a large portion of our employees. We use actuarial valuations to determine our pension and postretirement benefit costs and credits. The amounts calculated depend on a variety of key assumptions, including discount rates and expected return on plan assets. We are required to consider current market conditions, including changes in interest rates, in selecting these assumptions. The discount rates are reviewed regularly and considered for adjustment annually based on changes in long-term, highly rated corporate bond yields. Decreases in the discount rates result in an increase in the projected benefit obligation and to pension costs.

Under U.S. GAAP, we accumulate and amortize over future periods actual results that differ from the assumptions used. Therefore, actual results generally affect our recognized expense and recorded liabilities for pension and other postretirement benefit obligations in future periods.

The “unfunded” balance, which can increase or decrease based on the performance of the financial markets or changes in our assumptions regarding rates, does not represent a mandatory short-term cash obligation. Instead, the unfunded balance of a pension plan is the difference between the projected obligation to employees (PBO) and the fair value of the plan assets. While we comply with appropriate statutory funding requirements, as of December 31, 2005, the unfunded balance of our pension plans was $839 million. In accordance with Statement of Financial Accounting Standards No. 87 (SFAS 87), *Employers' Accounting for Pensions,* we have recorded on the Consolidated Balance Sheet a net liability of $7 million in relation to this unfunded benefit balance. The difference is primarily due to an unrecognized actuarial loss of $819 million, which is amortized using the “minimum corridor” approach as defined by SFAS 87.

The expected return on plan assets is reviewed regularly and considered for adjustment annually based on current and expected asset allocations and represents the long-term return expected to be achieved. Decreases in the expected return on plan assets result in an increase to pension costs. An increase or decrease of 0.5 percent in the expected long-term rate of asset return would have decreased or increased, respectively, the net periodic benefit cost in 2005 by approximately $36 million.

Holding all other assumptions constant, a 100 basis point decrease in the discount rate would have increased the PBO by $957 million, while a 100 basis point increase in the discount rate would have decreased the PBO by $829 million.

The determinations of pension expense and pension funding are based on a variety of rules and regulations. Changes in these rules and regulations could impact the calculation of pension plan liabilities and the valuation of pension plan assets. They may also result in higher pension costs, additional financial statement disclosure and accelerate and increase the need to fund our pension plans. There are currently a number of legislative proposals being considered that, if enacted, would change the current rules. Most of these proposals would accelerate the pension funding as compared to funding under the existing rules.

We have multiple non-pension postretirement benefit plans. Our health care plans are generally contributory with participants' contributions adjusted annually. For purposes of estimating our health care costs, we have assumed health care cost increases per annum to be 10.38 percent for 2006, then gradually declining to 6.02 percent per annum in 2013, and to remain at that level thereafter.

Taxes

In preparing our Consolidated Financial Statements, we are required to estimate income taxes in each of the jurisdictions in which we operate. We account for deferred taxes by using the asset and liability method. Under this method, we determine deferred tax assets and liabilities based on temporary differences between the financial reporting and the tax bases of assets and liabilities. The differences are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. We recognize a deferred tax asset when it is probable that the asset will be realized. We regularly review our deferred tax assets for recoverability and establish a valuation allowance based upon historical losses, projected future taxable income and the expected timing of the reversals of existing temporary differences. To the extent we increase or decrease this allowance in a period, we recognize the change in the allowance within provision for taxes in the Consolidated Income Statements unless the change relates to discontinued operations, in which case the change is recorded in loss from discontinued operations, net of tax. Unforeseen changes in tax rates and tax laws as well as differences in the projected taxable income as compared to the actual taxable income may affect these estimates.

We operate in numerous tax jurisdictions and, as a result, are regularly subject to audit by tax authorities. ABB provides for tax contingencies, including potential tax audits, on the basis of the technical merits of the contingency, including applicable tax law, OECD guidelines and our best estimates of the facts and circumstances. Although we believe that our tax estimates are reasonable and that appropriate tax reserves have been made, the final determination of tax audits and any related litigation could be different than that which is reflected in our income tax provisions and accruals.

Accounting for tax contingencies requires that an estimated loss from a contingency be accrued as a charge to income if it is probable that an asset has been impaired or a liability has been incurred, and the amount of the loss can be reasonably estimated. The required amount of provision for contingencies of any type may change in the future due to new developments.

Consolidation

We evaluate our investments in operating companies, ventures and other types of investments for purposes of determining whether consolidation or the cost or equity method of accounting is appropriate. This determination is based upon our ability to retain and exercise control through our decision-making powers and our ability to exercise significant influence over the entity, as well as our ownership interests in the entity.

Material changes in our ability to retain control and exercise significant influence over an entity could change the accounting method between consolidation or the cost or equity methods, which could have a material impact on our Consolidated Financial Statements.

Additionally, pursuant to Financial Accounting Standards Board Interpretation No. 46 (FIN 46) *Consolidation of Variable Interest Entities – an interpretation of ARB No. 51* and revised Interpretation No. 46 (FIN 46(R)), we consolidate our interest in variable interest entities (VIEs) when we are considered the primary beneficiary. For those VIEs where we are not the primary beneficiary, we apply our existing consolidation policies in accordance with U.S. GAAP.

In determining the primary beneficiary of a VIE, we are required to make projections of expected losses and expected residual returns to be generated by that VIE. The projected expected losses and expected residual returns are critical to the identification of the primary beneficiary. These projections require us to use assumptions, including assumptions regarding the probability of cash flows. Expected losses and expected residual returns materially different from those projected could identify another entity as the primary beneficiary. A change in the contractual arrangements or ownership between the parties involved in the VIE could have an impact on our determination of the primary beneficiary, which in turn could have a material impact on our Consolidated Financial Statements.

Contingencies

As more fully described in the Section below entitled “Contingencies and retained liabilities” and in Note 17 to our Consolidated Financial Statements, we are subject to proceedings, lawsuits and other claims and inquiries related to asbestos, environmental, labor, product, and regulatory and other matters. We are required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses. A determination of the amount of provision required, if any, for these contingencies is made after analysis of each individual issue, often with assistance from both internal and external legal counsel and technical experts. The required amount of a provision for a contingency of any type may change in the future due to new developments in the particular matter, including changes in approach to its resolution.

Restructuring

Certain restructuring provisions include estimates pertaining to employee termination costs and the settlements of contractual obligations resulting from our actions. The actual costs may differ from these estimates due to subsequent developments such as voluntary retirement of employees and other business developments. Restructuring costs are recorded in the Consolidated Income Statements depending on the nature of the charges. Employee termination costs are generally recorded in cost of sales or selling, general and administrative expenses, depending on the function of the employee. Asset impairments and sublease shortfall costs are recorded in other income (expense), net, in the Consolidated Income Statements.

New accounting pronouncements

In November 2004, the Financial Accounting Standards Board issued Statement No.151 (SFAS 151), *Inventory Costs – an amendment of ARB No. 43, Chapter 4.* SFAS 151 amends Accounting Research Bulletin 43, Chapter 4: Inventory Pricing, to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges. In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. We implemented SFAS 151 in the first quarter of 2006 and do not expect the adoption to have a material impact on our financial position or results of operations.

In December 2004, the Financial Accounting Standards Board issued Statement No. 123R (SFAS 123R), *Share-Based Payment,* which replaces SFAS 123 and APB Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees* and requires that we measure compensation cost for all share-based payments at fair value. On April 14, 2005, the U.S. Securities and Exchange Commission announced the adoption of a new rule that amends the compliance dates for SFAS 123R. As a result of this announcement, we adopted SFAS 123R as of January 1, 2006. We will recognize share-based employee compensation cost from January 1, 2006, as if the fair-value based accounting method had been used to account for all employee awards granted, modified, or settled after the effective date and for any awards that were not fully vested as of the effective date. Based on currently existing share-based compensation plans, we do not expect the adoption of SFAS 123R to have a material impact on our financial position or results of operations.

In March 2005, the Financial Accounting Standards Board issued Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143.* FIN 47 clarifies that the term "conditional asset retirement obligation" as used in Financial Accounting Standards Board Statement No. 143, *Accounting for Asset Retirement Obligations,* refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within our control. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. Thus, the timing and/or method of settlement may be conditional on a future event. Accordingly, we are required to recognize a liability for the fair value of a conditional asset retirement obligation when the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation is recognized when incurred – generally upon acquisition, construction, or development and/or through the normal operation of the asset. We implemented FIN 47 in the fourth quarter of 2005 and presented the change as a cumulative effect of an accounting change of $5 million, net of tax.

At the June 15–16, 2005, Emerging Issues Task Force (EITF) meeting, the EITF reached a consensus on Issue No. 05-5 (EITF 05-5), *Accounting for Early Retirement or Post employment Programs with Specific Features (such as Terms Specified in Altersteilzeit Early Retirement Arrangements),* that the Financial Accounting Standards Board ratified on June 29, 2005. *Altersteilzeit* is a term that describes an early retirement program designed to create an incentive for employees, within a certain age group, to leave their employers before the legal retirement age. The issue addresses how to account for salary and bonus components as well as potential subsidies earned from governmental entities. EITF 05-5 is effective from the first quarter of 2006. The impact of implementation will not have an impact on our financial statements as we had been calculating the liability consistent with the requirements of EITF 05-5.

Acquisitions, investments and divestitures

Acquisitions and investments

During 2005, 2004, and 2003, we invested $27 million, $24 million and $55 million, respectively, in new businesses, joint ventures or affiliated companies.

Divestitures of businesses, joint ventures and affiliated companies

In 2005, 2004 and 2003, we received (paid) cash, net of cash disposed, from sales of businesses, joint ventures and affiliated companies of $(97) million, $1,182 million and $543 million, respectively. In relation to these transactions, we recognized gains in 2005, 2004 and 2003, respectively, within other income (expense), net, of $20 million, $52 million and $43 million. We also recognized losses related to the sale of operations in 2005, 2004, and 2003 within loss from discontinued operations, net of tax, of $16 million, $63 million and $38 million, respectively.

Divestitures in 2005

In November 2005, we completed the sale of our remaining Structured Finance business by divesting our Lease portfolio business in Finland. At the time of sale, the Lease portfolio business held lease and loan financial receivables of approximately $300 million and was the last remaining major entity of our Structured Finance business. In 2005, we recorded a loss of $28 million in loss from discontinued operations, principally related to the loss on sale of the business.

In 2005, we sold our Control Valves business, which was part of our Automation Technologies division in Japan. The Control Valves business had revenues of $26 million, $31 million and $28 million and net income of $15 million, $3 million and $2 million recorded in discontinued operations in 2005, 2004 and 2003, respectively. The net income recorded in 2005 includes $14 million related to the gain on sale of our Control Valves business.

In 2005, we completed the sale of our Foundry business. The Foundry business had revenues of $41 million, $41 million and $45 million and net losses of $1 million, $17 million and $0 million recorded in discontinued operations in 2005, 2004 and 2003, respectively.

In 2005, we completed the sale of our Power Lines businesses in Nigeria, Italy and Germany. These businesses had revenues of $27 million, $117 million and $187 million and net losses recorded in discontinued operations of $12 million, $75 million and $10 million in 2005, 2004, and 2003, respectively. We currently plan to sell our remaining Power Lines businesses in Brazil, Mexico, Venezuela and South Africa. These businesses had revenues of $102 million, $79 million and $70 million in 2005, 2004 and 2003, respectively. These businesses reported net income of $3 million in each of 2005 and 2004, and a net loss of $4 million in 2003, recorded in loss from discontinued operations.

In 2005, we also sold our equity interest in the Termobahia power project in Brazil for $46 million, and recorded a loss in other income (expense), net, of $4 million in 2005 related to this investment.

Divestitures in 2004

In 2004, we sold our Upstream Oil, Gas and Petrochemicals business for an initial purchase price of $925 million. Net cash proceeds from the sale were approximately $800 million, reflecting the initial sales price of $925 million adjusted for unfunded pension liabilities and changes in net working capital. The Upstream Oil, Gas and Petrochemicals business had revenues of $855 million and $1,499 million and net losses of $70 million and $44 million in 2004 and 2003, respectively.

In 2004, we completed the sale of our Reinsurance business, receiving gross cash proceeds of $415 million and net cash proceeds of approximately $280 million. The Reinsurance business recorded losses totaling $41 million and $97 million in loss from discontinued operations, and revenues of $139 million and $782 million in 2004 and 2003, respectively. The 2003 net loss of $97 million includes a $154 million impairment charge and an allocation of interest of $15 million in accordance with EITF 87-24, offset by income from operations of $72 million.

We sold the portion of our Building Systems business operating in Switzerland in 2004 for gross cash proceeds of approximately $39 million, but retained a 10 percent ownership interest. We recognized in 2004 a net gain on disposal of $12 million, before tax, in other income (expense), net.

In 2004, we sold our MDCV (Mitsubishi-Dainichi Continuous Vulcanization) Cable Business. This business had revenues of $74 million and net losses of $24 million in 2003.

In addition, in 2004, we sold our entire 15.7 percent equity interest in IXYS Corporation for approximately $42 million and recorded a gain, before tax, of $20 million in other income (expense), net.

In 2004, we also sold a business in Sweden, formerly part of our Automation Technologies division, for $11 million, and recorded a gain on disposal of $7 million, before tax, in other income (expense), net.

Divestitures in 2003

In December 2003, as part of the divestment of our Structured Finance business, we sold ABB Export Bank. We received cash proceeds of approximately $50 million from the sale and recorded a loss on disposal of $12 million, in discontinued operations, net of tax.

In December 2003, we sold a part of our Wind Energy business in Germany for proceeds of approximately $35 million. The Wind Energy business had revenues $16 million and net losses of $42 million in 2003. During 2005, we determined the Wind Energy business no longer met the criteria required to classify the remaining business in discontinued operations. Therefore, as of the fourth quarter of 2005, the results of operations of the Wind Energy business were reclassified to continuing operations for all periods presented.

In August 2003, as part of the continued divestment of our Building Systems business, we sold the portions of our Building Systems business operating in Sweden, Norway, Denmark, Finland, Russia and the Baltic states for consideration of $213 million. We recorded a gain on disposal of approximately $124 million, before tax, in other income (expense), net. Additionally, throughout 2003, we sold portions of our Building Systems business operating in a number of other countries, including Belgium, the Netherlands, Austria, Hungary and the United Kingdom, for aggregate proceeds of $21 million, recording a loss on disposal of approximately $41 million, before tax, in other income (expense), net.

In June 2003, we sold our entire 35 percent interest in the Swedish Export Credit Corporation to the government of Sweden for net proceeds of approximately $149 million, and recorded a loss on disposal of approximately $80 million, before tax, included in other income (expense), net.

Also in June 2003, we sold our interests in certain equity investments in Australia for cash proceeds of approximately $90 million, and recorded in 2003 a gain on disposal of approximately $28 million, before tax, in other income (expense), net.

In March 2003, we sold our aircraft leasing business for approximately $90 million. This business consisted of a portfolio of loans and leases related to commuter aircraft and helicopters used primarily in Northern Europe. We provided significant financial support to the entity formed by the buyer for the acquisition. Following the introduction of FIN 46 in 2003, we determined that this entity should be treated as a VIE and, as a result of the financial support we provided, that we are the primary beneficiary of this entity. Accordingly, we have consolidated this entity in our Consolidated Financial Statements.

Other divestitures

During 2005, 2004 and 2003, we sold several operating units and investments, excluding the divestments disclosed above, for total proceeds of $24 million, $39 million and $31 million, respectively, and recognized net gains on disposal of $21 million, $13 million and $12 million, respectively, which are included in other income (expense), net. Revenues and net income from these businesses and investments were not significant in 2005, 2004 and 2003.

Exchange rates

We report our financial results in U.S. dollars. A significant amount of our revenues, expenses, assets and liabilities are denominated in other currencies due to our global operations. As a consequence, movements in exchange rates between currencies may affect:

- our profitability;
- the comparability of our results between periods; and
- the carrying value of our assets and liabilities.

We must translate non-U.S. dollar denominated results of operations, assets and liabilities to U.S. dollars in our Consolidated Financial Statements. Balance sheet items are translated to U.S. dollars using year-end currency exchange rates. Income statement and cash flow items are translated to U.S. dollars using the average currency exchange rate over the relevant period. As a consequence, increases and decreases in the value of the U.S. dollar against other currencies will affect our reported results of operations in our Consolidated Income Statement and the value of certain of our assets and liabilities in our Consolidated Balance Sheet, even if our results of operations or the value of those assets and liabilities have not changed in their original currency. Because of the impact foreign exchange rates have on our reported results of operations and the reported value of our assets and liabilities, changes in foreign exchange rates could significantly affect the comparability of our reported results of operations between periods and result in significant changes to the reported value of our assets, liabilities and shareholders' equity, as has been the case during the period from 2003 through 2005.

While we operate globally and report our financial results in U.S. dollars, because of the location of our significant operations and because our headquarters are in Switzerland, exchange rate movements between the U.S. dollar and both the euro (EUR) and the Swiss franc (CHF) are of particular importance to us.

The exchange rates between the U.S. dollar and the EUR and the U.S. dollar and the CHF as of December 31, 2005, 2004, and 2003, are as follows.

	2005	2004	2003
		Exchange rates into $	
EUR 1.00	1.18	1.37	1.26
CHF 1.00	0.76	0.88	0.81

The average exchange rates between the U.S. dollar and the EUR and the U.S. dollar and the CHF for the years ended December 31, 2005, 2004 and 2003, are as follows.

	2005	2004	2003
		Exchange rates into $	
EUR 1.00	1.25	1.25	1.13
CHF 1.00	0.81	0.81	0.75

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

In 2005, approximately 86 percent of our consolidated revenues were reported in currencies other than U.S. dollars. Of that amount, the following percentages were reported in the following currencies:

- Euro, approximately 40 percent,
- Chinese renminbi, approximately 8 percent,
- Swedish krona, approximately 7 percent,
- Swiss franc, approximately 5 percent and
- Pound sterling, approximately 4 percent.

In 2005, approximately 85 percent of our consolidated cost of sales and selling, general and administrative expenses were reported in currencies other than U.S. dollars. Of that amount, the following percentages were reported in the following currencies:

- Euro, approximately 40 percent,
- Chinese renminbi, approximately 7 percent,
- Swedish krona, approximately 7 percent,
- Swiss franc, approximately 5 percent and
- Pound sterling, approximately 4 percent.

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

The results of operations and financial position of many of our non-U.S. subsidiaries are reported in the currencies of the countries in which those subsidiaries reside. We call these currencies "local currencies." Local currency financial information is then translated into U.S. dollars at applicable exchange rates for inclusion in our Consolidated Financial Statements.

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

While we consider our results of operations as measured in local currencies to be a significant indicator of business performance, local currency information should not be relied upon to the exclusion of U.S. GAAP financial measures. Instead, local currencies reflect an additional measure of comparability and provide a means of viewing aspects of our operations that, when viewed together with the U.S. GAAP results and our reconciliations, provide a more complete understanding of factors and trends affecting the business. Because local currency information is not standardized, it may not be possible to compare our local currency information to other companies' financial measures that have the same or a similar name. We strongly encourage investors to review our financial statements and publicly-filed reports in their entirety, and not to rely on any single financial measure.

Orders

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

The undiscounted value of revenues we expect to generate from our orders at any point in time is represented by our order backlog. Approximately 10 percent of the value of the orders we booked in 2005 were "large orders," which we define as orders from third parties involving at least $15 million of products or services. Of the total value of orders in our Power Technologies and Automation Technologies divisions in 2005, approximately 12 percent and 7 percent, respectively, represented large orders. Within our Non-core activities division, large orders represented 26 percent of total orders in 2005, as large orders accounted for 39 percent of the value of orders received by the Oil, Gas and Petrochemicals business.

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

Performance measures

We evaluate the performance of our divisions based on orders received, revenues, earnings before interest and taxes (EBIT), EBIT as a percentage of revenues (EBIT margin) and net cash provided by (used in) operating activities. The orders, revenues and EBIT of our divisions include interdivisional transactions. In 2005, approximately 96 percent of our core divisions' orders and revenues were from third-party customers. EBIT is the amount resulting from the subtraction of our cost of sales, selling, general and administrative expenses and other income (expense), net, from our revenues. Net cash provided by (used in) operating activities represents the cash provided by or used in a business before cash inflows and outflows from investing and financing activities, and, as relates to our divisions, includes interdivisional transactions.

Consolidated results of operations

Our results from operations were as follows:

Year ended December 31,	2005	2004	2003
	(in $ millions, except per share data)		
Orders	23,581	21,586	19,603
Order backlog [1]	12,054	12,332	11,269
Revenues	22,442	20,610	20,332
Cost of sales	16,830	15,681	15,856
Gross profit	5,612	4,929	4,476
Selling, general and administrative expenses	3,922	3,822	3,950
EBIT	1,742	1,046	287
Net interest and other finance expense	(246)	(209)	(402)
Provision for taxes	(482)	(331)	(233)
Minority interest	(131)	(102)	(67)
Income (loss) from continuing operations before cumulative effect of accounting change	883	404	(415)
Loss from discontinued operations, net of tax	(143)	(439)	(364)
Cumulative effect of accounting change, net of tax	(5)	–	–
Net income (loss)	735	(35)	(779)
Basic earnings (loss) per share:			
Income (loss) from continuing operations before cumulative effect of accounting change	0.44	0.20	(0.34)
Net income (loss)	0.36	(0.02)	(0.64)
Diluted earnings (loss) per share:			
Income (loss) from continuing operations before cumulative effect of accounting change	0.43	0.20	(0.34)
Net income (loss)	0.36	(0.02)	(0.64)

[1] as of December 31

A more detailed discussion of the orders, revenues, cost of sales, selling, general and administrative expenses and EBIT for our individual divisions and other businesses follows in the sections below entitled "Power Technologies," "Automation Technologies," "Non-core activities" and "Discontinued operations."

Orders

Year ended December 31,	2005	2004	2003
		($ in millions)	
Power Technologies	10,714	9,304	7,622
Automation Technologies	12,675	11,301	9,665
Core divisions	*23,389*	*20,605*	*17,287*
Non-core activities	1,111	1,693	3,344
Oil, Gas and Petrochemicals	698	1,216	1,156
Equity Ventures	2	7	26
Structured Finance	5	3	31
Building Systems	347	388	1,616
Other Non-core activities	59	79	515
Corporate/Other and inter-division eliminations	(919)	(712)	(1,028)
Total	23,581	21,586	19,603

In 2005, orders increased by $1,995 million, or 9 percent (8 percent in local currencies), to $23,581 million.

Orders received by our core divisions increased by 14 percent in 2005 (13 percent in local currencies), with orders received by our Power Technologies and Automation Technologies divisions increasing 15 percent and 12 percent (14 percent and 11 percent in local currencies), respectively. Orders received by our Non-core activities division decreased by 34 percent (35 percent in local currencies) in 2005, mainly due to changes in the bidding policy of our Oil, Gas and Petrochemicals business to reduce the number of projects performed under long-term fixed price contracts and to increase the number of projects performed under contracts providing for the reimbursement of expenses as incurred.

In 2004, orders increased by $1,983 million, or 10 percent (decreased by 2 percent in local currencies), to $21,586 million from $19,603 million in 2003. Orders received by our Non-core activities division decreased by 49 percent (55 percent in local currencies) in 2004 as compared to 2003.

We determine the geographic distribution of our orders based on the location of the customer, which may be different from the ultimate destination of the products' end use. The geographic distribution of our consolidated orders in 2005, 2004 and 2003 was approximately as follows:

Year ended December 31,	2005	2004	2003
		($ in millions)	
Europe	10,933	11,006	10,999
Americas	4,443	3,743	3,180
Asia	5,773	4,980	3,460
Middle East and Africa	2,432	1,857	1,964
Total	23,581	21,586	19,603

Orders in 2005 from Europe remained consistent in both reporting and local currencies as compared to 2004, as modest growth in western Europe offset a decrease in eastern Europe, caused mainly by a reduction in large projects. Orders from the Americas grew 19 percent (15 percent in local currencies), driven by strong demand for power infrastructure and automation products in South America. Growth in orders from the Americas was also supported by demand in North America, specifically in the U.S. for power systems and equipment. Asian orders increased 16 percent (14 percent in local currencies), reflecting investments in power and industry infrastructure predominantly in India. Orders from the MEA rose 31 percent (30 percent in local currencies), primarily as a result of several large orders for power infrastructure projects.

Orders from Europe remained consistent (declined 8 percent in local currencies) in 2004 as compared to 2003. Changes in our orders from Europe were primarily the result of the divestments in our Building Systems business in certain countries and a change in bidding policy for new contracts in the Oil, Gas and Petrochemicals business. Orders from the Americas increased 18 percent (15 percent in local currencies) in 2004, driven largely by orders from the automotive industry.

Asian orders increased 44 percent (37 percent in local currencies) in 2004, principally resulting from an increase in orders from China and economic growth and infrastructure development in India following the Indian government's economic liberalization initiatives. In 2004, orders from the MEA declined by 5 percent (13 percent in local currencies) as compared to 2003, which included several large orders received by our Power Technology Systems business area.

Order backlog

Year ended December 31,	2005	2004	2003
		($ in millions)	
Power Technologies	7,058	6,858	6,009
Automation Technologies	4,395	4,305	3,812
Core divisions	*11,453*	*11,163*	*9,821*
Non-core activities	929	1,533	1,862
Oil, Gas and Petrochemicals	774	1,251	1,264
Equity Ventures	–	–	–
Structured Finance	–	–	2
Building Systems	151	255	554
Other Non-core activities	4	27	42
Corporate/Other and inter-division eliminations	(328)	(364)	(414)
Total	12,054	12,332	11,269

Order backlog in 2005 decreased by $278 million, or 2 percent (increased 7 percent in local currencies), to $12,054 million. Order backlog in our core divisions increased by 3 percent (12 percent in local currencies) which was more than offset by a 39 percent decline (33 percent in local currencies) in the order backlog in our Non-core activities division mainly due to lower orders in our Oil, Gas and Petrochemicals business.

In 2004, order backlog increased by $1,063 million, or 9 percent (3 percent in local currencies), to $12,332 million as an increase in order backlog in our core divisions exceeded an 18 percent decline (23 percent in local currencies) in order backlog in our Non-core activities division.

Revenues

Year ended December 31,	2005	2004	2003
		($ in millions)	
Power Technologies	**9,784**	**8,675**	**7,524**
Automation Technologies	**12,161**	**11,000**	**9,602**
Core divisions	*21,945*	*19,675*	*17,126*
Non-core activities	**1,421**	**1,691**	**4,321**
Oil, Gas and Petrochemicals	933	1,079	1,895
Equity Ventures	2	7	26
Structured Finance	5	4	31
Building Systems	421	508	1,829
Other Non-core activities	60	93	540
Corporate/Other and inter-division eliminations	**(924)**	**(756)**	**(1,115)**
Total	**22,442**	**20,610**	**20,332**

Revenues increased by $1,832 million, or 9 percent (8 percent in local currencies), to $22,442 million in 2005 from $20,610 million in 2004. This increase reflects a higher level of execution of orders from order backlog and new orders received during 2005 in both our core divisions. Although both divisions increased revenues by more than 10 percent in 2005 as compared to 2004, this increase was partly offset by a reduction of revenues in our Non-core activities division of $270 million, or 16 percent, mainly due to reductions in our Oil, Gas and Petrochemicals business following changes in its bidding policy for new projects and the closure of our Building Systems business in certain countries.

In 2004, revenues increased by $278 million, or 1 percent (decreased by 6 percent in local currencies), to $20,610 million from $20,332 million in 2003. The relatively flat revenue growth in 2004 was due to a decrease of 61 percent (64 percent in local currencies) in revenues generated by our Non-core activities division that substantially offset revenue increases of 15 percent and 15 percent (8 percent and 6 percent in local currencies) in our Power Technologies and Automation Technologies divisions, respectively.

Revenues from services increased 12 percent to $3,705 million in 2005 from $3,301 million in 2004 reflecting an increased focus on services by both of our core divisions. Expressed as a percentage of total revenues, service revenues represented 17 percent of total revenues in 2005 relative to 16 percent in 2004. During 2004, service revenues increased by $306 million or 10 percent from $2,995 million in 2003. Service revenues represented 15 percent of total revenues during 2003.

We determine the geographic distribution of our revenues based on the location of the customer, which may be different from the ultimate destination of the products' end use. The geographic distribution of our consolidated revenues in 2005, 2004 and 2003 was approximately as follows:

Year ended December 31,	2005	2004	2003
		($ in millions)	
Europe	11,139	10,750	10,950
Americas	4,231	3,557	3,844
Asia	5,127	4,261	3,519
Middle East and Africa	1,945	2,042	2,019
Total	**22,442**	**20,610**	**20,332**

Revenues in Europe increased by 4 percent (3 percent in local currencies) in 2005 after a decline of 2 percent (10 percent in local currencies) in 2004 as compared to 2003. The increased revenues from our core divisions more than offset a reduction in revenues from our Non-core activities division during 2005 whereas, during 2004, the reductions associated with divestments in our Building Systems business in certain countries resulted in an overall reduction in revenues. Revenues from the Americas increased 19 percent in 2005 (15 percent in local currencies) as compared to a 7 percent decline (9 percent in local currencies) in 2004. The increase in 2005 was primarily the result of revenue growth from execution of large projects in Mexico, Canada, Brazil and the United States, while lower order intake was the main reason for the decrease in 2004. Revenues from Asia increased 20 percent and 21 percent (19 percent and 16 percent in local currencies) in 2005 and 2004, respectively, as a result of market growth in China, India, Australia and Korea. Revenues from the MEA decreased 5 percent in 2005 relative to 2004, following lower orders received during 2004. Revenues in the MEA remained at a similar level in 2004 relative to 2003 in our reporting currency, while decreasing 4 percent in local currencies, mainly due to lower revenues in Saudi Arabia and Angola, where significantly higher revenues were recorded in 2003 from the execution of large projects which did not recur thereafter.

Cost of sales

Cost of sales increased by $1,149 million, or 7 percent (6 percent in local currencies), to $16,830 million in 2005 after a decrease in 2004 of $175 million, or 1 percent (8 percent in local currencies), to $15,681 million.

Cost of sales consists primarily of labor, raw materials and related components. Cost of sales also includes provisions for warranty claims, contract losses and project penalties, employee severance expenses as well as order-related development expenses incurred in connection with projects for which we have recognized corresponding revenues. Order-related development expenses are recorded in cost of sales, and amounted to $735 million, $732 million and $892 million in 2005, 2004 and 2003, respectively. Order-related development expenses are initially recorded in inventories as work-in-progress, and are reflected in cost of sales at the time revenue is recognized.

The gross profit margins on a consolidated basis and for each core division and our Non-core activities division, calculated as gross profit divided by revenues, were as follows:

Year ended December 31,	2005	2004	2003
Power Technologies	21.0%	20.4%	22.1%
Automation Technologies	30.2%	29.4%	29.0%
Non-core activities	8.7%	5.7%	8.6%
Consolidated	**25.0%**	**23.9%**	**22.0%**

The gross profit margins in our core divisions significantly increased during 2005 as a result of cost reduction activities, operational and productivity improvements and savings from supply chain management, and were partly offset by expenses relating to a program implemented in 2005 to consolidate our transformer business within our Power Technologies division and increases in raw material prices, particularly steel, copper, aluminum and transformer oil. Improvements in project execution within our Oil, Gas and Petrochemicals business, in our Non-core activities division, also contributed to the overall increase in the gross profit margin.

The consolidated gross profit margin improved in 2004 as compared to 2003, principally due to an improvement in the gross profit margin of our Oil, Gas and Petrochemicals business from negative 9.5 percent in 2003 to positive 9.9 percent in 2004 following a $1,103 million reduction in cost of sales related to the culmination of long-term fixed price contracts.

Selling, general and administrative expenses

Selling, general and administrative expenses increased by $100 million, or 3 percent (2 percent in local currencies), to $3,922 million in 2005 from $3,822 million in 2004. In 2004, selling, general and administrative expenses decreased by $128 million, or 3 percent (10 percent in local currencies), from $3,950 million in 2003.

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

Year ended December 31,	2005	2004	2003
		($ in millions)	
Selling expenses	2,103	1,897	1,827
General and administrative expenses	1,819	1,925	2,123
Total selling, general and administrative expenses	**3,922**	**3,822**	**3,950**
Total selling, general and administrative expenses as a percentage of revenues	17.5%	18.5%	19.4%

Selling, general and administrative expenses as a percentage of revenues remained relatively consistent in our Power Technologies and Non-core activities divisions in 2005 after decreasing in 2004 as compared to 2003. Selling, general and administrative expenses as a percentage of revenues decreased in our Automation Technologies division in each of the past two years relative to 2003.

Selling expenses increased 11 percent and 4 percent (increased 10 percent and decreased 4 percent in local currencies) in 2005 and 2004, respectively. Selling expenses increased in each of our Power Technologies and Automation Technologies divisions by 20 percent and 6 percent (18 percent and 6 percent in local currencies), respectively, reflecting an increase in the sales force deployed in emerging and growth markets (which has resulted in higher orders received from these markets). Selling expenses remained at relatively constant levels in our Non-core activities division during 2005 and 2004, after decreasing more than $100 million from 2003 due to business divestments and closures of certain non-core businesses.

General and administrative expenses decreased by 6 percent and 9 percent (6 percent and 16 percent in local currencies) in 2005 and 2004, respectively. In 2005, an increase in general and administrative expenses of 7 percent and 12 percent (6 percent and 11 percent in local currencies) in our Power Technologies and Automation Technologies divisions, respectively, due to increased revenue volumes, was more than offset by a reduction in expenses in our Non-core activities and Corporate/Other divisions driven by a lower level of business activity and lower corporate costs. General and administrative expenses decreased in 2004 relative to 2003, as a result of sales and closures of certain businesses in our Non-core activities division, partially offset by increases of 2 percent and 14 percent (decrease of 6 percent and increase of 4 percent in local currencies) in our Power Technologies and Automation Technologies divisions, respectively.

General and administrative expenses include non-order related research and development, which decreased 2 percent and increased 9 percent in 2005 and 2004, respectively. Research and development costs not related to a specific order or project were $679 million, $690 million and $635 million in 2005, 2004 and 2003, respectively.

Other income (expense), net

Other income (expense), net, typically consists of restructuring expenses, gains or losses from the sale of businesses, gains or losses from the sale or disposal of property, plant and equipment, asset write-downs, our share of income or loss from equity accounted companies, principally from our Equity Ventures business, and license income.

Year ended December 31,	2005	2004	2003
		($ in millions)	
Restructuring expenses	(53)	(165)	(341)
Capital gains, net	62	83	24
Asset write-downs	(58)	(93)	(35)
Income from licenses, equity accounted companies and other	101	114	113
Total	**52**	**(61)**	**(239)**

Restructuring expenses recorded during 2005 under other income (expense), net, included $24 million in our Automation Technologies division, primarily related to factory closing and streamlining operations in Europe, and $16 million within our Corporate/Other division, primarily in the Americas in our Real Estate business. In addition, our Power Technologies division recorded restructuring expenses of $11 million, primarily in Europe. We implemented major restructuring programs in previous periods focusing on increased productivity and streamlining of operations, particularly in our Non-core activities division with a view to prepare the businesses in that division for divestment. Restructuring expenses recorded during 2004 and 2003 were primarily from the execution of these programs.

Capital gains, net, in 2005 included $45 million on the sale of land and buildings primarily in Europe and $18 million on the sale of shares and participations in our Equity Ventures business and other transactions. Capital gains, net, in 2004 included gains of $33 million on the sale of land and buildings, $20 million on the sale of our shares of IXYS Corporation and lesser amounts from a number of smaller transactions. Capital gains, net, in 2003 included gains of $83 million from the sale of businesses in our Building Systems business, $28 million from the sale of equity investments in Australia, $26 million from the sale of land and buildings and lesser amounts from a number of smaller transactions, partly offset by an $80 million loss on the sale of our equity interest in the Swedish Export Credit Corporation.

Asset write-downs in 2005 included the impairment of long-lived assets of $36 million, primarily in Europe, and $22 million related to write-downs of certain of our investments, primarily in our Equity Ventures business. Asset write-downs in 2004 included charges of $93 million in respect of goodwill, an e-business investment, property and equipment and notes receivable in our Power Technologies division. Asset write-downs in 2003 related to software, several equity investments and certain long-lived assets.

License income was $9 million, $24 million and $25 million in 2005, 2004 and 2003, respectively, primarily reflecting income from liquid crystal display licenses. The reduction in 2005 reflects the completion of the period of certain agreements.

Income from equity accounted companies was $109 million, $87 million and $96 million in 2005, 2004 and 2003, respectively. Income from equity accounted companies includes income of $62 million, $68 million and $62 million in 2005, 2004 and 2003, respectively, from our investment in Jorf Lasfar Energy Company S.C.A., which operates a power plant in Morocco, and income of $23 million in 2005 from our investment in a power project in Neyveli, India, which was primarily responsible for the higher level of income during 2005.

Earnings before interest and taxes

Our EBIT for the years ended December 31, 2005, 2004 and 2003 was as follows:

Year ended December 31,	2005	2004	2003
		($ in millions)	
Power Technologies	**789**	**608**	**592**
Automation Technologies	**1,312**	**1,023**	**735**
Core divisions	*2,101*	*1,631*	*1,327*
Non-core activities	**34**	**(62)**	**(520)**
Oil, Gas and Petrochemicals	48	(4)	(296)
Equity Ventures	69	69	76
Structured Finance	–	(14)	(68)
Building Systems	(37)	(70)	(104)
Other Non-core activities	(46)	(43)	(128)
Corporate/Other	**(393)**	**(523)**	**(520)**
Total	**1,742**	**1,046**	**287**

EBIT increased by $696 million, or 67 percent (66 percent in local currencies), to $1,742 million in 2005 and by $759 million, or 264 percent (238 percent in local currencies), to $1,046 million in 2004.

The EBIT margins for our core divisions and on a consolidated basis for the years ended December 31, 2005, 2004 and 2003, are as follows:

Year ended December 31,	2005	2004	2003
Power Technologies	**8.1%**	**7.0%**	**7.9%**
Automation Technologies	**10.8%**	**9.3%**	**7.7%**
Core divisions	*9.6%*	*8.3%*	*7.7%*
Total	**7.8%**	**5.1%**	**1.4%**

Net interest and other finance expense

Net interest and other finance expense consists of interest and dividend income offset by interest and other finance expense. Interest and other finance expense includes interest expense on our borrowings, securitization costs, amortization of upfront costs associated with our credit facility and debt securities, commitment fees on our bank facility, gains (losses) on marketable securities, expenses relating to the accretion to par of our 4.625% $968 million convertible bonds and, in 2004 and 2003, expenses relating to the change in fair value of the embedded derivative that was in these bonds.

Year ended December 31,	2005	2004	2003
		($ in millions)	
Interest and dividend income	157	151	142
Interest and other finance expense	(403)	(360)	(544)
Net interest and other finance expense	**(246)**	**(209)**	**(402)**

Interest and dividend income increased slightly in 2005 as compared to 2004 due to an increase in interest rates partially offset by a reduction in the average balance of cash and marketable securities. In 2004, interest and dividend income increased as compared to 2003, due to higher average balances of cash and marketable securities and higher average market interest rates.

Interest and other finance expense increased in 2005 to $403 million as compared to $360 million in 2004. Debt maturities and debt repurchases during 2005 resulted in a lower average level of debt in 2005 than in 2004 which, together with the interest rate swaps that we entered into in 2005 to effectively convert the interest obligations on our 6.5% 650 million euro bonds and our 3.75% 500 million Swiss franc bonds from fixed to floating, resulted in a lower total interest expense on borrowings in 2005 than in 2004, despite an increase in market interest rates during 2005. Interest and other finance expense in 2005 also includes an $18 million expense related to our securitization programs, a loss on repurchase of our bonds of $19 million, a write-off of $12 million of unamortized costs on our $1 billion credit facility that we replaced prior to expiry and a $31 million expense relating to the accretion to par of our 4.625% $968 million convertible bonds.

Interest and other finance expense in 2004 included a $43 million non-cash gain on available for sale marketable securities contributed to our German pension funds, $20 million expense relating to our group securitization programs and a $52 million expense relating to the change in fair value of the embedded derivative and the amortization of the related discount on issuance from our 4.625% $968 million convertible bonds.

Interest and other finance expense decreased in 2004 as compared to 2003 due to lower average debt levels in the period, partially offset by higher average interest rates on our borrowings. The debt repaid in 2004 was largely debt that had been swapped into floating interest rates. Consequently, fixed rate debt, with higher average interest rates than our floating rate debt during 2004, represented an increased proportion of our total debt balance as compared to 2003.

In 2003, interest and other finance expense included a $40 million loss on the sale of our shares in the China National Petrochemical Corporation (Sinopec), a $36 million impairment charge for available-for-sale marketable securities in Germany, a $21 million expense relating to our securitization programs and a $84 million expense relating to the change in fair value of the embedded derivative and the amortization of the related discount on issuance from our 4.625% $968 million convertible bonds.

Provision for taxes

Year ended December 31,	2005	2004	2003
		($ in millions)	
Income (loss) from continuing operations, before taxes and minority interest and cumulative effect of accounting change	1,496	837	(115)
Provision for taxes	(482)	(331)	(233)
Effective tax rate for the year	32.2%	39.5%	(202.6)%

The provision for taxes in 2005 was $482 million, representing an effective tax rate for the year of 32.2 percent. The provision for taxes in 2005 includes an expense of approximately $60 million relating to items that are deducted for accounting purposes but not for the computation of taxable income, such as interest expense, state and local taxes on productive activities, disallowed meals and entertainment expenses and other similar items.

The provision for taxes in 2004 was $331 million, representing an effective tax rate for the year of 39.5 percent. The provision for taxes in 2004 includes an expense relating to a valuation allowance of $115 million, predominantly relating to our operations in Canada and France, a benefit of approximately $45 million from the losses of a post-divestment reorganization and a benefit of approximately $39 million relating to the resolution of certain prior year tax matters.

In 2003, the loss from continuing operations before taxes and minority interest and cumulative effect of accounting change of $115 million includes an $84 million expense relating to the change in fair value of the embedded derivative and the amortization of the related discount on issuance from our 4.625% $968 million convertible bonds. Furthermore, the provision for taxes includes the release of an approximately $38 million tax provision related to a favorable tax case ruling and an expense of approximately $16 million related to a tax claim filed in Central Europe. In addition, the provision for taxes includes a valuation allowance of approximately $258 million and $9 million of deferred tax assets as a result of the determination that it was more likely than not that such deferred tax assets would no longer be realized within our Oil, Gas and Petrochemicals business and certain countries within Central Europe respectively. The effective tax rate in 2003 applicable to income from continuing operations excluding the tax effect of these items would have been 38.7 percent.

Income (loss) from continuing operations before cumulative effect of accounting change

Income from continuing operations before cumulative effect of accounting change increased by $479 million to $883 million in 2005 as compared to $404 million in 2004, primarily reflecting increased EBIT partly offset by an increase in net interest and other finance expenses and provision for taxes in 2005.

Income (loss) from continuing operations before cumulative effect of accounting change increased by $819 million to an income of $404 million in 2004 as compared to a loss of $415 million in 2003. The increase reflects improved EBIT and reduced net interest and other finance expense in 2004.

Loss from discontinued operations, net of tax

The loss from discontinued operations, net of tax, as well as a detailed discussion of the results of our discontinued operations, follows in the section below entitled “Discontinued operations.”

Net income (loss)

As a result of the factors discussed above, net income improved by $770 million to a net income of $735 million in 2005, from a net loss of $35 million in 2004. The net loss in 2004 decreased by $744 million, to a net loss of $35 million in 2004, from a net loss of $779 million in 2003.

Earnings (loss) per share

Year ended December 31,	2005	2004	2003
		($)	
Income (loss) from continuing operations before cumulative effect of accounting change			
Basic	0.44	0.20	(0.34)
Diluted	0.43	0.20	(0.34)
Loss from discontinued operations, net			
Basic	(0.08)	(0.22)	(0.30)
Diluted	(0.07)	(0.22)	(0.30)
Net income (loss)			
Basic	0.36	(0.02)	(0.64)
Diluted	0.36	(0.02)	(0.64)

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted-average number of shares outstanding during the year. Diluted earnings (loss) per share is calculated by dividing net income (loss) by the weighted-average number of shares outstanding during the year, assuming that all potentially dilutive securities were exercised, if dilutive. Potentially dilutive securities include outstanding written call options, outstanding options granted under our employee incentive plans and shares issuable in relation to outstanding convertible bonds.

Basic earnings per share was $0.36 in 2005 as compared to a loss per share of $0.02 in 2004. Basic loss per share was $0.02 in 2004 as compared to $0.64 in 2003.

Power Technologies

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

Year ended December 31,	2005	2004	2003
		($ in millions)	
Orders	10,714	9,304	7,622
Order backlog	7,058	6,858	6,009
Revenues	9,784	8,675	7,524
Cost of sales	7,726	6,904	5,862
Selling, general and administrative expenses	1,247	1,100	1,022
EBIT	789	608	592

Orders

Orders increased by $1,410 million, or 15 percent (14 percent in local currencies), to $10,714 million in 2005. The order increase reflected growth in both business areas, led by Power Technology Products. Both large and base orders improved in 2005. The biggest individual project received in 2005 was a $220 million order to deliver substations to the Gulf Grid project, which will link the electricity grids of six states located in the Persian Gulf. Orders in 2004 included an order of approximately $390 million relating to the Three Gorges project in China.

Orders from other divisions were $517 million in 2005 as compared to $499 million in 2004, representing 5 percent of division orders in both periods. Orders from other divisions were $499 million in 2004 as compared to $432 million in 2003, representing 5 percent and 6 percent of division orders, respectively.

The geographic distribution of orders in 2005, 2004 and 2003 for our Power Technologies division was approximately as follows:

Year ended December 31,	2005	2004	2003
Europe	36%	38%	40%
Americas	22%	21%	22%
Asia	26%	29%	21%
Middle East and Africa	16%	12%	17%
Total	**100%**	**100%**	**100%**

Order growth in 2005 was very strong in the MEA, reflecting a high demand for large system projects in the region. Order growth was also strong in Asia, as demand increased in many countries, particularly in India, resulting in a slight increase in the overall volume of orders from this region relative to 2004, which included the Three Gorges project in China. Orders increased in the Americas driven mainly by orders from Brazil, Canada, the United States and Puerto Rico, and reflected increases in large orders, partly offset by lower system orders in Mexico. Growth in Europe, which continued to be the largest regional source of orders but decreased as a percentage of division revenues, was led by our Power Technology Products business area, particularly in orders from central and eastern Europe.

Order growth in 2004 was led by growth in Asia, particularly in China where orders almost doubled, resulting in Asia becoming the second largest regional source of orders for our Power Technologies division. Orders also grew in Europe in 2004, which is the division's largest regional source of orders. Orders in North America increased significantly, while orders from South America decreased slightly. Orders from the MEA decreased primarily due to a lower level of large orders in 2004 than in 2003.

Order backlog

Order backlog increased by $200 million, or 3 percent (12 percent in local currencies), to $7,058 million as of December 31, 2005 from $6,858 million as of December 31, 2004.

Order backlog increased by $849 million, or 14 percent (7 percent in local currencies), to $6,858 million as of December 31, 2004 from $6,009 million as of December 31, 2003.

Revenues

The distribution of revenues of our Power Technologies division by business area was approximately as follows:

Percentage of revenues for the year ended December 31,	2005	2004	2003
Power Technology Products	63%	62%	59%
Power Technology Systems	37%	38%	41%

Revenues increased by $1,109 million, or 13 percent (11 percent in local currencies), to $9,784 million in 2005 from $8,675 million in 2004. Revenues in our Power Technology Products business area increased by 12 percent (11 percent in local currencies), reflecting revenue increases in all three of its businesses. Revenues in our Power Technology Systems business area in 2005 increased 9 percent over the previous year (8 percent in local currencies) following execution of its order backlog.

Revenues increased by $1,151 million, or 15 percent (8 percent in local currencies), to $8,675 million in 2004 from $7,524 million in 2003, principally reflecting 21 percent (13 percent in local currencies) revenue growth in our Power Technology Products business area, and a 5 percent increase (2 percent decrease in local currencies) in our Power Technology Systems business area.

The geographic distribution of revenues in 2005, 2004 and 2003 for our Power Technologies division was approximately as follows:

Year ended December 31,	2005	2004	2003
Europe	37%	39%	39%
Americas	22%	22%	24%
Asia	28%	25%	24%
Middle East and Africa	13%	14%	13%
Total	**100%**	**100%**	**100%**

Regionally, revenue growth in 2005 was led by Asia, reflecting higher revenues from China and India. Revenues increased in the Americas, particularly in Mexico, Canada, Brazil and Venezuela, as well as in Europe, led by Norway and the Netherlands. In the MEA, a revenue increase in our Power Technology Systems business area was offset in part by lower revenues in our Power Technology Products business area.

Regionally, revenues in 2004 were higher in Europe, Asia and the MEA. Asian revenues reflected modest growth in China, as revenues from our Power Technology Systems business area declined.

Cost of sales

Cost of sales increased by $822 million, or 12 percent (10 percent in local currencies), to $7,726 million in 2005 from $6,904 million in 2004, mainly due to a program implemented in 2005 to consolidate our transformer business in our Power Technology Products business area. However, as a percentage of revenues, cost of sales were lower. As a result, the gross profit margin for our Power Technologies division increased from 20.4 percent in 2004 to 21.0 percent in 2005. The gross profit margin increase was primarily led by the medium-voltage products business in our Power Technology Products business area, reflecting higher factory loading, operational and productivity improvements and supply chain savings.

Cost of sales increased by $1,042 million, or 18 percent (11 percent in local currencies), to $6,904 million in 2004 from $5,862 million in 2003. As a result, the gross profit margin for our Power Technologies division decreased from 22.1 percent in 2003 to 20.4 percent in 2004, reflecting higher input prices of raw materials, particularly steel, copper, aluminum and transformer oil, that principally impacted the transformers business, low capacity utilization of our Power Technology Systems business area and project-related hedging costs incurred following the discontinuation of certain cash flow hedges under SFAS 133, offset in part by savings in supply chain management and productivity improvements.

Selling, general and administrative expenses

Selling, general and administrative expenses increased by $147 million, or 13 percent (12 percent in local currencies), to $1,247 million in 2005 from $1,100 million in 2004. Expressed as a percentage of revenues, selling, general and administrative expenses remained at 12.7 percent in 2005 and 2004, reflecting higher sales costs, offset by proportionately lower general and administrative expenses.

Selling, general and administrative expenses increased by $78 million, or 8 percent (flat in local currencies), to $1,100 million in 2004 from $1,022 million in 2003. Expressed as a percentage of revenues, selling, general and administrative expenses decreased to 12.7 percent in 2004 from 13.6 percent in 2003, reflecting productivity gains from improved sales and administrative processes and implementation of our restructuring programs.

Earnings before interest and taxes

EBIT for our Power Technologies division grew $181 million, or 30 percent (28 percent in local currencies), to $789 million in 2005. EBIT margin for the division was 8.1 percent in 2005, as compared to 7.0 percent in 2004. Operational and productivity improvements, which included benefits from restructuring programs implemented prior to 2005, contributed to the increase. In addition, EBIT and EBIT margin benefited from higher revenues and, consequently, improved factory loading in our Power Technology Products business area and higher capacity utilization in our Power Technology Systems business area. EBIT in 2005 includes total charges of $123 million related to the transformer consolidation program in our Power Technology Products business area, a $14 million provision in our Power Technology Systems business area to cover estimated regulatory expenses, and a net capital gain of $9 million relating to the sale of a property in Italy by our Power Technology Products business area.

EBIT for our Power Technologies division grew $16 million, or 3 percent (lower by 2 percent in local currencies), to $608 million in 2004. EBIT margin for the division was 7.0 percent in 2004 as compared to 7.9 percent in 2003. The decrease in EBIT margin in 2004 principally reflects an increase in raw materials costs, especially for steel, copper, aluminum and transformer oil, a $26 million (of which approximately $20 million was included in other income (expense), net) write-down of notes receivable, $14 million in project-related hedging costs incurred following the discontinuation of certain cash flow hedges under SFAS 133 and continued low capacity utilization and lower margin turnkey projects, including in certain instances cost overruns, in parts of our Power Technology Systems business area. These decreases were partially offset by productivity-driven margin improvements in the medium-voltage products business within our Power Technology Products business area.

Automation Technologies

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

Automation Technologies

Year ended December 31,	2005	2004	2003
		($ in millions)	
Orders	12,675	11,301	9,665
Order backlog	4,395	4,305	3,812
Revenues	12,161	11,000	9,602
Cost of sales	8,486	7,765	6,817
Selling, general and administrative expenses	2,355	2,170	1,913
EBIT	1,312	1,023	735

Orders

Orders increased by $1,374 million, or 12 percent (11 percent in local currencies), from $11,301 million in 2004 to $12,675 million in 2005. Orders received by our Automation Products business area increased by 12 percent (11 percent in local currencies) in 2005, led by an increase in orders from process industries. Orders received by our Process Automation business area grew by 16 percent (14 percent in local currencies) in 2005, with growth in all end user markets except the pulp and paper markets. Orders received by our Manufacturing Automation business area decreased by 3 percent (4 percent in local currencies), primarily due to the non-recurrance of large orders in the automotive industry. Orders from other divisions were $419 million in 2005, as compared to $355 million in 2004, representing 3 percent of the division orders in both years.

The geographic distribution of orders in 2005, 2004 and 2003 for our Automation Technologies division was approximately as follows:

Year ended December 31,	2005	2004	2003
Europe	55%	59%	61%
Americas	17%	16%	15%
Asia	23%	19%	18%
Middle East and Africa	5%	6%	6%
Total	**100%**	**100%**	**100%**

The ultimate destination of our products' end use is relevant for our Automation Technologies division, as some of our customers in Europe distribute or resell our products to end users in Asia, the Americas and the MEA. We estimate that approximately 10 percent of the total division orders are subsequently distributed or resold, and we believe the end users are distributed evenly between the ultimate destinations of Asia, the Americas and the MEA.

In 2005, orders from Asia continued to increase more quickly than in any other region. Orders from the Americas also grew, driven by increases in Automation Products in all industries, as well as in Process Automation, primarily from the oil and gas and metals industries. European orders grew modestly in 2005, as increases in orders from western Europe, which accounted for more than 90 percent of European orders, were partially offset by a reduction in large oil and gas orders from eastern Europe. Orders from the MEA decreased 4 percent as an increase in orders from the minerals industry was more than offset by a decline in large orders due to the timing of order flow from the oil and gas industry.

Orders increased by $1,636 million, or 17 percent (8 percent in local currencies), from $9,665 million in 2003 to $11,301 million in 2004. Orders received by our Automation Products business area increased by 21 percent (13 percent in local currencies) in 2004, led by an increase in orders from industrial and building installations customers. Orders received by our Process Automation business area grew by 13 percent (5 percent in local currencies) in 2004, as growth in orders from the mining, cement, metals, marine and oil and gas industries exceeded declining orders from the chemicals, pharmaceuticals and pulp and paper markets. Orders received by our Manufacturing Automation business area increased by 16 percent (8 percent in local currencies), primarily driven by orders for automotive systems in North America and China. Orders from other divisions were $355 million in 2004, as compared to $344 million in 2003 representing 3 percent and 4 percent of the division orders, respectively.

In 2004, orders from Asia increased more quickly than in any other region. Orders from the Americas also grew, driven by a large order from a customer in the U.S. automotive sector. European orders grew in 2004, as increases in orders from western Europe more than offset a reduction in orders from eastern Europe following the receipt of a large order in Poland during 2003. Orders from the MEA increased moderately in 2004 relative to 2003.

Order backlog

Order backlog increased by $90 million, or 2 percent (13 percent in local currencies), to $4,395 million as of December 31, 2005 from $4,305 million as of December 31, 2004.

Order backlog increased by $493 million, or 13 percent (5 percent in local currencies), to $4,305 million as of December 31, 2004 from $3,812 million as of December 31, 2003, principally as a result of increased order intake during 2004.

Revenues

The distribution of revenues of our Automation Technologies division by business area was approximately as follows:

Business Area			
Percentage of revenues for the year ended December 31,	2005	2004	2003
Automation Products	47%	47%	46%
Process Automation	40%	41%	40%
Manufacturing Automation	13%	12%	14%

Revenues increased by $1,161 million, or 11 percent (9 percent in local currencies), to $12,161 million in 2005 from $11,000 million in 2004. Revenues from our Automation Products business area grew 10 percent (9 percent in local currencies), primarily as a result of increased order intake. Revenues from our Process Automation business area increased by 8 percent (6 percent in local currencies), reflecting growth in the marine and minerals business, principally from the turbochargers and process industries. Revenues from our Manufacturing Automation business area grew 23 percent (22 percent in local currencies), with increases in both the products and systems businesses. Revenues from other divisions were $400 million in 2005 as compared to $391 million in 2004 representing 3 percent and 4 percent respectively of the division revenues.

Revenues increased by $1,398 million, or 15 percent (6 percent in local currencies), to $11,000 million in 2004 from $9,602 million in 2003, principally due to 17 percent (9 percent in local currencies) revenue growth in our Automation Products business area. Revenues in 2004 from our Process Automation business area increased by 16 percent (7 percent in local currencies), as growth in the oil and gas, minerals, turbocharging and control products businesses was moderated by declines in the pulp and paper and marine businesses. Our Manufacturing Automation business area, which accounted for 12 percent of

Automation Technologies' 2004 revenues, decreased 2 percent (10 percent in local currencies) as a result of a weak backlog of system orders.

The geographic distribution of revenues in 2005, 2004 and 2003 for our Automation Technologies division was approximately as follows:

Year ended December 31,	2005	2004	2003
Europe	58%	60%	61%
Americas	17%	15%	18%
Asia	20%	19%	16%
Middle East and Africa	5%	6%	5%
Total	**100%**	**100%**	**100%**

We estimate that approximately 10 percent of the total division revenues are subsequently distributed or resold, and we believe the end users are distributed evenly between the ultimate destinations of Asia, the Americas and the MEA.

In 2005, revenues from the Americas grew significantly, reflecting the receipt of several large orders in 2004. Revenues in 2005 also increased strongly in Asia, which continued to be the second largest source of revenues for our Automation Technologies division. European revenues in 2005 grew with increases in both western and eastern Europe, as Europe remained the division's largest source of revenues. Revenues from the MEA declined in 2005.

Revenues generated in Asia grew significantly in 2004, as sales growth led by China and India caused Asia to become Automation Technologies' second largest regional source of revenues. Revenues increased in Europe, which remained the largest source of revenues. Revenues from the Americas fell slightly in 2004, due to lower orders in 2003, principally from the automotive industry. Revenues from the MEA in 2004 increased following the receipt of several large orders in 2003.

Cost of sales

Cost of sales increased $721 million, or 9 percent (8 percent in local currencies), to $8,486 million in 2005 from $7,765 million in 2004. The gross profit margin for our Automation Technologies division increased to 30.2 percent in 2005 from 29.4 percent in 2004, as cost migration initatives and productivity gains more than offset increased costs for raw materials, particularly steel and copper.

Cost of sales increased $948 million, or 14 percent (6 percent in local currencies), to $7,765 million in 2004 from $6,817 million in 2003. The gross profit margin for our Automation Technologies division increased to 29.4 percent in 2004, from 29.0 percent in 2003, following cost reduction and productivity gains from the restructuring programs and operational excellence initiatives, offset in part by increased costs for raw materials, particularly steel, copper and oil.

Selling, general and administrative expenses

Selling, general and administrative expenses increased by $185 million, or 9 percent (8 percent in local currencies), to $2,355 million in 2005 from $2,170 million in 2004. Expressed as a percentage of revenues, selling, general and administrative expenses decreased slightly to 19.4 percent in 2005 from 19.7 percent in 2004, as savings in general and administrative expenses due to cost reduction and other initiatives were offset by an increase in the sales forces deployed in emerging and growth markets.

Selling, general and administrative expenses increased by $257 million, or 13 percent (4 percent in local currencies), to $2,170 million in 2004 from $1,913 million in 2003. Expressed as a percentage of revenues, selling, general and administrative expenses decreased to 19.7 percent in 2004 from 19.9 percent in 2003, reflecting savings in the general and administrative expenses primarily from previously implemented restructuring programs.

Earnings before interest and taxes

EBIT for our Automation Technologies division grew $289 million, or 28 percent (27 percent in local currencies), from $1,023 million in 2004 to $1,312 million in 2005. EBIT margin for the division increased to 10.8 percent in 2005 from 9.3 percent in 2004. EBIT margin increased in our Automation Products and Process Automation business areas. EBIT margin decreased in our Manufacturing Automation business area due to lower margin realized on large orders.

EBIT for our Automation Technologies division grew $288 million, or 39 percent (30 percent in local currencies), to $1,023 million in 2004. EBIT margin for the division increased to 9.3 percent in 2004 from 7.7 percent in 2003, reflecting an increase in the EBIT margin for all business areas due to productivity improvements, benefits from operational excellence initiatives and a decrease in restructuring costs from $139 million in 2003 to $72 million in 2004.

Non-core activities

Orders

Orders received by our Non-core activities division for the years ended December 31, 2005, 2004 and 2003, were as follows:

Year ended December 31,	2005	2004	2003
		($ in millions)	
Oil, Gas and Petrochemicals	698	1,216	1,156
Equity Ventures	2	7	26
Structured Finance	5	3	31
Building Systems	347	388	1,616
Other Non-core activities	59	79	515
Total Non-core activities	**1,111**	**1,693**	**3,344**

Orders received in our Non-core activities division declined by 34 percent and 49 percent in 2005 and 2004, respectively. The reduction in orders during 2005 was mainly due to changes in the bidding policy of our Oil, Gas and Petrochemicals business. Divestments in our Building Systems business and the reduction of activities in the Other Non-core activities business primarily contributed to the decrease in orders received during 2004 as compared to 2003.

In 2005, 33 percent of the orders for our Oil, Gas and Petrochemicals business originated from Europe, with the remaining orders equally distributed among the other regions. Large orders in our Oil, Gas and Petrochemicals business decreased by 67 percent, while base orders increased by 9 percent in 2005 as compared to 2004. Within the Building Systems business, 96 percent of the orders in 2005 were received by our German business.

In 2004, orders for our Oil, Gas and Petrochemicals business increased mainly through an increase in base orders. Large orders in 2004, which decreased 2 percent from 2003, included projects in Sweden, Russia, China, Poland and the Middle East. Orders increased in all regions during 2004 as compared to 2003. More than 60 percent of the orders in 2004 originated from Europe, with approximately 8 percent originating from the Americas and the remainder originating in equal proportions from Asia and the MEA.

Within our Building Systems business, 91 percent of the orders in 2004 were received by our German business and 6 percent were received by the Swiss business, which we sold in February 2004.

Order backlog

Order backlog in our Non-core activities division was as follows:

Year ended December 31,	2005	2004	2003
		($ in millions)	
Oil, Gas and Petrochemicals	774	1,251	1,264
Equity Ventures	–	–	–
Structured Finance	–	–	2
Building Systems	151	255	554
Other Non-core activities	4	27	42
Total Non-core activities	**929**	**1,533**	**1,862**

Revenues

Revenues from our Non-core activities division were as follows:

Year ended December 31,	2005	2004	2003
		($ in millions)	
Oil, Gas and Petrochemicals	933	1,079	1,895
Equity Ventures	2	7	26
Structured Finance	5	4	31
Building Systems	421	508	1,829
Other Non-core activities	60	93	540
Total Non-core activities	**1,421**	**1,691**	**4,321**

Revenues in our Non-core activities division decreased by 16 percent and 61 percent in 2005 and 2004, respectively.

Revenues in our Oil, Gas and Petrochemicals business decreased 14 percent and 43 percent in 2005 and 2004, respectively, primarily as a result of the lower orders in the EPC business following the change in bidding policy in 2005 in this business. Building Systems revenues decreased by 17 percent and 72 percent in 2005 and 2004, respectively, primarily as a result of divestments. 89 percent and 80 percent of all Building Systems revenues were generated in Germany, in 2005 and 2004, respectively. Our Building Systems business in the United States accounted for 7 percent and 10 percent of revenues in 2005 and 2004, respectively.

Substantially all of our Structured Finance business has been divested and the reported revenues represent transactions relating to the remaining lease portfolios.

Our Equity Ventures business primarily includes our investments in equity accounted companies, the results of which are recorded in other income (expense), net.

Other Non-core activities revenues were generated principally by our Distributed Energy operations in Europe. In 2005, Other Non-core activities revenues decreased by $33 million, or 35 percent, due to the ongoing divestment and related closing processes in our customer service workshop and distributed energy businesses.

Earnings before interest and taxes

EBIT for our Non-core activities division was as follows:

Year ended December 31,	2005	2004	2003
		($ in millions)	
Oil, Gas and Petrochemicals	48	(4)	(296)
Equity Ventures	69	69	76
Structured Finance	–	(14)	(68)
Building Systems	(37)	(70)	(104)
Other Non-core activities	(46)	(43)	(128)
Total Non-core activities	**34**	**(62)**	**(520)**

EBIT for the Oil, Gas and Petrochemicals business increased in 2005 as compared to 2004, largely due to improved order intake quality, improvements in project execution in the EPC business and increased profitability in its technology business. EBIT in the Oil, Gas and Petrochemicals business in 2004 improved relative to 2003, reflecting better project execution capabilities as well as a significant reduction in project-related write-offs in 2004. EBIT in 2005 and 2004 was also affected by stronger performance following the winding down of unprofitable long-term, fixed price EPC projects and increased revenue related to the licensing of process technologies, partially offset by higher operating costs by the floating production systems business.

EBIT losses for the Building Systems business decreased by $33 million in 2005 as compared to 2004, primarily due to project execution improvements in the United States, partially offset by losses in Denmark related to an arbitration ruling. In 2004, EBIT losses decreased by $34 million relative to 2003, primarily due to operational improvements and a reduction in restructuring expenses, partially offset by losses in the United States and the loss of income from the profitable Nordic and Swiss businesses sold in the third quarter of 2003 and February 2004, respectively.

EBIT for the Equity Ventures business was $69 million in both 2005 and 2004. Increased earnings during 2005 from our investment in a power project in Neyveli, India, in 2005 were offset by a loss on the sale of our investment in the Termobahia power project in Brazil and a reduction of the value of our investment in a power plant in Columbia. EBIT generated by the Equity Ventures business decreased by $7 million in 2004 as compared to 2003. EBIT in 2003 also included a $28 million gain on the sale of investments in Australia.

EBIT losses for our Structured Finance business decreased by $14 million in 2005 as compared to 2004, partially due to the termination of certain leases in Switzerland and decreased losses on divested companies in 2004. In 2004, EBIT losses decreased by $54 million as compared to 2003, primarily due to $67 million of losses associated with the divestment of the Swedish Export Credit Corporation in 2003.

EBIT losses for our Other Non-core activities increased by $3 million in 2005 as compared to 2004, partly due to a provision of $8 million related to a retained liability of a business previously sold, partially offset by lower restructuring costs in 2005. EBIT for these activities improved by $85 million in 2004 as compared to 2003, due to the dissolution of the group processes business, which represented $0 million and $42 million of the losses in 2004 and 2003, respectively.

Corporate/Other

Our Corporate/Other division comprises headquarters and stewardship, research and development and other activities. EBIT for our Corporate/Other division was as follows:

Year ended December 31,	2005	2004	2003
		($ in millions)	
Headquarters and stewardship	(304)	(438)	(363)
Research and Development	(90)	(91)	(92)
Other	1	6	(65)
Total Corporate/Other	**(393)**	**(523)**	**(520)**

Headquarters and stewardship operating costs decreased by $134 million in 2005 after increasing $75 million in 2004 as compared to 2003. The reduction in 2005 was due to specific efforts to reduce corporate costs. These cost savings were partly offset by additional costs related to the global implementation of internal controls over financial reporting as required by the Sarbanes-Oxley Act of 2002.

Other (including Real Estate and Group Treasury Operations) generated a small gain in 2005, mainly due to the sale of certain real estate properties in Switzerland, Sweden and Spain, partly offset by provisions made for costs related to vacant real estate properties in the United States and write-downs in the value of certain other real estate properties. The improvement in 2004 occurred in both Real Estate and Group Treasury Operations, due to reduced restructuring expenses and a reduction in the level of general and administrative expenses.

Discontinued operations

The loss from discontinued operations, net of tax is as set forth below.

Year ended December 31,	2005	2004	2003
		($ in millions)	
Asbestos	(133)	(262)	(142)
Upstream Oil, Gas and Petrochemicals	1	(70)	(44)
Reinsurance	–	(41)	(97)
Structured Finance	(28)	36	(26)
Power Lines	(9)	(72)	(14)
Others	26	(30)	(41)
Loss from discontinued operations, net of tax	**(143)**	**(439)**	**(364)**

Tax expense, net, in discontinued operations was a benefit of $8 million in 2005 and an expense of $21 million and $54 million in 2004 and 2003, respectively.

In addition to the businesses already classified in discontinued operations, we may from time to time dispose of or close businesses that are not integral to our core divisions. If such a business meets the criteria of SFAS 144, we will reflect the results of operations from the business as discontinued operations in our Consolidated Income Statement and as assets and liabilities held for sale and in discontinued operations in our Consolidated Balance Sheet. We will reclassify the prior years' presentation to reflect any disposals or closures on a comparable basis.

Asbestos

An overview of our potential asbestos-related obligations is included separately in "Contingencies and retained liabilities" below, as well as in Note 17 of the Consolidated Financial Statements.

Upstream Oil, Gas and Petrochemicals business

In 2004, we sold our Upstream Oil, Gas and Petrochemicals business for net cash proceeds of approximately $800 million, reflecting an initial sales price of $925 million adjusted for unfunded pension liabilities and changes in net working capital. The Upstream Oil, Gas and Petrochemicals business had revenues of $855 million and $1,499 million in 2004 and 2003, respectively, and net losses of $70 million and $44 million in 2004 and 2003, respectively.

Reinsurance

In 2004, we completed the sale of our Reinsurance business for gross cash proceeds of $415 million and net cash proceeds of approximately $280 million. The Reinsurance business had revenues of $139 million and $782 million and losses of $41 million and $97 million in loss from discontinued operations in 2004 and 2003, respectively. The 2003 net loss of $97 million includes a $154 million impairment charge and an allocation of interest of $15 million in accordance with EITF 87-24, offset by income from operations of $72 million.

Structured Finance

In 2002, we completed the sale of most of our Structured Finance business to General Electric Capital Corporation (GE) for approximately $2.0 billion. Pursuant to the sale and purchase agreement, we provided cash collateralized letters of credit to GE as security for certain performance-related obligations retained by us, which amounted to $15 million as of December 31, 2005.

As a continuation of the divestment of our Structured Finance business, we completed the sale of ABB Export Bank in December 2003 for approximately $50 million. ABB Export Bank had revenues of $9 million and a net loss of $9 million in 2003.

In November 2005, we completed the sale of our remaining Structured Finance business by divesting the Lease portfolio business in Finland. At the time of sale, this business had lease and loan financial receivables of approximately $300 million, and was the last remaining major entity of our Structured Finance business. In 2005, we recorded a loss of $28 million in loss from discontinued operations, principally related to the loss on sale of this business.

Power Lines

During 2004, we reclassified the Power Lines businesses in Nigeria, Italy and Germany to discontinued operations. The sale of these businesses, which were part of our Power Technologies division, was completed in 2005. These reclassified businesses had revenues of $27 million, $117 million and $187 million and net losses recorded in discontinued operations of $12 million, $75 million and $10 million for the years ended December 31, 2005, 2004, and 2003, respectively.

We currently plan to sell our remaining Power Lines businesses in Brazil, Mexico, Venezuela and South Africa. These businesses had revenues of $102 million, $79 million and $70 million in 2005, 2004 and 2003, respectively. They also reported net income of $3 million in each of 2005 and 2004, and a net loss of $4 million in 2003, recorded in loss from discontinued operations.

Others

In 2005, income from other sold businesses of $26 million primarily resulted from a gain on the sale of our Control Valves business in Japan, and an adjustment of provisions recorded in previous years for the divestment of other businesses. The losses reported from other sold businesses of $30 million and $41 million in 2004 and 2003, respectively, primarily relate to the divestments of our Foundry business and our MDCV Cable business.

Supplemental information regarding our new organizational structure

The following table presents supplemental information on key data for ABB and the new organizational structure that took effect as of January 1, 2006. This information is being presented because we believe that it will assist in understanding trends and developments during the last two years in the units that have now become ABB's divisions.

Division	Revenues		EBIT		EBIT margin	
	2005	2004	2005	2004	2005	2004
Division			(in $ millions)			
Power Products	6,434	5,727	602	490	9.4%	8.6%
Power Systems	4,041	3,717	187	118	4.6%	3.2%
Automation Products	5,900	5,394	822	669	13.9%	12.4%
Process Automation	4,993	4,629	399	274	8.0%	5.9%
Robotics [1]	1,699	1,382	91	80	5.4%	5.8%
Non-core and Corporate	(625)	(239)	(359)	(585)	n/a	n/a
Total	**22,442**	**20,610**	**1,742**	**1,046**	**7.8%**	**5.1%**

[1] Formerly our Manufacturing Automation business area.

Data for the five divisions shown in the above table are estimated and not directly comparable with previously published data because certain internal sales were previously eliminated at the divisional level. In the table above, those sales have been eliminated in the line Non-core and Corporate. In addition, certain amounts have been adjusted to reflect the reclassification of activities to discontinued operations.

Capital expenditures

Total capital expenditures for property, plant and equipment including intangible assets amounted to $456 million, $543 million and $547 million in 2005, 2004 and 2003, respectively. The major capital expenditures during 2005 were investments in machinery and equipment in Germany, China, Sweden, Italy and Finland.

Total divestitures of property, plant and equipment amounted to $81 million, $113 million and $153 million in 2005, 2004 and 2003, respectively. A significant portion of our divestitures in 2005 relate to real estate properties, primarily from The Netherlands, Sweden, Switzerland and France. Construction in progress for property, plant and equipment as of December 31, 2005 was $132 million, mainly from Germany, Sweden, the United States, Spain and China. We intend to finance our expenditures for construction in progress internally.

In 2006, we intend to invest in capital expenditures of an amount which is approximately equal to our expected annual depreciation and amortization charge. We anticipate increased investments in the Asian emerging markets and a reduction in capital spending in Europe.

Liquidity and capital resources

Principal sources of funding

In 2005, 2004 and 2003, we met our liquidity needs using cash from operations, bank borrowings, the proceeds from the issuance of debt and equity securities, divestment proceeds, and, although to a lesser extent in 2005, the sales of receivables under our securitization programs. In 2003, we completed a number of steps to strengthen our Consolidated Balance Sheet and to improve our liquidity, including the issuance of convertible unsubordinated bonds of an aggregate principal amount of CHF 1,000 million, due 2010 (equivalent to approximately $722 million at the date of issuance), and straight bonds of 650 million euro (equivalent to approximately $769 million at the date of issuance), see "Bonds and notes," a rights issue providing net proceeds of approximately $2.5 billion, see "Rights issue," and a $1 billion unsecured revolving credit facility that provided a further potential source of funds, see "Credit facilities." In addition, in 2003, we raised approximately $156 million from the sale of 80 million treasury shares. These actions in 2003 provided a stronger financial base for our core operations, and deleveraged our balance sheet by reducing our gearing (defined as total debt divided by the sum of total debt and the stockholders' equity including minority interest) to 71 percent as of December 31, 2003 (see "Financial Position").

During 2005 and 2004, our financial position was further strengthened by cash flow from operating activities of $1,012 and $902 million, respectively, and, in 2004, by the proceeds from sales of businesses (net of cash disposed) of $1,182 million. While in 2004 we used the cash to repay maturing debt and to repurchase debt, the strengthening of our financial position, together with cash generated from our operations, enabled us in 2005 to reduce the level of our securitization programs (see "Securitization Programs"), to repurchase debt (see "Bond repurchases") and to make discretionary pension contributions. The debt reductions are reflected in the reduction in gearing from 71 percent as of December 31, 2003 to 63 percent as of December 31, 2004 and to 52 percent as of December 31, 2005 (see "Financial Position").

We believe that our ability to obtain funding from the sources described above will continue to provide the cash flows necessary to satisfy our working capital and capital expenditure requirements, as well as to meet our debt repayments and other financial commitments for the next twelve months. Due to the nature of our operations, our cash flow from operations generally tends to be weaker in the first half of the year than in the second half of the year.

Rights issue

On November 20, 2003, our shareholders approved the issuance of 840,006,602 new shares pursuant to a fully underwritten rights issue. For each share that they owned, holders of existing shares were allocated one right to purchase the offered shares. For every 10 rights, holders of existing shares were entitled to purchase seven offered shares. The banks agreed to underwrite 840,006,602 shares at an issue price of CHF 4.00 per share, representing a discount of approximately 50 percent to the share price at the time and providing for net proceeds of $2,487 million. The rights issue was completed on December 12, 2003 when the cash was received.

Interest rates

We have obtained financing in a range of currencies and maturities and on various interest rate terms. We use derivatives to reduce the interest rate and/or foreign exchange exposures arising on our debt. For example, to reduce our exposure to interest rates, we use interest rate swaps to effectively convert fixed rate borrowings into floating rate liabilities and we use cross-currency swaps to effectively convert foreign currency denominated bonds into U.S. dollar liabilities.

During 2005, we entered into interest rate swaps to hedge our interest obligations on the 6.5% 650 million euro bonds, due 2011, and the 3.75% 500 million Swiss franc bonds, due 2009 (see "Bonds and notes") and to reduce the proportion of fixed rate to floating rate debt. After considering the impact of these interest rate swaps, the 6.5% 650 million euro bonds effectively became floating rate euro obligations, while the 3.75% 500 million Swiss franc bonds effectively became floating rate Swiss franc obligations.

As of December 31, 2005, after considering the effects of interest rate swaps, the effective average interest rate on our floating rate long-term borrowings (including current maturities) of $2,002 million and our fixed rate long-term borrowings (including current maturities) of $278 million was 7.0 percent and 5.4 percent, respectively. This compares with an effective rate of 6.0 percent for floating rate long-term borrowings and 5.5 percent for fixed-rate long-term borrowings as of December 31, 2004. These figures exclude the interest on our convertible bonds, which bore interest at an effective rate of 4.1 percent as of December 31, 2005 and 2004. A discussion of our use of derivatives to modify the characteristics of our long-term borrowings is contained in Note 14 to our Consolidated Financial Statements.

Bond repurchases

During 2005, we repurchased debt securities with a total face value of $307 million, primarily a portion of our 3.75% 500 million Swiss franc bonds, due 2009, and recognized a loss on extinguishment of debt of $19 million on the repurchases.

During 2004, through open market repurchases, we repurchased a portion of our public bonds with a total equivalent face value of $513 million. These repurchases resulted in a gain on extinguishments of debt of approximately $6 million. In addition, in July 2004, we announced tender offers to repurchase all of the outstanding 5.375% 300 million euro bonds, due 2005, and 5.125% 475 million euro bonds, due 2006, being approximately 275 million euro and approximately 368 million euro, respectively. In conjunction with the tender offers, we convened bondholders' meetings to amend the terms of these bonds, to allow us to call and redeem those bonds that were not tendered under the respective tender offer. In September 2004, bonds validly tendered and accepted under the tender offers were settled and we exercised our option to redeem early the remaining outstanding 2005 and 2006 bonds that were not tendered. The open market repurchases, combined with the tender offers and calls, resulted in a decrease in total borrowings during 2004 of $1,330 million.

Bonds and notes

In 2005 and 2004, we did not issue any bonds. In 2003, we completed two note issuances, including the issuance of bonds convertible into our shares, as sources of funding.

Details of our outstanding bonds are as follows:

	December 31, 2005			December 31, 2004		
		Nominal outstanding	Carrying value[1]		Nominal outstanding	Carrying value[1]
			(in millions)			
Public bonds:						
4.625% USD Convertible Bonds, due 2007	USD	968	$ 921	USD	968	$ 890
3.5% CHF Convertible Bonds, due 2010	CHF	1,000	759	CHF	1,000	885
9.5% EUR Instruments, due 2008	EUR	500	614	EUR	500	728
10% GBP Instruments, due 2009	GBP	200	353	GBP	200	382
3.75% CHF Bonds, due 2009	CHF	108	81	CHF	500	442
6.5% EUR Instruments, due 2011	EUR	650	764	EUR	650	887
0.5% JPY Instruments, due 2005		–	–	JPY	17,425	171
Private placements			181			433
Total Outstanding Bonds			**$ 3,673**			**$ 4,818**

[1] USD carrying value is net of bond discounts and adjustments for fair value hedge accounting, where appropriate.

In September 2003, we issued 3.5% CHF Convertible Bonds, due 2010, of an aggregate principal amount of CHF 1,000 million (approximately $722 million at the date of issuance). This transaction lengthened the maturity profile of our debt, thereby reducing our dependence on short-term funding. We used the proceeds, net of expenses and fees, to reduce our drawing under our then-current credit facility. The convertible bonds pay interest annually in arrears at a fixed annual rate of 3.5 percent. The conversion price is subject to adjustment provisions to protect against dilution or change in control. As a result of the rights issue discussed above, the conversion price and conversion ratio of the bonds were adjusted to 9.53 Swiss francs and 524.65897 shares, respectively, effective December 12, 2003, representing 104,931,794 shares if the bonds are fully converted.

The bonds are convertible at the option of the bondholder at any time from October 21, 2003 up to and including the tenth business day prior to September 10, 2010. We may at any time on or after September 10, 2007 redeem the outstanding bonds at par plus accrued interest if, for a certain number of days during a specified period of time, the official closing price of our registered shares on the relevant exchange has been at least 150 percent of the conversion price. In addition, at any time prior to maturity, we can redeem the outstanding bonds at par plus accrued interest, if at least 85 percent in aggregate of the principal amount of bonds originally issued have been redeemed, converted or purchased and cancelled. We have the option to redeem the bonds when due in cash, registered shares or any combination thereof.

In November 2003, we issued 6.5% EUR Instruments, due 2011, in an aggregate principal amount of 650 million euro (approximately $769 million at the time of issuance). These bonds pay interest semi-annually in arrears at a fixed annual rate of 6.5 percent. In the event of a change of control of ABB, the terms of the bonds require us to offer to repurchase the bonds at 101 percent of the principal amount thereof, plus any accrued interest.

The 4.625% USD Convertible Bonds, due 2007, pay interest semi-annually in arrears at a fixed annual rate of 4.625 percent. The conversion price is subject to adjustment provisions to protect against dilution or change in control. As a result of the rights issue, the conversion price of the bonds was adjusted, effective November 21, 2003, to 14.64 Swiss francs (converted into U.S. dollars at the fixed exchange rate of 1.6216 Swiss francs per U.S. dollar). As a result of the amendment to the bonds in May 2004, described below, the conversion price of the bonds was amended to $9.03, representing 107,198,228 shares if the bonds are fully converted.

The 4.625% USD Convertible Bonds, due 2007, are convertible at the option of the bondholder at any time from June 26, 2002 up to and including May 2, 2007. We may, at any time on or after May 16, 2005, redeem the outstanding bonds at par plus accrued interest if (1) for a certain number of days during a specified period of time, the official closing price of our American Depositary Shares on the New York Stock Exchange exceeds 170 percent of the conversion price or (2) at least 85 percent in aggregate principal amount of bonds originally issued have been exchanged, redeemed or purchased and cancelled. We have the option to redeem the bonds when due, in cash, American Depositary Shares or any combination thereof.

Prior to May 2004, a component of the 4.625% USD Convertible Bonds, due 2007, had to be accounted for as an embedded derivative, as the shares to be issued upon conversion were denominated in Swiss francs, while the bonds are denominated in U.S. dollars. A portion of the issuance proceeds was deemed to relate to the value of the derivative on issuance and subsequent changes in value of the derivative were recorded through earnings and as an adjustment to the carrying value of the bonds. The allocation of a portion of the proceeds to the derivative created a discount on issuance that was being amortized to earnings over the life of the bonds. On May 28, 2004, bondholders voted in favor of our proposed amendment to the terms of the bonds whereby, if the bonds are converted, we will deliver U.S. dollar-denominated American Depositary Shares rather than Swiss franc-denominated ordinary shares. The conversion price was set at $9.03. As a result of the amendment, it was no longer appropriate to account for a portion of the bonds as a derivative. Consequently, on May 28, 2004, the value of the derivative was fixed and the amount previously accounted for separately as an embedded derivative was considered to be a component of the carrying value of the bonds at that date. This carrying value is being accreted to the $968 million par value of the bonds as an expense in interest and other finance expense over the remaining life of the bonds. The amortization of the discount on the bonds will be between $7 million and $9 million per quarter until the bonds mature in May 2007.

The 10% GBP Instruments, due 2009, and the 9.5% EUR Instruments, due 2008, contain certain clauses linking the interest paid on the bonds to the credit rating assigned to the bonds. If the rating assigned to these bonds by both Moody's and Standard & Poor's remains at or above Baa3 and BBB-, respectively, then the interest rate on the bonds remains at the level at issuance, that is 10 percent and 9.5 percent, for the sterling-denominated and euro-denominated bonds, respectively. However, as the rating assigned by Moody's decreased below Baa3 in October 2002, the annual interest rate on the bonds increased by 1.5 percent per annum to 11.5 percent and 11 percent for the sterling-denominated and euro-denominated bonds, respectively. If, after this rating decrease, the rating assigned by both Moody's and Standard & Poor's returns to a level at or above Baa3 and BBB-, respectively, then the interest rates on the bonds return to their original levels. The increase in interest costs resulting from the downgrade of our long-term credit rating in October 2002 is effective for interest periods beginning after the payment of the coupon accruing at the date of the downgrade. The total impact on 2005, 2004 and 2003 was an increase in interest expense of approximately $15 million, $15 million and $13 million, respectively. Future years will also be affected if our credit ratings do not return to at least both Baa3 and BBB- from Moody's and Standard & Poor's, respectively.

A cross-currency swap has been used to modify the characteristics of the sterling-denominated bonds and an interest rate swap has been used to modify the euro-denominated bonds. After considering the impact of the cross-currency and interest rate swaps, the sterling-denominated bonds effectively became floating rate U.S. dollar obligations, while the euro-denominated bonds became floating rate euro obligations. In both cases, the floating rate resets every three months. See Note 14 to our Consolidated Financial Statements.

Substantially all of our publicly traded bonds contain cross-default clauses which would allow the bondholders to demand repayment if we were to default on certain borrowings at or above a specified threshold amount. Furthermore, all such bonds constitute unsecured and unsubordinated obligations of us and rank pari passu with our other debt obligations.

Commercial paper

In November 2005, we signed a new commercial paper program allowing us to issue short-term commercial paper in either Swedish krona or euro, up to a maximum equivalent nominal amount of 5 billion Swedish krona (equivalent to approximately $628 million). The signing of this program broadens our funding base and allows us access to an additional source of short-term liquidity to which our access was restricted after the reduction in our credit rating to below investment grade in October 2002.

Credit facilities

On July 4, 2005, we signed a new five-year, $2 billion multicurrency revolving credit facility and cancelled the three-year $1 billion credit facility that was due to expire in November 2006. As a result of cancelling the $1 billion facility prior to expiry, we recorded, in July 2005, a charge of $12 million in interest and other finance expense to write off unamortized costs related to this facility.

The new $2 billion facility contains financial covenants in respect of minimum interest coverage and maximum net leverage. We are required to meet these covenants on a semi-annual basis, at June and December. If our corporate credit rating reaches certain defined levels, the minimum interest coverage covenant will no longer be required. As of December 31, 2005, we were in compliance with these covenants and no amount was drawn under the facility. The facility contains cross-default clauses whereby an event of default would occur if we were to default on indebtedness, as defined in the facility, at or above a specified threshold.

The $2 billion facility replaced an unsecured syndicated $1 billion three-year revolving credit facility that we had entered in November 2003, as part of our capital strengthening program. As of December 31, 2004 and 2003, nothing was outstanding under that facility.

Securitization programs

In addition to the aforementioned primary sources of liquidity and capital resources, we also sell certain trade receivables to VIEs, unrelated to us, in revolving-period securitization programs. During 2005, we re-assessed our need for these securitization programs, terminating one program and reducing the size of the other program. As of December 31, 2005, the remaining securitization program is with a VIE that is not required to be consolidated in accordance with FIN46(R).

For further discussion of our securitization programs, see the section entitled "Off-balance sheet arrangements" below and Notes 2 and 8 to our Consolidated Financial Statements.

Credit ratings

Credit ratings are assessments by the rating agencies of the credit risk associated with our company and are based on information provided by us or other sources that the rating agencies consider reliable. Lower ratings generally result in higher borrowing costs and reduced access to capital markets.

As of December 31, 2005 and 2004, our long-term company ratings were Ba2 and BB+ (our long-term unsecured debt was rated Ba2 and BB-) from Moody's and Standard & Poor's, respectively. On November 7, 2005, Standard & Poor's placed our ratings on CreditWatch with positive implications, while on January 10, 2006, Moody's changed the outlook to positive from stable. Our $2 billion unsecured multicurrency credit facility (see "Credit facilities") has received the same rating as the long-term company rating, that is Ba2 and BB+ from Moody's and Standard & Poor's, respectively.

Our ratings are currently below "investment grade" that would be represented by Baa3 (or above) and BBB- (or above) from Moody's and Standard & Poor's, respectively. A rating below investment grade is reflected in generally higher interest costs on borrowings. However in 2005, we achieved terms on our $2 billion credit facility that are similar to those of a company with an "investment grade" rating.

Limitations on transfers of funds

Currency and other local regulatory limitations related to the transfer of funds exist in a number of countries where we operate, including: Brazil, China, Egypt, India, Korea, Malaysia, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and Venezuela. Funds, other than regular dividends, fees or loan repayments, cannot be transferred offshore from these countries and are therefore deposited and used for working capital needs locally. As a consequence, these funds are not available within our Group Treasury Operations to meet short-term cash obligations outside the relevant country. These funds are reported as cash on our Consolidated Balance Sheet, but we do not consider these funds immediately available for the repayment of debt outside the respective countries where the cash is situated, including those described above. As of December 31, 2005 and 2004, the balance of cash, marketable securities and other short-term investments under such limitations totaled approximately $900 million and $750 million, respectively.

Financial position

Balance sheet

During 2005 and 2004, divestments and discontinuations of certain businesses were recorded as discontinued operations pursuant to SFAS 144, as discussed in detail under the section above entitled "Application of critical accounting policies – Accounting for discontinued operations." Accordingly, the balance sheet data for all periods presented have been restated to present the financial position and results of operations of the businesses meeting the criteria of SFAS 144 as assets and liabilities held for sale and in discontinued operations.

Current assets

As of December 31,	2005	2004
	($ in millions)	
Cash and equivalents	3,226	3,676
Marketable securities and short-term investments	368	524
Receivables, net	6,515	6,284
Inventories, net	3,074	3,178
Prepaid expenses	251	334
Deferred taxes	473	670
Other current assets	189	449
Assets held for sale and in discontinued operations	52	600
Total current assets	**14,148**	**15,715**

Our total current assets as of December 31, 2005, decreased by 10 percent, as compared to total current assets as of December 31, 2004. See "Cash flows" for a detailed discussion on changes in cash and equivalents.

As of December 31, 2005 and 2004, we had cash and equivalents and marketable securities and short-term investments totaling $3,594 million and $4,200, respectively. Approximately $1,960 million and $2,435 million as of December 31, 2005 and 2004, respectively, was invested by our Group Treasury Operations (GTO), and was denominated primarily in U.S. dollars and euros. Further amounts, totaling approximately $900 million and $750 million, as of December 31, 2005 and 2004, respectively, were deposited locally in countries where currency or other local regulatory limitations exist, as described above under "Liquidity and capital resources – Limitations on transfers of funds." Balances not remitted to GTO are primarily denominated in the currency of the respective country holding the balance.

We invest surplus cash available in time deposits and marketable securities with varied maturities based on defined investment guidelines and the liquidity requirements of the business. Investments which have maturities of three months or less at the time of acquisition are classified as part of cash equivalents, and those that have maturities of more than three months at the time of acquisition are classified as part of marketable securities and short term investments. The balance of marketable securities and short-term investments will flucuate depending on the timing of these investments.

Receivables, net, as at the end of 2005 increased from the end of 2004, primarily as a result of the wind down of securitization programs during the year.

Inventories, net, decreased by 3 percent reflecting a decrease in order volume in our Building Systems and Oil, Gas and Petrochemicals businesses.

Current liabilities

As of December 31,	2005	2004
	($ in millions)	
Accounts payable, trade	3,321	4,256
Accounts payable, other	1,172	1,424
Short-term debt and current maturities of long-term debt	169	626
Advances from customers	1,005	929
Deferred taxes	187	200
Provisions and other	3,769	3,666
Accrued expenses	1,909	1,624
Liabilities held for sale and in discontinued operations	74	734
Total current liabilities	**11,606**	**13,459**

Total current liabilities at the end of 2005 decreased by 14 percent as compared to current liabilities as of December 31, 2004.

Total accounts payable as of December 31, 2005, decreased as compared to December 31, 2004, primarily due to decreases in all divisions. In addition, approximately $400 million of the decrease was related to the appreciation of the U.S. dollar relative to the local currencies.

Our short-term debt was lower at the end of 2005 relative to 2004, reflecting payments made during 2005 and the fact that we have no bond maturities in 2006 (see "Liquidity and capital resources").

Provisions and other increased in 2005, primarily as a result of higher business volume and an increase due to the mark-to-market revaluation of shares reserved to cover a portion of our asbestos liabilities.

Non-current assets

As of December 31,	2005	2004
	($ in millions)	
Financing receivables	645	889
Property, plant and equipment, net	2,565	2,964
Goodwill	2,479	2,602
Other intangible assets, net	349	492
Prepaid pension and other employee benefits	605	549
Investments in equity method companies	618	596
Deferred taxes	628	504
Other non-current assets	239	366
Total non-current assets	**8,128**	**8,962**

Financing receivables as of December 31, 2005, which includes receivables from leases and loans receivable, decreased as compared to December 31, 2004, due to lease sales and currency impacts.

The decrease in the value of property, plant and equipment, net, between December 31, 2005, and December 31, 2004, mainly reflects the change in the value of the U.S. dollar against local currencies. The major capital expenditures during 2005 were investments in machinery and equipment in Germany, Italy, Finland and India offset primarily by depreciation.

During 2005, goodwill decreased principally due to the change in the value of the U.S. dollar against local currencies.

The reduction in other intangible assets, net, mainly reflects amortization on capitalized software and other intangible assets.

Non-current liabilities

As of December 31,	2005	2004
	($ in millions)	
Long-term debt	3,933	4,717
Pension and other employee benefits	1,233	1,551
Deferred taxes	692	750
Other liabilities	988	1,082
Total non-current liabilities	**6,846**	**8,100**

During 2005, long-term debt was significantly reduced through the repayment of maturing bonds, repurchases of debt securities with a total face value of $307 million and a favorable foreign exchange impact. Our gearing ratio, excluding borrowings in discontinued operations, was 52 percent as of December 31, 2005, as compared to 63 percent as of December 31, 2004, reflecting the reduction of our total debt and the impact of net income during 2005.

The reduction in the value of pension and other employee benefits during 2005 was mainly due to discretionary pension contributions.

Other liabilities includes non-current deposit liabilities of $309 million and $314 million, deferred income of $120 million and $143 million, non-current derivative liabilities of $63 million and $53 million and other non current liabilities of $241 million and $306 million as of December 31, 2005 and 2004, respectively. Other liabilities also includes provisions for the estimated environmental remediation costs related to our former Nuclear Technology business (see "Environmental Liabilities" below and Notes 17 and 19 to our Consolidated Financial Statements) of $255 million and $266 million as of December 31, 2005 and 2004, respectively.

Cash flows

In the Consolidated Statements of Cash Flows, the effects of the discontinued operations are not segregated, as permitted by Statement of Financial Accounting Standards No. 95 (SFAS 95), *Statement of Cash Flows.* The Consolidated Statements of Cash Flows can be summarized as follows:

Year ended December 31,	2005	2004	2003
		($ in millions)	
Cash flows provided by (used in) operating activities	**1,012**	**902**	**(152)**
Cash flows provided by (used in) investing activities	**(316)**	**354**	**754**
Cash flows provided by (used in) financing activities	**(896)**	**(2,745)**	**1,582**
Effects of exchange rate changes	(259)	74	150
Adjustment for the net change in cash and equivalents in assets held for sale and in discontinued operations	9	308	(80)
Net change in cash and equivalents – continuing operations	**(450)**	**(1,107)**	**2,254**

Cash flows provided by (used in) operating activities

Operating assets and liabilities include marketable securities held for trading purposes, trade receivables, inventories, trade payables and other assets and liabilities. Debt and equity securities that are purchased and held principally for the purpose of sale in the near term are classified as trading securities. Cash flows from marketable securities classified as available-for-sale are reflected in investing activities. Cash flows from discontinued operations are included in the table below in the respective divisions in which these businesses were formerly classified.

In 2005, as compared to 2004, cash from operations from our Power Technologies division increased, primarily influenced by higher advances from customers and higher earnings. Over the same period, cash from operations provided by our Automation Technologies division decreased, mainly due to the discontinuation of securitization and discretionary pension contributions. Cash used in our Non-core activities division was higher as compared to 2004 primarily, caused by the Oil, Gas and Petrochemicals business using customer advances on several large projects. Cash used in our Corporate/Other division was lower in 2005 as compared to 2004, influenced primarily by cash inflows from derivatives in the treasury area and also a positive cash impact from securitization. There were also lower asbestos related cash payments in 2005. Cash inflows from operating activities improved by $110 million over 2004.

During 2004, cash flows provided by operating activities improved as compared to 2003, primarily because less cash was used in our Non-core activities and Corporate/Other divisions. In 2003, losses from Building Systems and Other Non-core activities primarily contributed to cash outflows in our Non-core activities division, and the cash used in our Corporate/Other division included $388 million in asbestos related cash payments. Our Automation Technologies division also contributed to the improvement in cash provided by operating activities from 2003 to 2004 through higher earnings and working capital improvements while cash provided by operating activities from our Power Technologies division decreased in the same period due to the timing of large projects and the related customer payments. The net cash provided by operating activities during 2004 was $902 million, which was a $1,054 million improvement as compared to the cash used of $152 million in 2003.

Cash flows provided by (used in) investing activities

Year ended December 31,	2005	2004	2003
		($ in millions)	
Acquisitions, investments, divestitures, net	(124)	1,158	488
Asset purchases, net of disposals	(339)	(420)	(392)
Other investing activities	147	(384)	658
Sub-total: Cash flows provided by (used in) investing activities	**(316)**	**354**	**754**

Investing activities include: accounts receivable from leases and third party loans (financing receivables); net investments in marketable securities that are not held for trading purposes; asset purchases, net of disposals; and acquisitions of, investments in and divestitures of businesses. Net cash used in investing activities was $316 million during 2005, a change of $670 million from cash provided by investing activities of $354 million during 2004.

In 2005, we had a cash outflow from acquisitions, investments and divestitures, net, primarily due to the cash sold with our Leasing portfolio business in Finland and cash payments in connection with settlements related to our Upstream Oil, Gas and Petrochemicals business. Significant divestitures during 2004 were the sale of our Upstream Oil, Gas and Petrochemicals business ($800 million), the sale of our Reinsurance business ($280 million) and the sale of our entire interest in IXYS Corporation ($42 million).

During 2003, we received cash proceeds of $149 million from the sale of our 35 percent stake in Swedish Export Credit Corporation and $90 million from the sale of our investments in two Equity Ventures projects in Australia. Cash proceeds of approximately $213 million were received through the sale of our Building Systems businesses in Sweden, Norway, Denmark, Finland and Russia. In addition, the sale of the ABB Export Bank for approximately $50 million, and the sale of part of our Wind Energy business in our Non-core activities division, were completed during the fourth quarter of 2003. As a result of these divestitures and net cash outflows of $24 million for certain smaller investments and disposals, net cash inflows from purchases of, investments in and divestitures of businesses was $488 million during 2003.

The net cash outflows from the purchase and sale of property, plant and equipment was lower in 2005 as compared to 2004, reflecting lower investment in 2005. Major capital expenditures on investment in machinery and equipment during 2005 occurred in Germany, Italy, Finland and India. Cash outflow for capital investment in property, plant and equipment was only slightly higher in 2004 as compared to 2003. Major capital expenditures on investment in machinery and equipment during 2004 occurred in Germany, Italy, Finland and Sweden. In 2004, proceeds of $123 million were received on the sale of property, plant and equipment as compared to $155 million in 2003. Significant asset sales during 2004 included the sale of real estate properties in Switzerland, Germany and Italy.

During 2005, net cash provided by other investing activities was $147 million, which included lease sales and the release of restricted cash. During 2004, we contributed $549 million of available-for-sale debt securities to certain of our pension plans in Germany. A significant portion of these securities was purchased during 2004, which significantly increased net cash used in other investing activities.

Cash provided by other investing activities was $658 million in 2003. The cash provided by other investing activities largely resulted from cash proceeds of $390 million from the sale of financing receivables related to our Structured Finance business and net cash proceeds of $268 million from the sale of marketable securities that were not held for trading purposes, primarily relating to the Reinsurance business which we sold in April 2004 and the sale of our shares in the China National Petrochemical Corporation (Sinopec Corp.) for $80 million.

Cash flows provided by (used in) financing activities

Year ended December 31,	2005	2004	2003
		($ in millions)	
Change in borrowings	(832)	(2,752)	(1,016)
Capital and treasury stock transactions	35	(36)	2,675
Other financing activities	(99)	43	(77)
Sub-total: Cash flows provided by (used in) financing activities	**(896)**	**(2,745)**	**1,582**

Our financing activities primarily include borrowings, both from the issuance of debt securities and directly from banks, and capital and treasury stock transactions.

Significant cash outflow from financing activities during 2005 included the repayment of maturing bonds and the repurchase of bonds. The cash inflow for the capital and treasury stock transactions primarily represented the capital increase resulting from our employee share acquisition program.

Cash outflows from financing activities during 2004 included the repayment of maturing bonds, open market repurchases of public bonds, tender offers for certain of our bonds and calls of those bonds not tendered. The cash outflow for the capital and treasury stock transactions represented payments made in 2004 in respect of certain tax and other liabilities incurred in connection with the rights issue carried out during the fourth quarter of 2003.

During 2003, as part of our strategy to lengthen our debt maturity profile, we replaced maturing short-term borrowings with long-term borrowings. Cash outflows in connection with borrowings reflected the repayment of short-term (including current portion of long-term) borrowings as they became due, partially offset by cash inflows from the proceeds of the 1,000 million Swiss francs convertible bonds and 650 million euro bonds issued in September and November 2003, respectively. The net proceeds of the rights issuance of $2.5 billion, completed in December 2003, and the proceeds from the sale of treasury shares during the first quarter of 2003 for $156 million contributed to the overall net cash inflow of $2,675 million during 2003.

Disclosures about contractual obligations and commitments

Contractual obligations

The contractual obligations presented in the table below represent our estimates of future payments under fixed contractual obligations and commitments. The amounts in the table may differ from those reported on our Consolidated Balance Sheet as of December 31, 2005. Changes in our business needs, cancellation provisions and interest rates, as well as actions by third parties and other factors, may cause these estimates to change. Because these estimates are necessarily subjective, our actual payments in future periods are likely to vary from those presented in the table. The following table summarizes certain of our contractual obligations and principal and interest payments under our debt instruments and leases as of December 31, 2005:

Payments due by period	Total	Less than 1 year	1–3 years	3–5 years	After 5 years
			($ in millions)		
Long-term debt obligations	3,960	27	1,792	1,235	906
Interest payments related to long-term debt obligations	1,098	250	474	196	178
Operating lease obligations	1,683	319	488	367	509
Purchase obligations	2,908	2,044	412	224	228
Total	**9,649**	**2,640**	**3,166**	**2,022**	**1,821**

We have determined our obligations in respect of our long-term debt obligations and interest payments related to long-term debt obligations by reference to the payments due under the terms of our debt obligations at the time such obligations were incurred. However, we use interest rate swaps to modify the characteristics of certain of our debt obligations. The net effect of these swaps may be to increase or decrease the stated amount of our cash interest payment obligations included in the above table. For further details on our debt obligations and the related hedges, please refer to Note 14 of our Consolidated Financial Statements.

Off-balance sheet arrangements

Commercial commitments

Certain guarantees issued or modified after December 31, 2002 are accounted for in accordance with Financial Accounting Standards Board Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.* Upon issuance of certain guarantees, a liability, equal to the fair value of the guarantee, is recorded.

FIN 45 requires that we disclose the "maximum potential exposure" of certain guarantees, as well as possible recourse provisions that may allow us to recover from third parties amounts paid out under such guarantees. The "maximum potential exposure" as defined by FIN 45 does not allow any discounting of our assessment of actual exposure under the guarantees. The information below reflects our maximum potential exposure under the guarantees, which is higher than our assessment of the expected exposure.

Guarantees

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

The carrying amount of liabilities recorded in the Consolidated Balance Sheets reflects our best estimate of future payments we may incur as part of fulfilling our guarantee obligations.

As of December 31,	2005		2004	
	Maximum potential payments	Carrying amount of liabilities	Maximum potential payments	Carrying amount of liabilities
		($ in millions)		
Third-party performance guarantees	1,197	1	1,525	2
Financial guarantees	209	–	253	1
Indemnification guarantees	150	13	198	16
Total	**1,556**	**14**	**1,976**	**19**

Guarantees related to third-party performance

Performance guarantees represent obligations where we guarantee 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, we will compensate the guaranteed party in cash or in kind. Performance guarantees include surety bonds, advance payment guarantees and performance standby letters of credit.

We retained obligations for guarantees related to the Power Generation business contributed in 1999 to the former ABB ALSTOM POWER NV joint venture. 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 that are expected to be completed by 2015, but in some cases the guarantees have no definite expiration. In 2000, we sold our interest in the ABB ALSTOM POWER NV joint venture 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, formerly ABB ALSTOM POWER NV, have undertaken jointly and severally to fully indemnify and hold us harmless against any claims arising under such guarantees. Our best estimate of the total maximum potential exposure of quantifiable guarantees issued by us on behalf of the Power Generation business is approximately $756 million and $875 million as of December 31, 2005 and 2004, respectively. We have not experienced any losses related to guarantees issued on behalf of the Power Generation business.

We have retained obligations for guarantees related to the Upstream Oil, Gas and Petrochemicals business sold in July 2004. The guarantees primarily consist of third-party performance guarantees, advance payment guarantees and other miscellaneous guarantees. The guarantees have maturity dates ranging from one to five years. The maximum amount payable under the guarantees was approximately $440 million and $650 million as of December 31, 2005 and 2004, respectively. We have the ability to recover potential payments under these guarantees through certain backstop guarantees. The maximum potential recovery under these backstop guarantees as of December 31, 2005 was approximately $108 million.

Guarantees relating to financial obligations

Financial guarantees represent irrevocable assurances that we 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.

As of December 31, 2005 and 2004, we had $209 million and $253 million, respectively, of financial guarantees outstanding. Of those amounts, $95 million and $123 million, respectively, were issued on behalf of companies in which we currently have or formerly had an equity interest. The guarantees have original maturity dates ranging from one to thirteen years.

Guarantees relating to indemnification

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

We delivered to the purchasers of the Upstream Oil, Gas and Petrochemicals business and Reinsurance business guarantees related to assets and liabilities divested in 2004. The maximum liability as of December 31, 2005 and 2004, of approximately $150 million and $198 million, respectively, relating to the Upstream Oil, Gas and Petrochemicals and Reinsurance businesses will reduce over time, pursuant to the respective sales agreements. The fair value of these guarantees is not material.

Other commitments

We have granted lines of credit and have committed to provide additional capital for certain equity accounted companies. As of December 31, 2005, the total unused lines of credit amounted to $74 million and capital commitment guarantees amounted to $25 million.

Securitization programs

In addition to the primary sources of liquidity and capital resources described in the section entitled "Liquidity and Capital Resources," we have sold certain trade receivables to VIEs, unrelated to us, in revolving-period securitization programs. During 2005, we re-assessed our need for these securitization programs, terminating one program and reducing the size of the other program. As of December 31, 2005, the remaining securitization program is with a VIE that is not required to be consolidated in accordance with FIN46(R).

Solely for the purpose of credit enhancement from the perspective of the purchasing entity, we retain an interest in the sold receivables. Pursuant to the requirements of the revolving-period securitization, we effectively bear the risk of potential delinquency or default associated with trade receivables sold or interests retained. Retained interests included in other receivables as of December 31, 2005 and 2004 amounted to $195 million and $373 million, respectively. The decrease in the retained interest during 2005 of $178 million was mainly due to the termination of one program and the reduction in size of the other. In the normal course of servicing the assets sold, we evaluate potential collection losses and delinquencies and update the estimated fair value of our retained interest. Pursuant to the terms of the securitization program, receivables more than 90 days overdue are considered delinquent. Ultimately, if the customer defaults, we will be responsible for the uncollected amount up to the amount of our retained interest. The fair value of the retained interests as of December 31, 2005 and 2004, was approximately $185 million and $349 million, respectively.

The net cash received from (paid to) VIEs during 2005, 2004 and 2003 was $(404) million, $130 million and $(119) million, respectively, as follows:

December 31,	2005	2004	2003
		($ in millions)	
Gross trade receivables sold to VIEs ($505) (1)	4,925	5,846	5,661
Collections made on behalf of and paid to VIEs ($(696)) (1)	(5,489)	(5,713)	(5,883)
Purchaser, liquidity and program fees ($(2)) (1)	(18)	(20)	(21)
Decrease in retained interests ($117) (1)	178	17	124
Net cash received from (paid to) VIEs ($(76)) (1)	**(404)**	**130**	**(119)**

(1) Related to assets held for sale and in discontinued operations in 2003. Amounts related to assets held for sale and in discontinued operations were not significant in 2005 and 2004.

The decrease in gross receivables sold in 2005 as compared to 2004, is due primarily to the closure of one securitization program and a reduction in size of the other program. The increase in gross receivables sold in 2004, as compared to 2003, is due primarily to an increase in the programs' size, a change in the definition of receivables eligible to be sold in one program and the addition of new sellers to one of the programs during 2004.

We pay purchaser, liquidity and program fees on our securitization programs. Purchaser and program fees are based on the amount of funding that we receive, while liquidity fees are based on the programs' size. These costs of $18 million, $20 million and $21 million in 2005, 2004 and 2003, respectively, are included in interest and other finance expense.

As of December 31, 2005 and 2004, of the gross trade receivables sold, the total trade receivables for which cash has not been collected at those dates amounted to $388 million and $1,083 million, respectively. Of these amounts, $41 million and $54 million as of December 31, 2005 and 2004, respectively, was more than 90 days past due.

In addition, we transfer receivables outside of the above described securitization programs. These transfers were sales, made without recourse, directly to banks and/or sales pursuant to factoring or similar type arrangements. Total sold receivables included in these transactions during 2005 and 2004 were approximately $530 million and $902 million, respectively, of which, sales of $0 million and $159 million, respectively, related to assets held for sale and in discontinued operations. During 2005 and 2004, the related costs, including the associated gains and losses, were $5 million and $10 million, respectively, of which, costs of $0 million and $1 million, respectively, related to assets held for sale and in discontinued operations. The reduction in the amount of receivables transferred outside of the securitization programs in 2005 as compared to 2004 was mainly the result of our decision to reduce the volume of securitization activities.

For a further discussion of our securitization programs, see Notes 2 and 8 to our Consolidated Financial Statements.

Pension and other postretirement obligations

During 2005, we made a non-cash contribution of $262 million of available-for-sale debt securities to certain of our pension plans in Germany and cash contributions of $296 million to other pension plans and $27 million to other benefit plans.

As of December 31, 2005 and 2004, our pension liabilities exceeded plan assets by $839 million and $1,451 million, respectively. Our other postretirement plan liabilities exceeded plan assets by $270 million and $369 million as of December 31, 2005 and 2004, respectively. This underfunding is not a short-term obligation for us as the settlement of the pension liability will take place as the covered employees draw benefits from the plans in the future. We anticipate contributing a total of $160 million and $30 million to our pension plans and our postretirement benefit plans, respectively, in 2006 to meet minimum statutory requirements. We may make additional discretionary pension contributions during 2006.

Variable interests

We are a party to certain off-balance sheet arrangements including variable interests in unconsolidated entities. See Note 8 to the Consolidated Financial Statements for additional information on variable interests.

Related and certain other parties

In the normal course of our activities, we sell products and derive certain other revenues from companies in which we hold an equity interest. The revenues derived from these transactions are not material to us. In addition, in the normal course of our activities, we purchase products from companies in which we hold an equity interest. The amounts involved in these transactions are not material to us. Also, in the normal course of our activities, we engage in transactions with businesses that we have divested on terms that we believe are negotiated on an arm's length basis.

We have participations in joint ventures and affiliated companies, which are accounted for using the equity method. Many of these entities have been established to perform specific functions, such as constructing, operating and maintaining a power plant. In addition to our investments, we may provide products to specific projects, may act as the contractor of such projects or may operate the finished products. We may also grant lines of credit to these joint ventures of affiliated companies or for specific projects and guarantee their obligations, as discussed under the section entitled "Off-balance sheet arrangements" above. These joint ventures, affiliated companies or project-specific entities generally receive revenues either from the sale of the final product or from selling the output generated by the product. The revenue usually is defined by a long-term contract with the end user of the output.

For information regarding related party transactions, see Note 17 of our Consolidated Financial Statements.

Contingencies and retained liabilities

Environmental Liabilities

All of our operations, but particularly our manufacturing operations, are subject to comprehensive environmental laws and regulations. Violations of these laws could result in fines, injunctions (including orders to cease the violating operations) or other penalties (including orders to improve the condition of the environment in the affected area or to pay for such improvements). In addition, environmental permits are required for our manufacturing facilities (for example, with respect to air emissions and wastewater discharges). In most countries in which we operate, environmental permits must be renewed on a regular basis and we must submit reports to environmental authorities. These permits may be revoked, renewed or modified by the issuing authorities at their discretion and in compliance with applicable laws. We have implemented formal environmental management systems at nearly all of our manufacturing sites in accordance with the international environmental management standard ISO 14001, and we believe that we are in substantial compliance with environmental laws, regulations and permit requirements in the various jurisdictions in which we operate, except for such instances of non-compliance that, in the aggregate, are not reasonably likely to be material.

In a number of jurisdictions, including the United States, we may be liable for environmental contamination at our present or former facilities, or at other sites where wastes generated from our present or former facilities were disposed. In the United States, the Environmental Protection Agency and various state agencies are responsible for regulating environmental matters. These agencies have identified certain of our current and former U.S. based companies as potentially responsible parties in respect to a number of such sites under the Comprehensive Environmental Response Compensation and Liability Act (CERCLA), the Resource Conservation and Recovery Act and other federal and state environmental laws. As a potentially responsible party, we may be liable for a share of the costs associated with cleaning up these sites. As of December 31, 2005, there were approximately 25 sites, at which our companies have, or may be potentially responsible for, environmental clean up costs. These 25 sites include several of our current or former facilities where we have undertaken voluntary corrective actions. The clean up of these sites involves primarily soil and groundwater contamination. We do not believe that our aggregate liability in connection with these sites will have a material adverse impact on our consolidated financial position, results of operations and cash flows.

Generally, our liability with regard to any specific site will depend on the number of potentially responsible parties, their relative contributions of hazardous substances or wastes to the site and their financial resources, as well as on the nature and extent of the contamination. Nevertheless, such laws commonly impose strict liability jointly and severally on the parties involved, so that any one party may be liable for the entire cost of cleaning up a contaminated site.

We retained liabilities for certain specific environmental remediation costs at two sites in the U.S. that were operated by our Nuclear Technology business, which was sold to British Nuclear Fuels PLC (BNFL) in April 2000. Pursuant to the sale agreement with BNFL, we have retained all of the environmental liabilities associated with our Combustion Engineering 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 ABB C-E Nuclear Power Inc. subsidiary's Hematite, Missouri facility. The primary environmental liabilities associated with these sites relate to the costs of remediating radiological and chemical contamination at these facilities. Such costs are not incurred until a facility is taken out of use and generally are incurred over a number of years. Although it is difficult to predict with accuracy the amount of time it may take to remediate radiological and chemical contamination at the Hematite site, based on information that BNFL has made publicly available, we believe that it may take until 2013 to remediate the Hematite site. With respect to the Windsor site, we believe the remediation may take until 2010.

Under the terms of the sale agreement, BNFL must perform the Hematite remediation in a cost efficient manner and pursue recovery of remediation costs from other potentially responsible parties as conditions for obtaining cost sharing contributions from us. Westinghouse Electric Company LLC, the BNFL subsidiary that owns the Hematite site (Westinghouse) has brought legal action against former owner/operators of the Hematite site and the U.S. Government under the CERCLA to recover past and future remediation costs. The defendants are contesting Westinghouse's claims. If Westinghouse's CERCLA cost recovery action is unsuccessful, the cost to us may increase in the future. This risk is included in the high end of the estimated contingent liability set forth below.

At the Windsor site, a significant portion of the contamination is related to activities that were formerly conducted by or for the U.S. government. We believe that a significant portion of the remediation costs will be covered by the U.S. government under the government's Formerly Utilized Sites Remedial Action Program.

We have established a reserve of $300 million in loss from discontinued operations in 2000 for our estimated share of the remediation costs for these facilities. As of December 31, 2005, we have recorded in other liabilities a reserve of $255 million, net of payments from inception of $43 million, and a reversal of $2 million to loss from discontinued operations in 2005 reflecting realized cost savings. As of December 31, 2005 we estimated the total contingent liability for our share of the remediation costs for these facilities in a range of loss from $220 million to $402 million. Expenditures charged to the remediation reserve were $9 million, $10 million and $6 million during 2005, 2004 and 2003, respectively. We do not expect the majority of the remaining costs to be paid in cash during 2006.

Estimates of the future costs of environmental compliance and liabilities are imprecise due to numerous uncertainties. Such costs are affected by the enactment of new laws and regulations, the development and application of new technologies, the identification of new sites for which we may have remediation responsibility and the apportionment of remediation costs among, and the financial viability of, responsible parties. In particular, the ultimate result of Westinghouse's cost recovery action regarding the Hematite site or the exact amount of the responsibility of the United States government for the Windsor site cannot be precisely estimated. It is possible that final resolution of environmental matters may require us to make expenditures in excess of our expectations, over an extended period of time and in a range of amounts that cannot be reasonably estimated. Although final resolution of such matters could have a material effect on our Consolidated Income Statement in a particular reporting period, we believe that these expenditures will not have a material adverse impact on our Consolidated Financial Statements.

Asbestos Liability

Summary

Our Combustion Engineering subsidiary has been a co-defendant in a large number of lawsuits claiming damage for personal injury resulting from exposure to asbestos. A smaller number of claims have also been brought against our ABB Lummus Global Inc. subsidiary (Lummus) as well as against other affiliated companies. In October 2002, taking into consideration the growing number and cost of asbestos-related claims, Combustion Engineering and we determined that Combustion Engineering's asbestos-related liability should be resolved through a comprehensive settlement that included a plan of reorganization for Combustion Engineering under Chapter 11 of the U.S. Bankruptcy Code.

In November 2002, Combustion Engineering and the representatives of various asbestos claimants entered into a Master Settlement Agreement to settle approximately 154,000 asbestos-related personal injury claims that were then pending against Combustion Engineering. Under that agreement Combustion Engineering established and funded a trust (the CE Settlement Trust) to provide for partial payment of those claims.

In January 2003, Combustion Engineering reached agreement with various creditors (including representatives of the asbestos claimants who participated in the Master Settlement Agreement and a representative of future claimants) on the terms of a proposed "Pre-Packaged Plan of Reorganization for Combustion Engineering" under Chapter 11 of the U.S. Bankruptcy Code (as amended through June 4, 2003, the "Initial CE Plan"). The Initial CE Plan provided for the issuance of a "channeling injunction" under which asbestos-related personal injury claims related to the operations of Combustion Engineering, Lummus and Basic Incorporated (Basic), another subsidiary of ABB Ltd that is a former subsidiary of Combustion Engineering, could only be brought against a future trust (separate from the CE Settlement Trust established under the Master Settlement Agreement) to be established and funded by Combustion Engineering, ABB Ltd and other ABB group companies (the Asbestos PI Trust). This channeling injunction was intended to free Combustion Engineering, ABB Ltd and its affiliates, as well as certain former direct or indirect owners, joint venture partners and affiliates of Combustion Engineering, including ALSTOM and ALSTOM POWER NV, from further liability for such claims.

The Initial CE Plan was filed with the U.S. Bankruptcy Court on February 17, 2003 and confirmed by the District Court on August 8, 2003. On December 2, 2004, however, the Court of Appeals for the Third Circuit reversed the District Court's confirmation order. The Court of Appeals remanded the Initial CE Plan to the District Court among other things for a determination of whether, in light of the pre-petition payments made by Combustion Engineering to the CE Settlement Trust under the Master Settlement Agreement and the fact that claimants who received partial payments of their claims under the Master Settlement Agreement participated in the approval of the Initial CE Plan, the treatment of asbestos-related personal injury claims against Combustion Engineering under the Initial CE Plan was consistent with the requirements of the U.S. Bankruptcy Code. The Court of Appeals also held that asbestos claims against Lummus and Basic that are not related to Combustion Engineering's operations could not be "channeled" to the Asbestos PI Trust as proposed under the Initial CE Plan.

In March 2005, following extensive discussions with certain representatives of various parties, including the Creditors Committee, the Future Claimants Representative appointed in the Combustion Engineering case (the CE FCR) and Certain Cancer Claimants (the CCC) who had opposed the Initial CE Plan, the parties reached an agreement in principle (the Agreement in Principle) for modifying the Initial CE Plan with a view to bringing it into conformity with the Court of Appeals' decision and for providing a mechanism for resolving finally Lummus' potential asbestos liability. The main terms of the Agreement in Principle provide for ABB group and certain of our subsidiaries to make an additional contribution of $204 million to the Asbestos PI Trust not later than two years from the effective date of the Initial CE Plan, as modified as contemplated by the Agreement in Principle, but payment of this additional contribution may be accelerated in whole or in part if Lummus or Lummus assets are sold in the interim; the payment by ABB group of the legal fees of the CCC in the amount of $ 8 million; and the filing of a separate Chapter 11 case and a prepackaged plan of reorganization for Lummus (the Lummus Plan). The Agreement in Principle contemplates that the "Modified CE Plan" and the Lummus Plan will become effective concurrently.

One of the holdings of the Court of Appeals was that asbestos-related personal injury claims against Basic that are not related to Combustion Engineering's operations could not be "channeled" to the Asbestos PI Trust. The Modified CE Plan and Lummus Plan do not address claims against Basic. Basic's asbestos-related personal injury liabilities will have to be resolved through its own bankruptcy or similar U.S. state court liquidation proceeding, or through the tort system.

Following the Agreement in Principle, the parties negotiated the terms and language of the Lummus Plan and the modifications to the Initial CE Plan. These negotiations lasted for approximately five (5) months, and on August 19, 2005, an amended version of the Initial CE Plan (the Modified CE Plan) was filed with the U.S. Bankruptcy Court. The Modified CE Plan was filed with the support of all of the original proponents of the Initial CE Plan, as well as the CCC. Shortly thereafter, the Modified CE Plan and the Lummus Plan were mailed to all their respective impaired creditors for voting.

In late September 2005, voting concluded on the Modified CE Plan and the Lummus Plan, and both plans were approved overwhelmingly by the voting creditors. On September 28, 2005, the U.S. Bankruptcy Court held a Confirmation Hearing on the Modified CE Plan. While several insurers filed objections to the Modified CE Plan, all such objections were resolved or withdrawn prior to the conclusion of the hearing. On December 19, 2005, the U.S. Bankruptcy Court entered an Order confirming the Modified CE Plan, and recommending that the U.S. District Court affirm the U.S. Bankruptcy Court's Order. The U.S. District Court entered an order affirming the Modified CE Plan on March 1, 2006. There is a 30-day appeals period following affirmation of the Modified CE Plan. If no appeals are lodged during this period, the Plan is final.

Background

When we sold our 50 percent interest in the former ABB ALSTOM POWER NV joint venture to ALSTOM in May 2000, we retained ownership of Combustion Engineering, a subsidiary that had conducted part of our former power generation business and that now owns commercial real estate that we lease to ABB Inc. and third parties.

From 1989 through February 17, 2003 (the date that Combustion Engineering filed for Chapter 11 as described below), approximately 438,000 asbestos-related claims were filed against Combustion Engineering. On February 17, 2003, there were approximately 164,000 asbestos-related personal injury claims pending against Combustion Engineering. Of these claims, approximately 155,000 were claims by asbestos claimants who participated in the Master Settlement Agreement.

From 1990 through February 17, 2003, Lummus was named as a defendant in approximately 13,000 asbestos-related personal injury claims, of which approximately 11,000 claims were pending on February 17, 2003.

Other entities of ABB Ltd have sometimes been named as defendants in asbestos-related claims. As of December 31, 2005 and 2004, there were approximately 16,400 asbestos-related claims pending against entities of ABB Ltd other than Combustion Engineering and Lummus. These claims, which include approximately 4,300 claims against Basic, are unrelated to Combustion Engineering and Lummus and will not be resolved in the Combustion Engineering bankruptcy case or the contemplated prepackaged bankruptcy case for Lummus. We generally seek dismissals from claims where there is no apparent linkage between the plaintiffs and any entity of ABB Group. To date, resolving claims against our entities other than Combustion Engineering, and Lummus has not had a material impact on our consolidated financial position, results of operations or cash flows.

Negotiations with representatives of asbestos claimants and pre-packaged Chapter 11 filing
In October 2002, Combustion Engineering and we determined that it was likely that the expected asbestos-related personal injury liabilities of Combustion Engineering would exceed the value of its assets of approximately $800 million if its historical settlement patterns continued into the future. At that time, Combustion Engineering and we determined to resolve the asbestos-related personal injury liability of Combustion Engineering and its affiliates by reorganizing Combustion Engineering under Chapter 11, the principal business reorganization chapter of the U.S. Bankruptcy Code. Combustion Engineering and we determined to structure the Chapter 11 reorganization as a "pre-packaged plan," in which Combustion Engineering would solicit votes from asbestos claimants to approve the plan before the Chapter 11 case was filed with the Bankruptcy Court.

Beginning in October 2002, Combustion Engineering and we conducted extensive negotiations with representatives of certain asbestos claimants with respect to a pre-packaged plan. On November 22, 2002, Combustion Engineering and the asbestos claimants' representatives entered into a Master Settlement Agreement for settling open asbestos-related personal injury claims that had been filed against Combustion Engineering prior to November 2002. Combustion Engineering also agreed, pursuant to the Master Settlement Agreement, to form and fund the CE Settlement Trust to administer and pay a portion of the value of asbestos-related personal injury claims settled under the Master Settlement Agreement. Under the terms of the Master Settlement Agreement, eligible claimants who met all criteria to qualify for payment were entitled to receive a percentage of the value of their claim from the CE Settlement Trust and retain a claim against Combustion Engineering for the unpaid balance (the stub claim). The Master Settlement Agreement divides claims into three categories based on the status of the claim at November 14, 2002, the status of the documentation relating to the claim and whether or not the documentation establishes a valid claim eligible for settlement and payment by Combustion Engineering. The Master Settlement Agreement was supplemented in January 2003 to clarify the rights of certain claimants whose right to participate in a particular payment category was disputed. The Master Settlement Agreement, as supplemented, settles the value and provides for the partial payment of approximately 155,000 asbestos-related personal injury claims that had been lodged against Combustion Engineering.

The Master Settlement Agreement, as supplemented, provided that the CE Settlement Trust was to be funded by:

- cash contributions from Combustion Engineering in the amount of $5 million;
- cash contributions from ABB Inc., a subsidiary of ABB Ltd, in the amount of $30 million;
- a promissory note from Combustion Engineering in the principal amount of approximately $101 million (guaranteed by Asea Brown Boveri), now merged into Holdings; and
- an assignment by Combustion Engineering of the $311 million unpaid balance of principal and interest due to Combustion Engineering from Asea Brown Boveri, now merged into Holdings, under a loan agreement dated May 12, 2000 (guaranteed by ABB Ltd).

Approximately 155,000 eligible claimants have entered into the Master Settlement Agreement or adoption agreements with Combustion Engineering and the CE Settlement Trust and have received partial payment on their claims.

Pre-packaged plan of reorganization
On January 17, 2003, we announced that Combustion Engineering and we had reached an agreement with representatives of asbestos claimants on the terms of the Initial CE Plan.

As proposed, the Initial CE Plan provided for the creation of the Asbestos PI Trust, an independent trust separate and distinct from the CE Settlement Trust, to address "Asbestos PI Trust Claims," which are present and future asbestos-related personal injury claims (including the stub claims of claimants who previously settled pursuant to the Master Settlement Agreement) that arise directly or indirectly from any act, omission, products, or operations of Combustion Engineering or Lummus or Basic. The Initial CE Plan provided that, if it were to become effective, a channeling injunction would be issued under Section 105 of the U.S. Bankruptcy Code pursuant to which the Asbestos PI Trust Claims against ABB Ltd and certain of its affiliates (including Combustion Engineering, Lummus and Basic) would be channeled to the Asbestos PI Trust. The effect of the channeling injunction contemplated by the Initial CE Plan would be that the sole recourse of a holder of an Asbestos PI Trust Claim would be to the Asbestos PI Trust and such holder would be barred from asserting such a claim against ABB Ltd and the affiliates covered by the injunction (including Combustion Engineering and, under the Initial CE Plan, Lummus and Basic).

As proposed, the Initial CE Plan provided that on its effective date, the Asbestos PI Trust would be funded with the following:

- a $20 million 5 percent term note (the CE Convertible Note) with a maximum term of ten years from the effective date of the Initial CE Plan, to be issued by Combustion Engineering and secured by its Windsor, Connecticut, real estate and real estate leases (under certain specified contingencies, the Asbestos PI Trust may have the right to convert the term note into ownership of 80 percent of the voting securities of the reorganized Combustion Engineering);
- excess cash held by Combustion Engineering on the effective date of the Initial CE Plan (the Excess CE Cash);
- a non-interest bearing promissory note (the ABB Promissory Note) to be issued by ABB Inc. and ABB Ltd, and guaranteed by certain ABB Ltd subsidiaries, in an aggregate amount of up to $350 million payable in installments (including two $25 million payments contingent upon ABB Ltd generating an earning before interest and taxes margin of 12 percent in 2007 and 2008);
- a non-interest bearing promissory note to be issued on behalf of Lummus in the amount of $28 million payable in relatively equal annual installments over 12 years;
- a non-interest bearing promissory note to be issued on behalf of Basic (the Basic Note) in the aggregate amount of $10 million payable in relatively equal annual installments over 12 years;
- 30,298,913 shares of ABB Ltd (the CE Settlement Shares), which had a fair value of $293 million, $170 million and $154 million as of December 31, 2005, 2004 and 2003, respectively; and
- an assignment by Combustion Engineering, Lummus, and Basic to the Asbestos PI Trust of any proceeds under certain insurance policies. As of December 31, 2005, aggregate unexhausted product liability limits under such policies were approximately $200 million for Combustion Engineering, approximately $43 million for Lummus and approximately $28 million for Basic although amounts ultimately recovered by the Asbestos PI Trust under these policies may be substantially different from the policy limits. In addition, Combustion Engineering would assign to the Asbestos PI Trust scheduled payments under certain of its insurance settlement agreements ($66 million as of December 31, 2005). (The proceeds and payments to be assigned are together referred to as "Certain Insurance Amounts.")

In addition, the Initial CE Plan provided that if Lummus is sold within 18 months after the CE Plan's effective date, ABB Inc. would contribute $5 million to the CE Settlement Trust and $5 million to the Asbestos PI Trust.

Upon the effective date under the Initial CE Plan, ABB Inc. would indemnify the Combustion Engineering estate against up to $ 5 million of liability on account of certain contingent claims held by certain indemnified insurers. Further, on the effective date, Asea Brown Boveri (now merged into Holdings) would provide for the benefit of Combustion Engineering a nuclear and environmental indemnity with regard to obligations arising out of Combustion Engineering's Windsor, Connecticut, site. The two indemnities described in this paragraph are referred to as the "Related Indemnities."

Judicial review process

The solicitation of votes to approve the Initial CE Plan began on January 19, 2003. Combustion Engineering filed for Chapter 11 in the U.S. Bankruptcy Court in Delaware on, February 17, 2003, based on the terms previously negotiated in connection with the Initial CE Plan.

On July 10, 2003 the Bankruptcy Court issued an Order recommending to the U.S. District Court, among other things, that the Initial CE Plan be confirmed.

Following the issuance of the Bankruptcy Court's Order a number of interested parties, including a small number of asbestos claimants and certain insurance companies which historically have provided insurance coverage to Combustion Engineering, Lummus and Basic filed appeals based on various objections to the Initial CE Plan. The District Court held a hearing on July 31, 2003, with respect to the appeals and entered an order on August 8, 2003 confirming the Initial CE Plan.

Various parties appealed the District Court's confirmation order to the United States Court of Appeals for the Third Circuit. The Court of Appeals held a hearing with respect to the appeals of the confirmation order of the District Court on June 23, 2004 and issued its decision on December 2, 2004 (the Third Circuit Decision).

The Third Circuit Decision reversed the District Court's confirmation of the Initial CE Plan. The Third Circuit Decision focused on three issues raised by the appealing parties in respect to the terms of the Initial CE Plan: (i) whether the Bankruptcy Court had "related to" jurisdiction over the claims against the non-debtors, Lummus and Basic, that do not arise from any products or operations of Combustion Engineering (the non-derivative claims); (ii) whether the non-debtors, Lummus and Basic, could avail themselves of the protection of the channeling injunction by invoking Section 105 of the Bankruptcy Code and contributing assets to the Asbestos PI Trust; and (iii) whether the two-trust structure and use of stub claims in the voting process comply with the Bankruptcy Code. The Court of Appeals held that there were insufficient factual findings to support "related-to" jurisdiction and that Section 105 of the Bankruptcy Code could not be employed to extend the channeling injunction to the non-derivative claims against non-debtors Lummus and Basic. With regard to the two-trust structure, the Court of Appeals remanded the Initial CE Plan to the District Court to determine whether creditors received fair treatment in light of the pre-petition payments made to the CE Settlement Trust participants and the use of stub claims in the voting process. Among other things, the Court of Appeals instructed the lower courts to consider whether payments under the CE Settlement Trust constituted voidable preferences that were inconsistent with the fair distribution scheme of the Bankruptcy Code.

Notwithstanding the Third Circuit Decision, the Master Settlement Agreement, which settles the amount of and provides for partial payment on approximately 155,000 asbestos-related personal injury claims, remained effective. Early in the Combustion Engineering bankruptcy case, however, an asbestos claimant commenced an action against the trustee of the CE Settlement Trust and individuals who had received distributions from such trust, asserting that further distributions by the CE Settlement Trust should be enjoined because the transaction that created the CE Settlement Trust was a voidable preference. The Bankruptcy Court ruled that it would not dismiss that action for lack of standing. On October 22, 2004, the trustee of the CE Settlement Trust moved to dismiss the complaint in that action. This matter is pending and no decision has been rendered by the Court. The Modified CE Plan contemplates that on its effective date the complaint would be dismissed.

Following the Third Circuit Decision, the lower courts assumed jurisdiction over further confirmation proceedings in respect of the Initial CE Plan. On January 27, 2005, the Bankruptcy Court authorized the CE FCR and the Creditors Committee to file any available bankruptcy-related and similar claims against third parties, including preference claims against certain claimants that did not participate in the CE Settlement Trust, and any potential bankruptcy-related claims against us. We also entered into a tolling agreement to extend the time period within which bankruptcy-related claims against us could be brought. The Modified CE Plan contemplates that all such actions by the trustee agent and us will be dismissed on the effective date of that Plan.

Since February 17, 2003, a stay and preliminary injunction have barred the commencement and prosecution of certain asbestos-related claims against Combustion Engineering, Lummus, Basic, certain other entities of ABB group and certain other parties, including parties indemnified by us. The barred claims include, among others, claims arising from asbestos exposure caused by Combustion Engineering, Lummus or Basic and claims alleging fraudulent conveyance, successor liability and veil piercing. We do not know the number or nature of claims that would now be pending against the protected entities if those legal measures had not been in place.

The Modified CE Plan

In March 2005, following extensive discussions with the CE FCR, the Creditors Committee and representatives of the CCC, Combustion Engineering and we reached the Agreement in Principle on certain overall modifications to the Initial CE Plan to bring it into conformity with the Third Circuit Decision and to provide a mechanism for resolving finally Lummus' potential asbestos liability.

The Modified CE Plan, which implements the Agreement in Principle, includes the following material changes to the Initial CE Plan:

- **Additional Contribution** – We will make an additional contribution of $204 million (the ABB Additional Contribution) to the Asbestos PI Trust from the proceeds received from any sale of Lummus in whole or in part, but in no event later than two years from the effective date of the Modified CE Plan regardless of any sale of all or a portion of Lummus;
- **ABB Promissory Note** – The terms of the original ABB Promissory Note have been changed to, among other things, modify the payment schedule and the percentages for EBIT Margin Events that give rise to contingent payments;

- **Guarantees** – Guarantees by certain subsidiaries of ABB Ltd of the ABB Promissory Note have been extended for all continuing, modified, and additional contributions of Combustion Engineering, ABB Ltd or their respective affiliates under the Modified CE Plan;
- **Lummus Effective Date** – The Effective Date of the Modified CE Plan is conditioned upon the occurrence of the Lummus Effective Date, but this condition becomes inoperative if Lummus fails to file its own chapter 11 case within 15 days after the Confirmation Order in respect to the Modified CE Plan becomes final;
- **Asbestos PI Trust Distributions** – Certain changes have been made to the Asbestos PI Trust documents that modify the Asbestos PI Trust Distribution Procedures under the Modified CE Plan;
- **Settlement of Preference Claims** – The CE Settlement Trust and claimants who received payments from the CE Settlement Trust will receive a release of any preference claims, fraudulent transfer claims, and other similar claims that Combustion Engineering, the CE FCR or creditors of Combustion Engineering may have against them;
- **Elimination of Lummus and Basic** – The Modified CE Plan no longer addresses the direct asbestos related liabilities of Lummus and Basic and eliminates any assignment of insurance rights by Lummus and Basic other than their rights to coverage under Combustion Engineering's insurance policies.

As part of these changes, we have paid approximately $8 million of approved legal fees of the CCC.

The Modified CE Plan contemplates a channeling injunction substantially similar to the channeling injunction contemplated by the Initial CE Plan. If the ABB entities fail to perform any of their financial obligation under the Modified CE Plan, the channeling injunction will terminate and the affected asbestos-related personal injury claims could be pursued against the ABB entities.

The Lummus Plan

The negotiations that determined the proposed terms of the Lummus Plan were conducted with an individual appointed by Lummus to represent the interests of its future asbestos claimants (the Lummus FCR). These negotiations were held in parallel with the negotiations on the Modified CE Plan over approximately five months.

The material terms of the Lummus Plan are as follows:

- **Lummus Note** – Lummus will execute a note in the principal amount of $33 million (the Lummus Note) payable to the Trust created under the Lummus Plan (the Lummus Asbestos PI Trust). The Lummus Note will bear interest at 6 percent per annum and be secured by 51 percent of the capital stock of Lummus.
- **Insurance Recoveries** – The Lummus Asbestos PI Trust will also be entitled to be paid the first $7.5 million in aggregate recoveries from Lummus insurers, with the first $5 million guaranteed by Lummus; and
- **Channeling Injunction** – The Lummus Plan provides for the issuance of a channeling injunction pursuant to Sections 524(g) and 105 of the Bankruptcy Code pursuant to which all asbestos claims against Lummus shall be channeled to the Lummus Asbestos PI Trust.

The Solicitation and Voting Process

In late August 2005, Combustion Engineering distributed informational materials and ballots to claimants who were eligible to vote on the Modified CE Plan or to persons who had been authorized by eligible claimants to cast ballots on their behalf. On August 31, 2005, Lummus set out informational materials and ballots on the Lummus Plan to all affected Lummus creditors for voting.

Separate voting on the Modified CE Plan and Lummus Plan began on about September 1, 2005 and concluded on September 19, 2005. The Modified CE Plan was approved by an overwhelming majority of the votes cast in respect to the Modified CE Plan and the Lummus Plan was approved by an overwhelming majority of those who voted on the Lummus Plan.

Confirmation of the Modified CE Plan

The Bankruptcy Court held a Confirmation Hearing on the Modified CE Plan on September 28, 2005. Several objections to confirmation of the Modified CE Plan had been filed by insurance carriers and others but all such objections were resolved or otherwise withdrawn at or prior to the hearing. As a consequence, there were no objections to confirmation of the Modified CE Plan before the court.

On December 19, 2005 the Bankruptcy Court issued an Order, and accompanying Opinion, confirming the Modified CE Plan and recommending that the U.S. District Court affirm the Bankruptcy Court's Order. The U.S. District Court entered an order affirming the Modified CE Plan on March 1, 2006. There is a 30-day appeals period following affirmation of the Modified CE Plan. If no appeals are lodged during this period, the Plan is final.

The Modified CE Plan contemplates that Lummus would file its own Chapter 11 case within 15 days from the date that the confirmation of the Modified CE Plan becomes a final order. However, Lummus is under no obligation to file such a case or to file at any particular time.

We do not know whether any plan or reorganization for Combustion Engineering or Lummus will be ultimately confirmed. If for any reason a Chapter 11 plan relating to Combustion Engineering is not eventually confirmed, Combustion Engineering could be required to enter a Chapter 7 proceeding. If for any reason a Chapter 11 plan relating to Lummus is not eventually confirmed, we expect that Lummus' asbestos-related liabilities will have to be resolved through the tort system, or otherwise.

Entities of ABB group that are not included in the protection offered by the channeling injunctions entered pursuant to the Modified CE Plan or the Lummus Plan (if Lummus files its own Chapter 11 case) will continue to resolve current and future asbestos-related claims that are asserted against them in the tort system, or otherwise.

If U.S. federal legislation addressing asbestos personal injury claims is passed, which is speculative at this time, such legislation may affect the amount that will be required to resolve the asbestos-related claims against entities of ABB group.

Effect on our financial position

Expenses. We recorded expenses related to asbestos of $133 million, $262 million and $142 million in loss from discontinued operations, net of tax, and $0 million, $1 million and $3 million in income from continuing operations, net of tax, in 2005, 2004 and 2003, respectively. Loss from discontinued operations, net of tax, in 2005 includes $123 million resulting from the mark-to-market adjustment relating to the CE settlement shares and other costs of $11 million. Loss from discontinued operations, net of tax, in 2004 reflects a charge of $232 million taken in connection with the agreement we reached in March 2005 on the basic terms of the Modified CE Plan, $17 million resulting from the mark-to-market adjustment relating to the CE Settlement Shares, a credit of $6 million resulting from adjustment of the provision for the estimated liability of Basic and other costs of $19 million. Loss from discontinued operations, net of tax, in 2003 includes a charge of $68 million, net of tax, resulting from the mark-to-market adjustment relating to the CE Settlement Shares, a provision of $41 million, representing the then present value of the first two $25 million payments under the ABB Promissory Note, which were previously considered contingent, as well as $33 million of other costs.

Cash Payments. Cash payments, before insurance recoveries, related to Combustion Engineering's asbestos-related claims were $19 million (including $3 million contributed to the CE Settlement Trust, described above), $56 million (including $49 million contributed to the CE Settlement Trust) and $391 million (including $365 million contributed to the CE Settlement Trust), in 2005, 2004 and 2003, respectively. Administration and defense costs were $17 million, $10 million and $36 million in 2005, 2004 and 2003, respectively.

Cash payments related to asbestos-related claims against Lummus aggregated approximately $3 million through December 31, 2005, of which approximately $1 million was paid in 2003 and the remainder in prior years. Administration and defense costs were $4 million, $0 million and $2 million in 2005, 2004 and 2003, respectively.

The aggregate cash payments to resolve asbestos-related claims against Basic and other entities of ABB Ltd were approximately $4 million as of December 31, 2005, of which $3 million related to Basic.

Provisions. As of December 31, 2005, 2004 and 2003, we recorded total provisions on a consolidated basis of $1,128 million, $1,023 million and $815 million in respect of asbestos-related claims and defense costs related to Combustion Engineering, Lummus and Basic. Based upon the expected implementation of the Modified CE Plan and the Lummus Plan, we recorded provisions of $1,080 million and $43 million, respectively, as of December 31, 2005, in accrued liabilities and other. If the Modified CE Plan and Lummus Plan become effective, certain amounts will be reclassified as of the effective date to other long-term liabilities based on the timing of the future cash payments to the Asbestos PI Trust or any similar trust created under the Lummus Plan and to Stockholders' Equity for the amounts related to the CE Settlement Shares. Future earnings will be affected by mark-to-market adjustments relating to the CE Settlement Shares through the Effective Date, as well as contingent payments when they become probable of payment. The provisions as of December 31, 2003 were based on our obligations under the initial CE Plan and assumed that the initial CE Plan would be confirmed and become effective as proposed.

With respect to Basic, we have established a provision of $4 million relating to its asbestos-related personal injury liabilities based on analysis of historical claims statistics and related settlement costs and a projection of such claims activity over the next several years.

We believe that it is probable that the full amount of the relevant provisions will be required to settle the respective asbestos-related liabilities of Combustion Engineering and Lummus in accordance with the Modified CE Plan and the proposed Lummus Plan, and those of Basic. We may incur liability greater than the existing provisions, whether in connection with modified plans of bankruptcy or otherwise, but we do not believe that the amount of any such incremental liability can be reasonably estimated or that there is a better estimate of these liabilities than the amounts that are provided for.

Our provisions in respect of asbestos-related claims include, as stated above, amounts for each of Combustion Engineering, Lummus and Basic. The assets of Combustion Engineering include amounts receivable of approximately $208 million, $221 million and $232 million as of December 31, 2005, 2004 and 2003, respectively, for probable insurance recoveries, which were established with respect to asbestos-related claims. We have not established a provision for claims against entities other than Combustion Engineering, Lummus and Basic as amounts are immaterial.

In the event the Modified CE Plan or Lummus Plan (if Lummus files its own Chapter 11 case) do not become effective, the ultimate cost for the resolution of asbestos-related personal injury claims against Combustion Engineering and Lummus may be significantly higher and could have a material adverse impact on our consolidated financial position, results of operations and cash flows.

Consolidated Financial Statements

Consolidated Income Statements

Year ended December 31 (in millions, except per share data)	2005	2004	2003
Sales of products	$ 18,737	$ 17,309	$ 17,337
Sales of services	3,705	3,301	2,995
Total revenues	**22,442**	**20,610**	**20,332**
Cost of products	(14,263)	(13,365)	(13,651)
Cost of services	(2,567)	(2,316)	(2,205)
Total cost of sales	(16,830)	(15,681)	(15,856)
Gross profit	**5,612**	**4,929**	**4,476**
Selling, general and administrative expenses	(3,922)	(3,822)	(3,950)
Other income (expense), net	52	(61)	(239)
Earnings before interest and taxes	**1,742**	**1,046**	**287**
Interest and dividend income	157	151	142
Interest and other finance expense	(403)	(360)	(544)
Income (loss) from continuing operations before taxes and minority interest and cumulative effect of accounting change	**1,496**	**837**	**(115)**
Provision for taxes	(482)	(331)	(233)
Minority interest	(131)	(102)	(67)
Income (loss) from continuing operations before cumulative effect of accounting change	**883**	**404**	**(415)**
Loss from discontinued operations, net of tax	(143)	(439)	(364)
Income (loss) before cumulative effect of accounting change	740	(35)	(779)
Cumulative effect of accounting change, net of tax	(5)	–	–
Net income (loss)	**$ 735**	**$ (35)**	**$ (779)**
Basic earnings (loss) per share:			
Income (loss) from continuing operations before cumulative effect of accounting change	$ 0.44	$ 0.20	$ (0.34)
Loss from discontinued operations, net of tax	(0.08)	(0.22)	(0.30)
Cumulative effect of accounting change, net of tax	–	–	–
Net income (loss)	$ 0.36	$ (0.02)	$ (0.64)
Diluted earnings (loss) per share:			
Income (loss) from continuing operations before cumulative effect of accounting change	$ 0.43	$ 0.20	$ (0.34)
Loss from discontinued operations, net of tax	(0.07)	(0.22)	(0.30)
Cumulative effect of accounting change, net of tax	–	–	–
Net income (loss)	$ 0.36	$ (0.02)	$ (0.64)

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Balance Sheets

at December 31 (in millions, except share data)	2005	2004
Cash and equivalents	$ 3,226	$ 3,676
Marketable securities and short-term investments	368	524
Receivables, net	6,515	6,284
Inventories, net	3,074	3,178
Prepaid expenses	251	334
Deferred taxes	473	670
Other current assets	189	449
Assets held for sale and in discontinued operations	52	600
Total current assets	**14,148**	**15,715**
Financing receivables	645	889
Property, plant and equipment, net	2,565	2,964
Goodwill	2,479	2,602
Other intangible assets, net	349	492
Prepaid pension and other employee benefits	605	549
Investments in equity method companies	618	596
Deferred taxes	628	504
Other non-current assets	239	366
Total assets	**$ 22,276**	**$ 24,677**
Accounts payable, trade	$ 3,321	$ 4,256
Accounts payable, other	1,172	1,424
Short-term debt and current maturities of long-term debt	169	626
Advances from customers	1,005	929
Deferred taxes	187	200
Provisions and other	3,769	3,666
Accrued expenses	1,909	1,624
Liabilities held for sale and in discontinued operations	74	734
Total current liabilities	**11,606**	**13,459**
Long-term debt	3,933	4,717
Pension and other employee benefits	1,233	1,551
Deferred taxes	692	750
Other liabilities	988	1,082
Total liabilities	**18,452**	**21,559**
Minority interest	341	294
Stockholders' equity:		
Capital stock and additional paid-in capital	3,121	3,083
Retained earnings	2,460	1,725
Accumulated other comprehensive loss	(1,962)	(1,846)
Less: Treasury stock, at cost (11,531,106 and 11,611,529 shares at December 31, 2005 and 2004)	(136)	(138)
Total stockholders' equity	**3,483**	**2,824**
Total liabilities and stockholders' equity	**$ 22,276**	**$ 24,677**

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Year ended December 31 (in millions)	2005	2004	2003
Operating activities:			
Net income (loss)	$ 735	$ (35)	$ (779)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	597	633	585
Provisions	496	92	(728)
Pension and postretirement benefits	(62)	55	21
Deferred taxes	38	3	47
Net gain from sale of property, plant and equipment	(44)	(36)	(26)
Income from equity accounted companies	(109)	(87)	(96)
Minority interest	131	102	67
Loss on sale of discontinued operations	16	63	38
Other	103	152	440
Changes in operating assets and liabilities:			
Marketable securities (trading)	1	43	13
Trade receivables	(892)	(160)	85
Inventories	(328)	(74)	238
Trade payables	26	(63)	(381)
Other assets and liabilities, net	304	214	324
Net cash provided by (used in) operating activities	**1,012**	**902**	**(152)**
Investing activities:			
Changes in financing receivables	229	176	390
Purchases of marketable securities and short-term investments (other than trading)	(1,915)	(2,877)	(2,781)
Purchases of property, plant and equipment and intangible assets	(456)	(543)	(547)
Acquisitions of businesses (net of cash acquired)	(27)	(24)	(55)
Proceeds from sales of marketable securities and short-term investments (other than trading)	1,833	2,317	3,049
Proceeds from sales of property, plant and equipment	117	123	155
Proceeds from sales of businesses (net of cash disposed)	(97)	1,182	543
Net cash provided by (used in) investing activities	**(316)**	**354**	**754**
Financing activities:			
Net changes in borrowings with maturities of 90 days or less	(9)	(104)	(99)
Increases in borrowings	155	265	1,976
Repayment of borrowings	(978)	(2,913)	(2,893)
Capital and treasury stock transactions	35	(36)	2,675
Other	(99)	43	(77)
Net cash provided by (used in) financing activities	**(896)**	**(2,745)**	**1,582**
Effects of exchange rate changes on cash and equivalents	(259)	74	150
Adjustment for the net change in cash and equivalents in assets held for sale and in discontinued operations	9	308	(80)
Net change in cash and equivalents – continuing operations	**(450)**	**(1,107)**	**2,254**
Cash and equivalents beginning of period	3,676	4,783	2,529
Cash and equivalents end of period	**$ 3,226**	**$ 3,676**	**$ 4,783**
Interest paid	$ 332	$ 382	$ 438
Taxes paid	$ 325	$ 379	$ 238

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2005, 2004 and 2003 (in millions)			Accumulated other comprehensive loss						
	Capital stock and additional paid-in capital	Retained earnings	Foreign currency translation adjustment	Unrealized gain (loss) on available-for-sale securities	Minimum pension liability adjustment	Unrealized gain (loss) of cash flow hedge derivatives	Total accumulated other comprehensive loss	Treasury stock	Total stockholders' equity
Balance at January 1, 2003	**$ 2,027**	**$ 2,539**	**$ (1,735)**	**$ (38)**	**$ (156)**	**$ 44**	**$ (1,885)**	**$ (1,750)**	**$ 931**
Comprehensive loss:									
Net loss		(779)							(779)
Foreign currency translation adjustments			25				25		25
Accumulated foreign currency translation adjustments allocated to divestments of businesses			(37)				(37)		(37)
Effect of change in fair value of available-for-sale securities (net of tax, of $18)				65			65		65
Minimum pension liability adjustments (net of tax, of $5)					19		19		19
Change in derivatives qualifying as cash flow hedges (net of tax, of $13)						41	41		41
Total comprehensive loss									(666)
Sale of treasury stock	(1,456)							1,612	156
Capital stock issued in connection with rights offering	2,487								$ 2,487
Call options	9								9
Balance at December 31, 2003	**$ 3,067**	**$ 1,760**	**$ (1,747)**	**$ 27**	**$ (137)**	**$ 85**	**$ (1,772)**	**$ (138)**	**$ 2,917**
Comprehensive loss:									
Net loss		(35)							(35)
Foreign currency translation adjustments			19				19		19
Accumulated foreign currency translation adjustments allocated to divestments of businesses			20				20		20
Effect of change in fair value of available-for-sale securities (net of tax, of $6)				(15)			(15)		(15)
Minimum pension liability adjustments (net of tax, of $37)					(69)		(69)		(69)
Change in derivatives qualifying as cash flow hedges (net of tax, of $16)						(29)	(29)		(29)
Total comprehensive loss									(109)
Call options	8								8
Other	8								8
Balance at December 31, 2004	**$ 3,083**	**$ 1,725**	**$ (1,708)**	**$ 12**	**$ (206)**	**$ 56**	**$ (1,846)**	**$ (138)**	**$ 2,824**
Comprehensive income:									
Net income		735							735
Foreign currency translation adjustments			(52)				(52)		(52)
Accumulated foreign currency translation adjustments allocated to divestments of businesses			4				4		4
Effect of change in fair value of available-for-sale securities (net of tax, of $2)				(11)			(11)		(11)
Minimum pension liability adjustments (net of tax, of $(18))					(8)		(8)		(8)
Change in derivatives qualifying as cash flow hedges (net of tax, of $24)						(49)	(49)		(49)
Total comprehensive income									619
Employee plan issuances	39								39
Treasury share transactions	(1)							2	1
Balance at December 31, 2005	**$ 3,121**	**$ 2,460**	**$ (1,756)**	**$ 1**	**$ (214)**	**$ 7**	**$ (1,962)**	**$ (136)**	**$ 3,483**

See accompanying Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

(U.S. dollar amounts in millions, except per share amounts)

Note 1 The company

ABB Ltd and its subsidiaries (collectively, the "Company") is a leading global company in power and automation technologies that enable utility and industry customers to improve performance while lowering environmental impact. The Company works with customers to engineer and install networks, facilities and plants with particular emphasis on enhancing efficiency and productivity for customers that source, transform, transmit and distribute energy.

Note 2 Significant accounting policies

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

Basis of presentation

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

Scope of consolidation

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

Reclassifications

Amounts reported for prior years in the Consolidated Financial Statements and Notes have been reclassified to conform to the current year's presentation, primarily as a result of the application of Statement of Financial Accounting Standards No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), in reflecting assets and liabilities held for sale and in discontinued operations. During 2005, the Company reclassified prior years' cash flows from financing related derivatives from cash flows provided by (used in) operating activities to cash flows provided by (used in) financing activities to conform to the current year's presentation.

Operating cycle

A portion of the Company's operating cycle, including long-term construction activities, exceeds one year. For classification of current assets and liabilities related to these types of construction activities, the Company elected to use the duration of the contracts as its operating cycle.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make assumptions and estimates that directly affect the amounts reported in the Consolidated Financial Statements. Significant estimates for which changes in the near term are considered reasonably possible and that may have a material impact on the financial statements are addressed in these notes to the Consolidated Financial Statements.

Cash and equivalents

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

Marketable securities and short-term investments

Debt and equity securities are classified as either trading or available-for-sale at the time of purchase and are carried at fair value. Debt and equity securities that are purchased and held principally for the purpose of sale in the near term are classified as trading securities and unrealized gains and losses thereon are included in the determination of earnings. Unrealized gains and losses on available-for-sale securities are excluded from the determination of earnings and are instead recognized in the accumulated other comprehensive loss component of stockholders' equity, net of tax (accumulated other comprehensive loss) until realized. Realized gains and losses on available-for-sale securities are computed based upon the historical cost of these securities applied using the specific identification method. Declines in fair values of available-for-sale securities that are other-than-temporary are included in the determination of earnings.

The Company analyzes its available-for-sale securities for impairment during each reporting period to evaluate whether an event or change in circumstances has occurred in that period that may have a significant adverse effect on the fair value of the investment. The Company records an impairment charge through current period earnings and adjusts the cost basis for such other-than-temporary declines in fair value when the fair value is not anticipated to recover above cost within a three-month period after the measurement date unless there are mitigating factors that indicate an impairment charge through earnings may not be required. If an impairment charge is recorded, subsequent recoveries in fair value are not reflected in earnings until sale of the security.

Accounts receivable and allowance for doubtful accounts

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in existing accounts receivable. The Company determines the allowance based on historical write-off experience and customer economic data. The Company reviews the allowance for doubtful accounts regularly and past due balances are reviewed individually for collectibility. Account balances are charged off against the allowance when the Company believes that the receivable will not be recovered.

Note 2 Significant accounting policies, continued

Concentrations of credit risk

The Company sells a broad range of products, systems and services to a wide range of industrial and commercial customers throughout the world. Concentrations of credit risk with respect to trade receivables are limited, as the Company's customer base is comprised of a large number of individual customers. Ongoing credit evaluations of customers' financial positions are performed and, generally, no collateral is required. The Company maintains reserves for potential credit losses and such losses, in the aggregate, are in line with the Company's expectations.

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

The Company's exposure to credit risk on derivative financial instruments is the risk that a counterparty will fail to meet its obligations. To reduce this risk, the Company has credit policies that require the establishment and periodic review of credit limits for individual counterparties. In addition, the Company has entered into close-out netting agreements with most counterparties. Close-out netting agreements provide for the termination, valuation and net settlement of some or all outstanding transactions between two counterparties on the occurrence of one or more pre-defined trigger events.

Revenue recognition

The Company recognizes revenues when persuasive evidence of an arrangement exists, the price is fixed or determinable, collectibility is reasonably assured and upon transfer of title, including the risks and rewards of ownership to the customer, or upon the rendering of services.

Revenues under long-term contracts are recognized using the percentage-of-completion method of accounting. The Company principally uses the cost-to-cost or delivery events methods to measure progress towards completion on contracts. Management determines the method to be used by type of contract based on its judgment as to which method best measures actual progress towards completion. Revenues under cost-reimbursement contracts are recognized as costs are incurred.

Revenues from service transactions are recognized as services are performed. Service revenues reflect revenues earned from the Company's activities involved in providing customer services primarily subsequent to the sale and delivery of a product or complete system; such revenues consist principally of maintenance-type contracts.

When multiple elements such as products and services are contained in a single arrangement or in related arrangements with the same customer, the Company allocates revenues to each element based on its relative fair value, provided that such element meets the criteria for treatment as a separate unit of accounting. Revenues from contracts that contain customer acceptance provisions are deferred until customer acceptance occurs, or the Company has demonstrated the customer-specified objective criteria, or the contractual acceptance period has lapsed.

Product-related expenses and contract loss provisions

Anticipated costs for warranties are recorded when revenues are recognized. Losses on product and maintenance-type contracts are recognized in the period when they are identified and are based upon the anticipated excess of contract costs over the related contract revenues. Shipping and handling costs are recorded as a component of cost of sales.

Securitization of receivables

The Company accounts for the securitization of trade receivables in accordance with Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS 140). SFAS 140 requires an entity to recognize the financial and servicing assets it controls and the liabilities it has incurred and to derecognize financial assets when control has been surrendered, as evaluated in accordance with the criteria provided in SFAS 140.

The Company accounts for the transfer of its receivables to variable interest entities as a sale of those receivables to the extent that consideration other than beneficial interests in the transferred accounts receivable is received. The Company does not recognize the transfer as a sale unless the receivables have been put presumptively beyond the reach of the Company and its creditors, even in bankruptcy or other receivership. In addition, the variable interest entities must obtain the right to pledge or exchange the transferred receivables, and the Company cannot retain the ability or obligation to repurchase or redeem the transferred receivables.

At the time the receivables are sold, the balances are removed from trade receivables and a retained interest or deferred purchase price component is recorded in other receivables. Retained interests are recorded in a manner similar to trading securities at fair value as allowed under SFAS 140, and cash inflows from reductions of retained interests are recorded as operating cash flows. Costs associated with the sale of receivables are included in the determination of earnings.

The Company, in its normal course of business, sells receivables outside its securitization programs without recourse (see Note 8). Sales or transfers that do not meet the requirements of SFAS 140 are accounted for as secured borrowings.

Inventories

Inventories are stated at the lower of cost (determined using either the first-in, first-out or the weighted-average cost method) or market. Inventoried costs relating to percentage-of-completion contracts are stated at actual production costs, including overhead incurred to date, reduced by amounts recognized in cost of sales. For inventory relating to long-term contracts, inventoried costs include amounts relating to contracts with long production cycles, a portion of which is not expected to be realized within one year.

Note 2 Significant accounting policies, continued

Impairment of long-lived assets and accounting for discontinued operations

Long-lived assets that are "held and used" are assessed for impairment when events or circumstances indicate the carrying amount of the asset may not be recoverable. If the asset's net carrying value exceeds the asset's net undiscounted cash flows expected to be generated over its remaining useful life including net proceeds expected from disposition of the asset, if any, the carrying amount of the asset is reduced to its estimated fair value, pursuant to the measurement criteria of SFAS 144. In the Consolidated Statements of Cash Flows, the amounts related to businesses with assets and liabilities held for sale and in discontinued operations are not segregated, as permitted by Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows.*

In accordance with SFAS 144, the Company includes in assets and liabilities held for sale and in discontinued operations the assets and liabilities that meet certain criteria with respect to the Company's plans for their sale or abandonment. Depreciation and amortization cease when the asset meets the criteria to be classified as held for sale. If (1) a planned or completed disposal involves a component (disposal group) of the Company whose operations and cash flows can be distinguished operationally and for financial reporting purposes; (2) such operations and cash flows will be (or have been) eliminated from the Company's ongoing operations; and (3) the Company will not have any significant continuing involvement in the disposal group, then the disposal group's results of operations are presented as discontinued operations for all periods. Results from discontinued operations are recognized in the period in which they occur. Long-lived assets (or groups of assets and related liabilities) classified as held for sale, are measured at the lower of carrying amount or fair value less cost to sell. Assets and liabilities related to sold operations that are retained are recorded in continuing assets and liabilities; future adjustments of such balances are recorded through discontinued operations in the Consolidated Income Statements.

In addition to the interest expense contained within businesses classified as discontinued operations, a portion of the Company's interest expense is reclassified from interest and other finance expense, net to loss from discontinued operations, net of tax, in accordance with Emerging Issues Task Force No. 87-24 *Allocation of Interest to Discontinued Operations,* (EITF 87-24). Such amounts were $0 million, $20 million and $33 million in 2005, 2004 and 2003, respectively.

Goodwill and other intangible assets

In accordance with Statement of Financial Accounting Standards No.142, *Goodwill and Other Intangible Assets* (SFAS 142), goodwill is tested for impairment annually and also upon the occurrence of a triggering event requiring the re-assessment of a business' carrying value of its goodwill. The Company performs its annual impairment assessment on October 1. A fair value approach is used to identify potential goodwill impairment and, when necessary, measure the amount of impairment. The Company uses a discounted cash flow model to determine the fair value of reporting units, unless there is a readily determinable fair market value.

The cost of acquired intangible assets is amortized on a straight-line basis over their estimated useful lives, typically ranging from 3 to 10 years. Intangible assets are tested for impairment upon the occurrence of certain triggering events.

Capitalized software costs

Capitalized costs of software for internal use are accounted for in accordance with Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use,* and are amortized on a straight-line basis over the estimated useful life of the software, typically ranging from 3 to 5 years. Capitalized costs of a software product to be sold are accounted for in accordance with Statement of Financial Accounting Standards No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed,* and are carried at the lower of unamortized cost or net realizable value until the product is available for general release to customers, at which time capitalization ceases and costs are amortized on a straight-line basis over the estimated life of the product. The Company expenses costs incurred prior to technological feasibility, and thereafter capitalizes costs incurred in developing or obtaining software for internal use and for software products to be sold.

Property, plant and equipment

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

Factory and office buildings: 30 to 40 years
Other facilities: 15 years
Machinery and equipment: 3 to 15 years
Furniture and office equipment: generally 3 to 8 years

Derivative financial instruments and hedging activities

The Company uses derivative financial instruments to manage interest rate and currency exposures, and to a lesser extent commodity exposures, arising from its global operating, financing and investing activities. The Company's policies require that its industrial entities hedge their exposure from firm commitments denominated in foreign currencies, as well as at least fifty percent of the anticipated foreign currency denominated sales volume of standard products over the next twelve months.

The Company accounts for its derivative financial instruments in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as subsequently amended (SFAS 133). SFAS 133 requires the Company to recognize all derivatives, other than certain derivatives indexed to the Company's own stock, on the Consolidated Balance Sheets at fair value. Derivatives that are not designated as hedges must be adjusted to fair value through earnings. If the derivatives are designated as a hedge, depending on the nature of the hedge, changes in the fair value of the derivatives will either be offset against the change in fair value of the hedged item through earnings or recognized in accumulated other comprehensive loss until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings consistent with the classification of the hedged item.

Note 2 Significant accounting policies, continued

Forward foreign exchange contracts are the primary instrument used to manage foreign exchange risk. Where forward foreign exchange contracts are designated as cash flow hedges under SFAS 133, changes in their fair value are recorded in accumulated other comprehensive loss until the hedged item is recognized in earnings. The Company also enters into forward foreign exchange contracts that serve as economic hedges of existing assets and liabilities. These are not designated as accounting hedges under SFAS 133 and, consequently, changes in their fair value are reported in earnings where they offset the translation gain or loss on the foreign currency denominated asset or liability.

To reduce its interest rate and currency exposure arising from its borrowing activities, the Company uses interest rate and currency swaps. Where interest rate swaps are designated as fair value hedges, the changes in fair value of the swaps are recognized in earnings, as are the changes in the fair value of the underlying liabilities. Where such interest rate swaps do not qualify for the short cut method as defined under SFAS 133, any ineffectiveness is included in earnings.

All other swaps, futures, options and forwards that are designated as effective hedges of specific assets, liabilities or committed or forecasted transactions are recognized in earnings consistent with the effects of the hedged transactions.

If an underlying hedged transaction is terminated early, the hedging derivative financial instrument is treated as if terminated simultaneously, with any gain or loss on termination of the derivative immediately recognized in earnings. Where derivative financial instruments have been designated as hedges of forecasted transactions, and such forecasted transactions become probable of not occurring, hedge accounting ceases and any derivative gain or loss previously included in accumulated other comprehensive loss is reclassified into earnings.

Certain commercial contracts may grant rights to the Company or other counterparties, or contain other provisions considered to be derivatives under SFAS 133. Such embedded derivatives are assessed at inception of the contract and depending on their characteristics accounted for as separate derivative instruments pursuant to SFAS 133.

Sale-leasebacks

The Company periodically enters into transactions accounted for as sale-leasebacks, in which fixed assets, generally real estate and/or equipment, are sold to a third party and then leased for use by the Company. Under certain circumstances, the necessary criteria to recognize a sale of the assets may not occur, and the transaction is reflected as a financing transaction, with the proceeds received from the transaction reflected as a borrowing or as a deposit liability. When the necessary criteria have been met to recognize a sale, gains or losses on the sale of the assets are generally deferred and amortized over the term of the transaction, except in certain limited instances when a portion of the gain or loss may be recognized. The lease of the assets is accounted for as either an operating lease or a capital lease depending upon its specific terms, as required by Statement of Financial Accounting Standards No. 13, *Accounting for Leases.*

Translation of foreign currencies and foreign exchange transactions

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

Foreign currency exchange gains and losses, such as those resulting from foreign currency denominated receivables or payables, are included in the determination of earnings, except as they relate to intra-Company loans that are equity-like in nature with no reasonable expectation of repayment, which are recognized in accumulated other comprehensive loss.

In highly inflationary countries, monetary balance sheet positions in local currencies are converted into U.S. dollars at the year-end rate. Non-monetary assets are remeasured using historical U.S. dollar rates. Sales and expenses are converted at the exchange rates prevailing upon the date of the transaction. All translation gains and losses resulting from the restatement of balance sheet positions are included in the determination of earnings.

Taxes

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

Generally, deferred taxes are not provided on the unremitted earnings of subsidiaries to the extent it is expected that these earnings are permanently reinvested. Such earnings may become taxable upon the sale or liquidation of these subsidiaries or upon the remittance of dividends. Deferred taxes are provided in situations where the Company's subsidiaries plan to make future dividend distributions.

The Company operates in numerous tax jurisdictions and, as a result, is regularly subject to audit by tax authorities. The Company provides for tax contingencies on the basis of their technical merits, including relative tax law and OECD guidelines, as well as on items relating to potential audits by tax authorities based upon its best estimate of the facts and circumstances as of each reporting period. Changes in the facts and circumstances could result in a material change to the tax accruals. The Company provides for contingencies whenever it is deemed probable that a tax asset has been impaired or a tax liability has been incurred for events such as tax claims or changes in tax laws.

Research and development

Research and development expense was $679 million, $690 million and $635 million in 2005, 2004 and 2003, respectively. These costs are included in selling, general and administrative expenses.

(U.S. dollar amounts in millions, except per share amounts)

Note 2 Significant accounting policies, continued

Earnings per share

Basic earnings (loss) per share is calculated by dividing income (loss) by the weighted-average number of shares outstanding during the period. Diluted earnings (loss) per share is calculated by dividing income (loss) 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; outstanding options granted under the Company's employee incentive plans; and shares issuable in relation to outstanding convertible bonds. See further discussion related to earnings per share in Note 23 and further discussion of the potentially dilutive securities in Notes 14 and 21.

Stock-based compensation

The Company has certain employee incentive plans under which it offers stock-based securities to employees. The plans are described more fully in Note 21. The Company accounts for such stock-based securities using the intrinsic value method of APB Opinion No. 25 *Accounting for Stock Issued to Employees* (APB 25), as permitted by Statement of Financial Accounting Standards No. 123 *Accounting for Stock Based Compensation* (SFAS 123). Warrants granted under the Company's management incentive plan and options granted under the Company's employee share acquisition plan were issued with exercise prices greater than or equal to the market prices of the stock on the dates of grant. Accordingly, the Company recorded no compensation expense related to these securities, except in circumstances when a participant ceased to be employed by a consolidated subsidiary, such as after a divestment by the Company. The following table illustrates the effect on net income (loss) and on income (loss) per share (see Note 23) if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation. Fair value of these securities offered to employees was determined on the date of grant by using a dynamic proprietary option-pricing model (see Note 21).

Year ended December 31,	2005	2004	2003
Net income (loss), as reported	$ 735	$ (35)	$ (779)
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects	31	3	1
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(39)	(11)	(12)
Pro forma net income (loss)	**$ 727**	**$ (43)**	**$ (790)**
Income (loss) per share:			
Basic – as reported	$ 0.36	$ (0.02)	$ (0.64)
Basic – pro forma	$ 0.36	$ (0.02)	$ (0.65)
Diluted – as reported	$ 0.36	$ (0.02)	$ (0.64)
Diluted – pro forma	$ 0.35	$ (0.02)	$ (0.65)

New accounting pronouncements

In November 2004, the Financial Accounting Standards Board issued Statement No.151, *Inventory Costs – an amendment of ARB No. 43, Chapter 4* (SFAS 151). SFAS 151 amends Accounting Research Bulletin 43, Chapter 4: Inventory Pricing, to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges. In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The Company implemented SFAS 151 in the first quarter of 2006, and does not expect the adoption of SFAS 151 to have a material impact on the Company's financial position or results of operations.

In December 2004, the Financial Accounting Standards Board issued Statement No.123(R) *Share-Based Payment* (SFAS 123R), which replaces SFAS 123 and APB 25 and requires the Company to measure compensation cost for all share-based payments at fair value. On April 14, 2005, the U.S. Securities and Exchange Commission (SEC) announced the adoption of a new rule that amends the implementation dates for SFAS 123R. As a result of this announcement, the Company adopted SFAS 123R as of January 1, 2006. The Company will recognize share-based employee compensation cost from January 1, 2006, as if the fair value based accounting method had been used to account for all employee awards granted, modified, or settled after the effective date and for any awards that were not fully vested as of the effective date. Based on currently existing share-based compensation plans, the Company does not expect the adoption of SFAS 123R to have a material impact on its financial position or results of operations.

In March 2005, the Financial Accounting Standards Board issued Interpretation No. 47 *Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143* (FIN 47). FIN 47 clarifies that the term conditional asset retirement obligation as used in Financial Accounting Standards Board Statement No. 143, *Accounting for Asset Retirement Obligations,* refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Company. Accordingly, pursuant to FIN 47 the Company was required to recognize a liability for the fair value of a conditional asset retirement obligation when the fair value of the liability could be reasonably estimated. The Company implemented FIN 47 in the fourth quarter of 2005 and presented the change as a cumulative effect of an accounting change of $5 million, net of tax in the Consolidated Income Statement.

At the June 15–16, 2005, Emerging Issues Task Force (EITF) meeting, the EITF reached a consensus on Issue No. 05-5 *Accounting for Early Retirement or Postemployment Programs with Specific Features (Such As Terms Specified in Altersteilzeit Early Retirement Arrangements)* (EITF 05-5), that the Financial Accounting Standards Board ratified on June 29, 2005. *Altersteilzeit* is a term which describes an early retirement

Note 2 Significant accounting policies, continued

program designed to create an incentive for employees, within a certain age group, to leave their employers before the legal retirement age. The issue addresses how to account for salary and bonus components as well as potential subsidies earned from governmental entities. EITF 05-5 is effective for the Company beginning with the first quarter of 2006. The impact of implementation will not have a financial statement impact as the Company had been calculating the liability consistent with the requirements of EITF 05-5.

Note 3 Held for sale and discontinued operations

The Company's financial statements for all periods presented were significantly impacted by activities relating to the divestitures of a number of our businesses. The following planned or completed disposals met the SFAS 144 criteria for held for sale and/or discontinued operations in the reporting periods.

Structured Finance

In 2002, the Company completed the sale of most of its Structured Finance business to General Electric Capital Corporation (GE) for approximately $2.0 billion. Pursuant to the sale and purchase agreement, the Company provided GE with cash collateralized letters of credit as security for certain performance-related obligations retained by the Company, which amount to $15 million at December 31, 2005.

As a continuation of the Company's divestment of its Structured Finance business, the Company completed the sale of ABB Export Bank in December 2003 for approximately $50 million. ABB Export Bank had revenues of $9 million and a net loss of $9 million in 2003.

In November 2005, the Company completed the sale of its remaining Structured Finance business and divested the Lease portfolio business in Finland. With lease and loan financial receivables of approximately $300 million, the Lease portfolio business was the last remaining major entity of the Structured Finance business. In 2005, the Company recorded a loss of $28 million in loss from discontinued operations, net of tax, principally related to the loss on sale of the business.

Upstream Oil, Gas and Petrochemicals business

In 2004, the Company sold its Upstream Oil, Gas and Petrochemicals business for an initial purchase price of $925 million. Net cash proceeds from the sale were approximately $800 million, reflecting the initial sales price adjusted for unfunded pension liabilities and changes in net working capital. The Upstream Oil, Gas and Petrochemicals business had revenues of $855 million and $1,499 million in 2004 and 2003, respectively, and net losses of $70 million and $44 million in 2004 and 2003, respectively.

Wind Energy business

In 2003, the Company sold a part of its Wind Energy business in Germany for proceeds of approximately $35 million. The Wind Energy business had revenues of $0 million and $16 million and net losses of $25 million and $42 million in 2004 and 2003, respectively. During the fourth quarter of 2005, the Company determined it no longer met the criteria required to classify the remaining Wind Energy business in discontinued operations. Therefore, as of the fourth quarter of 2005, the results of operations of the Wind Energy business were reclassified to continuing operations for all periods presented.

Reinsurance business

In 2004, the Company completed the sale of its Reinsurance business, receiving gross cash proceeds of $415 million and net cash proceeds of approximately $280 million. The Company recorded revenues of $139 million and $782 million and losses totaling $41 million and $97 million in loss from discontinued operations, in 2004 and 2003, respectively, related to the Reinsurance business. The 2003 net loss of $97 million includes a $154 million impairment charge and an allocation of interest of $15 million in accordance with EITF 87-24, offset by income from operations of approximately $72 million.

Power Lines business

During 2004, the Company reclassified part of its Power Lines business, part of the Power Technologies division, to discontinued operations. The businesses that were reclassified are the Power Lines businesses in Nigeria, Italy and Germany whose sales were completed in 2005. These reclassified businesses had revenues of $27 million, $117 million and $187 million and net losses recorded in discontinued operations of $12 million, $75 million and $10 million for the years ended December 31, 2005, 2004, and 2003, respectively.

During the fourth quarter of 2005, the Company reclassified the remaining Power Lines businesses in Brazil, Mexico, Venezuela and South Africa to discontinued operations, on the basis of management's plan to sell the remaining Power Lines businesses. The remaining Power Lines businesses had revenues of $102 million, $79 million and $70 million for the years ended December 31, 2005, 2004 and 2003, respectively. Net income reported for 2005 and 2004 was $3 million and $3 million, respectively, whereas for 2003 these businesses had a net loss of $4 million recorded in loss from discontinued operations.

Foundry business

During 2004, the Company reclassified its Foundry business, part of the Automation Technologies division, to discontinued operations. In 2005, the Company completed the sale of its Foundry business. The Foundry business had revenues of $41 million, $41 million and $45 million and net losses of $1 million, $17 million and $0 million in 2005, 2004 and 2003, respectively.

Control Valves

In 2005, the Company sold its Control Valves business in Japan which was part of the Automation Technologies division. The Control Valves business had revenues of $26 million, $31 million and $28 million and net income of $15 million, $3 million and $2 million in 2005, 2004 and 2003, respectively. The net income recorded in 2005 includes $14 million related to the gain on sale of the Control Valves business.

(U.S. dollar amounts in millions, except per share amounts)

Note 3 Held for sale and discontinued operations, continued

Other

In addition, the Company has also reflected other minor operations as held for sale and in discontinued operations, as appropriate.

Loss from discontinued operations, net of tax, also includes costs related to the Company's potential asbestos obligations of approximately $133 million, $262 million and $142 million in 2005, 2004, and 2003, respectively (see Note 17).

Operating results of the discontinued businesses are summarized as follows:

Year ended December 31,	2005	2004	2003
Revenues	$ 200	$ 1,276	$ 2,735
Costs and expenses, finance loss	(333)	(1,656)	(3,002)
Operating loss before taxes	**(133)**	**(380)**	**(267)**
Tax benefit (expense)	6	4	(59)
Operating loss from discontinued operations	**(127)**	**(376)**	**(326)**
Loss from dispositions	(16)	(63)	(38)
Loss from discontinued operations, net of tax	**$ (143)**	**$ (439)**	**$ (364)**

The major components of assets and liabilities held for sale and in discontinued operations in our Consolidated Balance Sheet are summarized as follows:

December 31,	2005	2004
Cash and equivalents, marketable securities and short-term investments	$ –	$ 9
Receivables, net	20	106
Inventories, net	23	43
Prepaid expenses and other current assets	–	17
Financing receivables, non-current	–	345
Property, plant and equipment, net	8	69
Other non current assets	1	11
Assets held for sale and in discontinued operations	**$ 52**	**$ 600**
Accounts payable	$ 19	$ 79
Short-term borrowings and accrued liabilities	33	149
Long-term borrowings	–	203
Pensions and other employee benefits	22	82
Other liabilities, non-current	–	221
Liabilities held for sale and in discontinued operations	**$ 74**	**$ 734**

Note 4 Business combinations and other divestments

Acquisitions and investments

During 2005, 2004, and 2003, the Company invested $27 million, $24 million and $55 million, in 22, 24 and 24 new businesses, joint ventures or affiliated companies, respectively. The aggregate excess of the purchase price over the fair value of the net assets acquired of new businesses totaled $6 million, $15 million and $2 million, in 2005, 2004 and 2003, respectively, and has been recorded as goodwill. The Company has not presented the pro forma results of operations of the acquired businesses as the results are not material to the Company's consolidated financial statements.

Other divestitures

In addition to the sold businesses described under discontinued operations, the Company periodically divests businesses and investments not considered by management to be aligned with its focus on Power Technologies and Automation Technologies as described in Note 25 and which do not meet the requirements of SFAS 144. The results of operations of these divested businesses are included in the Company's Consolidated Income Statements in the respective line items of income from continuing operations, through the date of disposition.

Divestment of Building Systems businesses

In 2002, the Company decided to dispose of its Building Systems businesses. The disposal of the Building Systems businesses contemplated that the Company would retain an involvement in the disposed operations through a combination of technology license agreements, supplier relationships, retention of certain orders and participation on the Board of Directors of some of the disposed of companies. As a result of these factors, the Company concluded that classification of the Building Systems businesses as discontinued operations in accordance with SFAS 144 was not appropriate.

During 2005, 2004 and 2003, the Company disposed of numerous Building Systems businesses and recorded gains on disposal of $1 million, $12 million and $83 million, respectively, which are included in other income (expense), net. Proceeds received from the divestment of the Building Systems businesses were $0 million, $39 million and $234 million in 2005, 2004 and 2003, respectively.

(U.S. dollar amounts in millions, except per share amounts)

Note 4 Business combinations and other divestments, continued

Other divestitures

In 2003, the Company sold its interests in certain equity investees in Australia for approximately $90 million, resulting in a gain on disposal of $28 million recorded in other income (expense), net. In 2003, the Company also sold its entire 35 percent interest in Swedish Export Credit Corporation to the Government of Sweden for 1,240 million Swedish krona ($159 million), resulting in net proceeds of approximately $149 million and a loss on disposal of $80 million recorded in other income (expense), net.

In 2004, the Company sold a business in Sweden, formerly part of the automation technologies division, for $11 million, resulting in a gain on disposal of $7 million recorded in other income (expense), net. In 2004, the Company also sold its entire 15.7 percent interest in IXYS Corporation for approximately $42 million and recorded a gain on disposal of $20 million in other income (expense), net.

During 2005, 2004 and 2003, the Company sold several operating units and investments, excluding the divestments disclosed above, for total proceeds of $24 million, $39 million and $31 million, respectively, and recognized net gains on disposal of $20 million, $13 million and $12 million, respectively, which are included in other income (expense), net. Revenues and net income from these businesses and investments were not significant in 2005, 2004 and 2003.

Note 5 Marketable securities and short-term investments

Marketable securities and short-term investments consist of the following:

December 31,	2005	2004
Available-for-sale securities	$ 276	$ 263
Time deposits	39	247
Securities serving as hedges of the Company's management incentive plan (see Note 21)	53	14
Total	**$ 368**	**$ 524**

To hedge its exposure to fluctuations in fair value of the Company's warrant appreciation rights (WARs) issued under the Company's management incentive plan, the Company purchases cash-settled call options, which entitle the Company to receive amounts equivalent to its obligations under the outstanding WARs. In accordance with Emerging Issues Task Force No. 00-19 *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock,* (EITF 00-19), the cash-settled call options have been recorded as assets measured at fair value, with subsequent changes in fair value recorded through earnings as an offset to the compensation expense recorded in connection with the WARs.

Available-for-sale securities classified as marketable securities consist of the following:

December 31,	2005		2004	
	Cost	Fair value	Cost	Fair value
Equity securities	**$ 80**	**$ 84**	**$ 55**	**$ 63**
Debt securities:				
U.S. government obligations	64	63	99	99
European government obligations	–	–	3	3
Corporate	98	96	59	59
Other	34	33	33	39
Total debt securities	**196**	**192**	**194**	**200**
Total	**$ 276**	**$ 276**	**$ 249**	**$ 263**

At December 31, 2005 and 2004, unrealized gains and losses on available-for-sale securities were not significant.

At December 31, 2005, contractual maturities of the above available-for-sale debt securities consist of the following:

	Cost	Fair value
Less than one year	$ –	$ –
One to five years	116	113
Six to ten years	52	51
Due after ten years	28	28
Total	**$ 196**	**$ 192**

Gross realized gains on available-for-sale securities were $18 million, $117 million and $8 million in 2005, 2004 and 2003, respectively. Gross realized losses on available-for-sale securities were $34 million, $5 million and $2 million in 2005, 2004 and 2003, respectively. Additionally, in 2003, the Company recorded an impairment charge of $36 million, in interest and other finance expense, related to available-for-sale securities. In 2003, the Company also realized and recorded, in interest and other finance expense, a loss of $40 million on the sale of available-for-sale securities in a strategic investment.

Gross unrealized losses of those available for sale securities that have been in a continuous unrealized loss position were not significant at December 31, 2005 and 2004.

(U.S. dollar amounts in millions, except per share amounts)

Note 5 Marketable securities and short-term investments, continued

At December 31, 2005 and 2004, the Company pledged $91 million and $51 million, respectively, of marketable securities as collateral for issued letters of credit and other security arrangements.

Note 6 Financial instruments

Cash flow hedges

The Company enters into forward foreign exchange contracts to manage the foreign exchange risk of its operations. To a lesser extent, the Company also uses commodity contracts to manage its commodity risks. Where such instruments are designated and qualify as cash flow hedges, the changes in their fair value are recorded in accumulated other comprehensive loss, until the hedged item is recognized in earnings. At such time, the respective amount in accumulated other comprehensive loss is released to earnings and is shown in either revenues or cost of sales consistent with the classification of the earnings impact of the underlying transaction being hedged.

The amount of derivative financial instrument net gains or losses reclassified from accumulated other comprehensive loss to earnings was a net gain of $27 million, $31 million and $58 million in 2005, 2004 and 2003, respectively. The $31 million in 2004 excludes the $14 million loss described below. It is anticipated that during 2006, the amount included in accumulated other comprehensive loss at December 31, 2005, that will be reclassified to earnings is not significant. Derivative financial instrument gains and losses reclassified to earnings offset the losses and gains on the items being hedged.

While the Company's cash flow hedges are primarily hedges of exposures over the next twelve months, the amount included in accumulated other comprehensive loss at December 31, 2005, includes hedges of certain exposures maturing up to 2009.

During 2004, the Company reclassified losses of $14 million from accumulated other comprehensive loss to earnings as a result of the discontinuance of certain cash flow hedges as it became probable that the original forecasted transactions related to these hedges would not occur within the forecasted time period.

Fair value hedges

To reduce its interest rate and foreign currency exposures arising primarily from its borrowing 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 underlying liabilities, are recorded as offsetting gains and losses in the determination of earnings. The hedge ineffectiveness in 2005, 2004 and 2003, resulted in a loss of $16 million and gains of $11 million and $11 million, respectively.

Disclosure about fair values of financial instruments

The Company uses the following methods and assumptions in estimating fair values for financial instruments:

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: Fair values of marketable securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The carrying amounts of short-term investments approximate the fair values.

Financing receivables and loans (non-current portion): Fair values are determined using a discounted cash flow methodology based upon loan rates of similar instruments. The carrying values and estimated fair values of long-term loans granted at December 31, 2005, were $201 million and $201 million, respectively, and at December 31, 2004, were $276 million and $276 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 borrowings at December 31, 2005, were $3,933 million and $4,710 million, respectively, and at December 31, 2004, were $4,717 million and $5,223 million, respectively.

Derivative financial instruments: Fair values are the amounts by which the contracts could be settled. These fair values are estimated by using a discounted cash flow methodology based on available market data, option pricing models or by obtaining quotes from brokers. At December 31, 2005 and 2004, the carrying values equal fair values. Current derivative assets are recorded in other current assets, and non-current derivative assets are recorded in other non-current assets. Current derivative liabilities are recorded in provisions and other, and non-current derivative liabilities are recorded in other liabilities. The fair values are:

December 31,	2005	2004
Derivative assets, current	$ 156	$ 369
Derivative assets, non-current	162	251
Total	**$ 318**	**$ 620**
Derivative liabilities, current	$ 138	$ 324
Derivative liabilities, non-current	63	53
Total	**$ 201**	**$ 377**

(U.S. dollar amounts in millions, except per share amounts)

Note 7 Receivables, net

Receivables, net consist of the following:

December 31,	2005	2004
Trade receivables	$ 4,548	$ 3,993
Other receivables	967	1,264
Allowance for doubtful accounts	(279)	(309)
	5,236	**4,948**
Unbilled receivables, net:		
Costs and estimated profits in excess of billings	2,227	2,257
Advance payments received	(948)	(921)
	1,279	**1,336**
Total	**$ 6,515**	**$ 6,284**

Trade receivables include contractual retention amounts billed to customers of $115 million and $124 million at December 31, 2005 and 2004, respectively. Management expects the majority of related contracts will be completed and substantially all of the billed amounts retained by the customer will be collected within one year of the respective balance sheet date. Other receivables consist of value added tax, claims, employee and customer related advances, the current portion of direct finance and sales-type leases and other non-trade receivables, including the retained interests on sold receivables under the Company's securitization programs.

Costs and estimated profits in excess of billings represent sales earned and recognized under the percentage-of-completion method. Amounts are expected to be collected within one year of the respective balance sheet date.

Note 8 Securitization and variable interest entities

Securitization

During 2005 and 2004, the Company sold trade receivables to VIEs, unrelated to the Company, in revolving-period securitization programs. During 2005, the Company re-assessed its need for these securitization programs, terminating one program and reducing the size of the other program. At December 31, 2005, the remaining securitization program is with a VIE that is not required to be consolidated in accordance with Financial Accounting Standards Board Interpretation No. 46 (revised) *Consolidation of Variable Interest Entities:* FIN 46(R).

The Company retains servicing responsibility relating to the sold receivables. Solely for the purpose of credit enhancement from the perspective of the purchasing entity, the Company retains an interest in the sold receivables (retained interests). These retained interests are initially measured at estimated fair values, which the Company believes approximate historical carrying values, and are subsequently measured based on a periodic evaluation of collections and delinquencies.

Given the short-term, lower-risk nature of the assets securitized, market movements in interest rates would not significantly impact the carrying value of the Company's retained interests. Similarly, while an adverse movement in foreign currency rates could have an impact on the carrying value of these retained interests, as the retained interests are denominated in the original currencies underlying the sold receivables, the impact on earnings has historically not been significant due to the short-term nature of the receivables and economic hedges in place relating to foreign currency movement risk.

The Company routinely evaluates its portfolio of trade receivables for risk of non-collection and records an allowance for doubtful debts to reflect the carrying value of its trade receivables at estimated net realizable value. Pursuant to the requirements of the revolving-period securitization program through which the Company securitizes certain of its trade receivables, the Company effectively bears the risk of potential delinquency or default associated with trade receivables sold or interests retained. At December 31, 2005 and 2004, the fair value of the retained interests was approximately $185 million and $349 million, respectively.

In accordance with SFAS 140, the Company has not recorded a servicing asset or liability as management believes it is not practicable to estimate this value given that verifiable data as to the fair value of the compensation and/or cost related to servicing the types of the assets sold is not readily obtainable nor reliably estimable in the geographic market in which the entities selling receivables operate.

During 2005, 2004 and 2003, the following cash flows were received from and paid to VIEs:

December 31,	2005	2004	2003
Gross trade receivables sold to VIEs ($505)*	$ 4,925	$ 5,846	$ 5,661
Collections made on behalf of and paid to VIEs ($(696))*	(5,489)	(5,713)	(5,883)
Purchaser, liquidity and program fees ($(2))*	(18)	(20)	(21)
Decrease in retained interests ($117)*	178	17	124
Net cash received from (paid to) VIEs during the year ($(76))*	**$ (404)**	**$ 130**	**$ (119)**

* Related to assets held for sale and in discontinued operations for 2003. Amounts related to assets held for sale and in discontinued operations were not significant in 2005 or 2004.

(U.S. dollar amounts in millions, except per share amounts)

Note 8 Securitization and variable interest entities, continued

Net cash settlements on the remaining program take place twice per month.

The Company records a loss on sale at the time of sale of the receivables and subsequently records purchaser, liquidity and program fees. The total cost of $18 million, $20 million and $21 million in 2005, 2004 and 2003, respectively, related to the securitization of trade receivables, is included in interest and other finance expense.

The following table reconciles total gross receivables to the amounts in the Consolidated Balance Sheet after the effects of securitization at December 31, 2005 and 2004:

December 31,	2005	2004
Total trade receivables	$ 4,952	$ 5,132
Portion derecognized	(193)	(710)
Retained interests included in other receivables	(195)	(373)
Trade receivables	**4,564**	**4,049**
Less: Trade receivables included in assets held for sale and in discontinued operations	(16)	(56)
Trade receivables – continuing operations	**$ 4,548**	**$ 3,993**

At December 31, 2005 and 2004, of the gross trade receivables sold, the total trade receivables for which cash has not been collected at those dates amounted to $388 million and $1,083 million, respectively. At December 31, 2005 and 2004, an amount of $41 million and $54 million, respectively, was more than 90 days past due which is considered delinquent pursuant to the terms of the programs.

In addition, the Company transfers receivables outside of the above described securitization programs. These transfers were sales, made without recourse, directly to banks and/or sales pursuant to factoring or similar type arrangements. Total sold receivables included in these transactions during 2005 and 2004 were approximately $530 million and $902 million, respectively, of which sales of $0 million and $159 million in 2005 and 2004, respectively, related to assets held for sale and in discontinued operations. During 2005 and 2004, the related costs, including the associated gains and losses, were $5 million and $10 million, respectively, of which costs of $0 million and $1 million in 2005 and 2004, respectively, related to assets held for sale and in discontinued operations.

Variable interest entities

The following VIE is consolidated, as the Company is the primary beneficiary as defined by FIN 46(R).
In March 2003, the Company sold its aircraft-leasing portfolio in Sweden to a third party. Subsequent to divestment, the Company continued its involvement in this business by providing significant financial support in the form of mezzanine and subordinated financing of approximately $90 million to the VIE formed by the buyer upon acquisition, exclusively for the purpose of servicing the aircraft leasing portfolio. As the primary beneficiary of the VIE, the Company retained approximately $55 million of assets and acquired approximately $9 million of third party long-term borrowings provided to the VIE at December 31, 2005. All of the VIE's assets serve as collateral for the senior debt provided by third parties. The Company has no ownership interest and there is no recourse to the general credit of the Company.

The following VIEs are not consolidated, as the Company is not the primary beneficiary as defined by FIN 46(R).
The Company maintains a combined equity and financing interest of approximately $85 million in two VIEs, that are accounted for using the equity method of accounting, and were established as consortiums to develop power plants in various countries. The Company's involvement with these VIEs began between 1995 and 2000 at the dates of inception of the VIEs. The purpose of the VIEs is to contract the engineering, procurement, commissioning and financing of the power plants. At and for the year ended December 31, 2005, these VIEs have combined total assets of approximately $783 million and reported combined total revenues and earnings before interest and taxes of $136 million and $5 million, respectively. The exposure to loss as a result of involvement with the VIEs is limited to the Company's combined equity and financing interests.

Note 9 Inventories, net

Inventories, net, including inventories related to long-term contracts, consist of the following:

December 31,	2005	2004
Commercial inventories, net:		
Raw materials	$ 1,186	$ 1,246
Work in process	1,258	1,205
Finished goods	449	394
	2,893	**2,845**
Contract inventories, net:		
Inventoried costs	540	637
Advance payments received related to contracts	(359)	(304)
	181	**333**
Total	**$ 3,074**	**$ 3,178**

(U.S. dollar amounts in millions, except per share amounts)

Note 10 Financing receivables

Financing receivables consist of the following:

December 31,	2005	2004
Loans receivable	$ 201	$ 276
Pledged financial assets	309	314
Finance leases	22	79
Other	113	220
Total	**$ 645**	**$ 889**

Loans receivable primarily represent financing arrangements provided to customers related to products manufactured by the Company.

The Company entered into tax-advantaged leasing transactions with U.S. investors prior to 1999. The prepaid rents relating to these transactions are reflected as pledged financial assets, with an offsetting non-current deposit liability, which is included in other liabilities (see Note 19). Net gains on these transactions are being recognized over the lease terms.

Note 11 Property, plant and equipment, net

Property, plant and equipment, net consist of the following:

December 31,	2005	2004
Land and buildings	$ 2,298	$ 2,662
Machinery and equipment	4,383	4,911
Construction in progress	132	122
	6,813	**7,695**
Accumulated depreciation	(4,248)	(4,731)
Total	**$ 2,565**	**$ 2,964**

In 2005, 2004 and 2003, depreciation expense was $413 million, $429 million and $428 million, respectively.

Note 12 Goodwill and other intangible assets

The changes in the carrying amount of goodwill for the year ended December 31, 2005, are as follows:

	Automation Technologies	Power Technologies	Non-core activities	Corporate/ Other	Total
Balance at January 1, 2005	$ 1,795	$ 561	$ 225	$ 21	$ 2,602
Goodwill acquired during the year	6	–	–	–	6
Other	–	(3)	(2)	–	(5)
Foreign currency translation	(93)	(11)	(19)	(1)	(124)
Balance at December 31, 2005	**$ 1,708**	**$ 547**	**$ 204**	**$ 20**	**$ 2,479**

The changes in the carrying amount of goodwill for the year ended December 31, 2004, are as follows:

	Automation Technologies	Power Technologies	Non-core activities	Corporate/ Other	Total
Balance at January 1, 2004	$ 1,816	$ 439	$ 201	$ 72	$ 2,528
Goodwill acquired during the year	15	–	–	–	15
Goodwill written off related to sale of businesses	(3)	(2)	(4)	(12)	(21)
Other	–	(4)	10	–	6
Reallocations	(86)	116	9	(39)	–
Foreign currency translation	53	12	9	–	74
Balance at December 31, 2004	**$ 1,795**	**$ 561**	**$ 225**	**$ 21**	**$ 2,602**

The reallocations during 2004 were principally due to the reorganization of the Substation Automation business from the Automation Technologies division to the Power Technologies division. The goodwill reallocated for the Substation Automation business was $107 million and was calculated on the basis of relative fair value. During 2004, the Company also reallocated goodwill from Corporate/Other to the Automation Technologies and Power Technologies division as the expected benefit of such goodwill resides in these divisions. At December 31, 2005 and 2004, the $204 million and $225 million of goodwill, respectively, in Non-core activities principally related to the Company's remaining Oil, Gas and Petrochemicals business.

(U.S. dollar amounts in millions, except per share amounts)

Note 12 Goodwill and other intangible assets, continued

Other intangible assets consist of the following:

December 31,	2005			2004		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Capitalized software for internal use	$ 495	$ (404)	$ 91	$ 580	$ (450)	$ 130
Capitalized software for sale	208	(110)	98	237	(87)	150
Other intangible assets	549	(389)	160	595	(383)	212
Total	**$ 1,252**	**$ (903)**	**$ 349**	**$ 1,412**	**$ (920)**	**$ 492**

Amortization expense of capitalized software for internal use for 2005 and 2004, recorded in selling, general and administrative expenses, amounted to $62 million and $111 million, respectively. Amortization expense of capitalized software for sale for 2005 and 2004, recorded in cost of sales, amounted to $45 million and $42 million, respectively. Amortization expense of other intangible assets for 2005 and 2004, recorded in other income (expense), net amounted to $53 million and $59 million, respectively.

The Company recorded impairment charges to intangible assets of $4 million, $3 million and $11 million, in 2005, 2004 and 2003, respectively. These charges are included in other income (expense), net, in the Consolidated Income Statement.

Other intangible assets primarily include intangibles created through acquisitions, such as trademarks and patents.

Amortization expense of other intangible assets is estimated to be as follows:

2006	$ 113
2007	$ 97
2008	$ 79
2009	$ 19
2010	$ 8
Thereafter	$ 31
Total	**$ 347**

At December 31, 2005 and 2004, the Company maintained $2 million and $11 million, respectively, related to intangible pension assets not subject to amortization (see Note 20).

For the years ended December 31, 2005 and 2004, the Company capitalized intangible assets of $55 million ($30 million, $17 million and $8 million of software for internal use, software for sale and other intangible assets, respectively) and $75 million ($29 million, $36 million and $10 million of software for internal use, software for sale and other intangible assets, respectively), respectively. For items capitalized in 2005 and 2004, amortization expense is calculated using an estimated useful life of 4 years for capitalized software and 5 years for other intangible assets.

Note 13 Investments in equity method accounted companies

The Company recorded earnings of $109 million, $87 million and $96 million in 2005, 2004 and 2003, respectively, in other income (expense), net, representing the Company's share of the pre-tax earnings of investees accounted for under the equity method of accounting. The principal company accounted for using the equity method of accounting is: Jorf Lasfar Energy Company S.C.A. (JLEC), a power plant based in Morocco, of which the Company owns 50 percent.

	Investment balance		The Company's share of the pre-tax earnings of equity-accounted investees		
	2005	2004	2005	2004	2003
JLEC	$ 364	$ 356	$ 62	$ 68	$ 62
Other	254	240	47	19	34
Total	**$ 618**	**$ 596**	**$ 109**	**$ 87**	**$ 96**
Less: Current income tax expense			(16)	(8)	(7)
The Company's share of earnings of equity-accounted investees			**$ 93**	**$ 79**	**$ 89**

(U.S. dollar amounts in millions, except per share amounts)

Note 13 Investments in equity method accounted companies, continued

The following table represents selected financial information for JLEC and not the Company's share in this equity accounted company.

	2005	2004	2003
Total current assets	$ 264	$ 296	$ 273
Total non-current assets	$ 1,037	$ 1,147	$ 1,162
Total current liabilities	$ 241	$ 254	$ 310
Total non-current liabilities	$ 441	$ 572	$ 612
Total shareholders' equity	$ 619	$ 617	$ 513
Revenues	$ 509	$ 462	$ 369
Income before taxes	$ 127	$ 133	$ 122
Net income	$ 112	$ 125	$ 120

As security for repayment by JLEC of certain of its loans, the Company, JLEC and the other 50 percent shareholder in JLEC have entered into various pledge agreements with several banks and other secured parties. The Company has pledged all of its shares, claims, rights and interest in JLEC in accordance with the pledge agreements. Such security shall continue in effect until the repayment in full of all outstanding principal and interest and other fees, which is scheduled to occur in February 2013.

The Company has entered into other similar pledge agreements for certain other equity accounted for companies. The Company has also granted lines of credit and has committed to provide guarantees for certain equity accounted companies. At December 31, 2005, the total unused lines of credit amounted to $74 million and ABB has issued $25 million of capital commitment guarantees on behalf of equity accounted companies.

The Company's 2005 Consolidated Financial Statements include the following aggregate amounts related to transactions with equity accounted companies:

	2005	2004
Revenues	$ 63	$ 57
Receivables	$ 17	$ 11
Other current assets	$ 2	$ 13
Financing receivables, non-current	$ 53	$ 45
Current liabilities	$ –	$ 2
Short-term debt and non-current liabilities	$ 2	$ 22

Note 14 Debt

The Company's total debt at December 31, 2005 and 2004, amounted to $4,102 million and $5,343 million, respectively.

Short-term debt

The Company's short-term debt consists of the following:

December 31,	2005	2004
Short-term debt (weighted-average interest rate of 6.5% and 6.5%)	$ 142	$ 186
Current portion of long-term debt (weighted-average interest rate of 3.9% and 3.9%)	27	440
Total	**$ 169**	**$ 626**

Short-term debt primarily represents short-term loans from various banks.

On July 4, 2005, the Company signed a new five-year, $2 billion multicurrency revolving credit facility and canceled the three-year $1 billion credit facility that was due to expire in November 2006. As a result of canceling the $1 billion facility prior to expiry, the Company recorded in July 2005, a charge of $12 million in interest and other finance expense to write off unamortized costs related to this facility.

The new $2 billion facility contains financial covenants in respect of minimum interest coverage and maximum net leverage. The Company is required to meet these covenants on a semi-annual basis, at June and December. At December 31, 2005, the Company was in compliance with these covenants. If the Company's corporate credit rating reaches certain defined levels, the minimum interest coverage covenant will no longer be required.

(U.S. dollar amounts in millions, except per share amounts)

Note 14 Debt, continued

No amount was drawn under either facility at December 31, 2005 and 2004. The interest costs of borrowings under the new facility are LIBOR, STIBOR or EURIBOR (depending on the currency of the drawings) plus a margin of 0.25 percent to 0.70 percent, depending on the Company's corporate debt rating. The commitment fees paid on the unused portion of the facility amount to 35 percent per annum of the applicable margin, and are therefore also dependent upon the corporate credit rating of the Company. A utilization fee is payable when borrowings are greater than one-third of the facility and the level of these fees is linked to the level of the amounts outstanding.

The facility contains cross-default clauses whereby an event of default would occur if the Company were to default on indebtedness, as defined in the facility, at or above a specified threshold.

Long-term debt

The Company utilizes a variety of derivative products to modify the characteristics of its long-term debt. The Company uses interest rate swaps to effectively convert certain fixed-rate long-term debt into floating rate obligations. For certain non-U.S. dollar denominated debt, the Company utilizes cross-currency swaps to effectively convert the debt into an U.S. dollar obligation. As required by SFAS 133, debt designated as being hedged by fair value hedges is stated at its fair value.

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

	December 31, 2005			December 31, 2004		
	Balance	Nominal rate	Effective rate	Balance	Nominal rate	Effective rate
Floating rate	$ 2,002	8.5%	7.0%	$ 1,772	8.7%	6.0%
Fixed rate	278	3.4%	5.4%	1,610	5.1%	5.5%
Convertible bonds	1,680	4.1%	4.1%	1,775	4.1%	4.1%
	3,960			**5,157**		
Current portion of long-term debt	(27)	3.9%	3.9%	(440)	3.9%	1.5%
Total	**$ 3,933**			**$ 4,717**		

At December 31, 2005, maturities of long-term debt were as follows:

Due in 2006	$ 27
Due in 2007	936
Due in 2008	856
Due in 2009	473
Due in 2010	762
Thereafter	906
Total	**$ 3,960**

Bond repurchases

During 2005, the Company repurchased debt securities with a total face value of $307 million, primarily a portion of the Company's 3.75% 500 million Swiss franc bonds, due 2009, and recognized a loss on extinguishment of debt of $19 million on the repurchases.

During 2004, through open market repurchases, the Company repurchased a portion of its public bonds with a total equivalent face value of $513 million. These open market repurchases resulted in a gain on extinguishments of debt of approximately $6 million. In addition, in July 2004, the Company announced tender offers to repurchase all of the outstanding 5.375% 300 million euro bonds, due 2005, and 5.125% 475 million euro bonds, due 2006, being approximately 275 million euro and approximately 368 million euro, respectively. In conjunction with the tender offers, the bonds were amended to allow the Company to call and redeem those bonds that were not tendered under the respective tender offer. In September 2004, bonds validly tendered and accepted under the tender offers were settled and the Company exercised its option to redeem early the remaining outstanding 2005 and 2006 bonds that were not tendered. The open market repurchases, combined with the tender offers and calls, resulted in a decrease in total borrowings during 2004 of $1,330 million.

Bond issuances

The Company did not issue any bonds during 2005 or 2004.

Note 14 Debt, continued

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

	December 31, 2005 (in millions)			December 31, 2004 (in millions)		
		Nominal outstanding	Carrying value [1]		Nominal outstanding	Carrying value [1]
Public bonds:						
4.625% USD Convertible Bonds, due 2007	USD	968	$ 921	USD	968	$ 890
3.5% CHF Convertible Bonds, due 2010	CHF	1,000	759	CHF	1,000	885
9.5% EUR Instruments, due 2008	EUR	500	614	EUR	500	728
10% GBP Instruments, due 2009	GBP	200	353	GBP	200	382
3.75% CHF Bonds, due 2009	CHF	108	81	CHF	500	442
6.5% EUR Instruments, due 2011	EUR	650	764	EUR	650	887
0.5% JPY Instruments, due 2005		–	–	JPY	17,425	171
Private placements			181			433
Total Outstanding Bonds			**$ 3,673**			**$ 4,818**

[1] USD carrying value is net of bond discounts and includes adjustments for fair value hedge accounting, where appropriate.

The 6.5% EUR Instruments pay interest semi-annually in arrears at a fixed annual rate of 6.5 percent. In the event of a change of control of the Company, the terms of these bonds require the Company to offer to repurchase the bonds at 101 percent of the principal amount thereof, plus any accrued interest.

During 2005, the Company entered into interest rate swaps to hedge its interest obligations on the 6.5% EUR Instruments, due 2011, and the 3.75% CHF bonds due 2009. After considering the impact of these interest rate swaps, the 6.5% EUR Instruments effectively became a floating rate euro obligation, while the 3.75% CHF Bonds effectively became a floating rate Swiss franc obligation. Consequently, these bonds are included as floating rate debt at December 31, 2005, in the table of long-term debt above but as fixed rate debt at December 31, 2004.

The CHF Convertible Bonds pay interest annually in arrears at a fixed annual rate of 3.5 percent. The conversion price is subject to adjustment provisions to protect against dilution or change in control. Each 5,000 Swiss francs of principal amount of bonds is convertible into 524.65897 fully paid shares of the Company at a conversion price of 9.53 Swiss francs, representing a total of 104,931,794 shares if the bonds were fully converted.

The bonds are convertible at the option of the bondholder at any time from October 21, 2003, up to and including the tenth business day prior to September 10, 2010. The Company may at any time on or after September 10, 2007, redeem the outstanding bonds at par plus accrued interest if, for a certain number of days during a specified period of time, the official closing price of the Company's ordinary shares on the relevant exchange has been at least 150 percent of the conversion price. In addition, at any time prior to maturity, the Company can redeem the outstanding bonds at par plus accrued interest, if at least 85 percent in aggregate of the principal amount of bonds originally issued have been redeemed, converted or purchased and cancelled. The Company has the option to redeem the bonds when due in cash, ordinary shares or any combination thereof.

The USD Convertible Bonds due 2007 pay interest semi-annually in arrears at a fixed annual rate of 4.625 percent. The conversion price is subject to adjustment provisions to protect against dilution or change in control. As a result of an amendment to the bonds in May 2004, described below, the conversion price of the bonds was amended from 14.64 Swiss francs (converted into U.S. dollars at the fixed exchange rate of 1.6216 Swiss francs per U.S. dollar) to $9.03, representing a total of 107,198,228 shares if the bonds were fully converted.

These USD Convertible Bonds are convertible at the option of the bondholder at any time from June 26, 2002, up to and including May 2, 2007. The Company may, at any time on or after May 16, 2005, redeem the outstanding bonds at par plus accrued interest if (1) for a certain number of days during a specified period of time, the official closing price of the Company's American Depositary Shares on the New York Stock Exchange exceeds 170 percent of the conversion price, or (2) at least 85 percent in aggregate principal amount of bonds originally issued have been exchanged, redeemed or purchased and cancelled. The Company has the option to redeem the bonds when due, in cash, American Depositary Shares or any combination thereof.

Prior to May 2004, a component of these convertible bonds had to be accounted for as an embedded derivative as the shares to be issued upon conversion were denominated in Swiss francs, while the bonds are denominated in U.S. dollars. A portion of the issuance proceeds was deemed to relate to the value of the derivative on issuance and subsequent changes in value of the derivative were recorded through earnings and as an adjustment to the carrying value of the bonds. The allocation of a portion of the proceeds to the derivative created a discount on issuance, which was being amortized to earnings over the life of the bonds. On May 28, 2004, bondholders voted in favor of the Company's proposed amendment to the terms of the bonds whereby, if the bonds are converted, the Company will deliver U.S. dollar-denominated American Depositary Shares rather than Swiss franc-denominated ordinary shares. The conversion price was set at $9.03. As a result of the amendment, the Company was no longer required to account for a portion of the bonds as a derivative. Consequently, on May 28, 2004, the value of the derivative was fixed and the amount previously accounted for separately as an embedded derivative was considered to be a component of the carrying value of the bonds at that date. This carrying value is being accreted to the $968 million par value of the bonds as an expense in interest and other finance expense over the remaining life of the bonds.

(U.S. dollar amounts in millions, except per share amounts)

Note 14 Debt, continued

During 2004, the Company recorded an expense of $16 million from the increase in fair value of the derivative from January 1, 2004, up to the date of the bond amendment, related among other factors, to the increase in the Company's share price since December 31, 2003. When added to the accretion of the discount on the bonds for 2004 of $36 million, this resulted in aggregate expense of $52 million in 2004, reflected in interest and other finance expense. In 2003, an increase in fair value of the embedded derivative, combined with the accretion of the discount on issuance of the bonds, resulted in a charge to interest and other finance expense of $84 million.

The 10% GBP Instruments and the 9.5% EUR Instruments contain certain clauses linking the interest paid on the bonds to the credit rating assigned to the bonds. If the rating assigned to these bonds by both Moody's and Standard & Poor's remains at or above Baa3 and BBB-, respectively, then the interest rate on the bonds remains at the level at issuance, that is 10 percent and 9.5 percent for the sterling and euro bonds, respectively. However, as the rating assigned by either Moody's or Standard & Poor's decreased below Baa3 or BBB-, respectively, in October 2002, the annual interest rate on the bonds increased by 1.5 percent per annum to 11.5 percent and 11 percent for the sterling and euro bonds, respectively. If after this rating decrease, the rating assigned by both Moody's and Standard & Poor's returns to a level at or above Baa3 and BBB-, respectively, then the interest rates on the bonds return to the interest level at issuance.

In line with the Company's policy of reducing its interest and currency exposure, a cross-currency swap has been used to modify the characteristics of the 200 million pounds sterling bonds and an interest rate swap has been used to modify the 500 million euro bonds. After considering the impact of the cross-currency and interest rate swaps, the 200 million pounds sterling bonds effectively became a floating rate U.S. dollar obligation, while the 500 million euro bonds became a floating rate euro obligation. Accordingly, both the 200 million pounds sterling bonds and the 500 million euro bonds are included as "floating rate" in the table of long-term debt above.

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

In addition to the bonds described above, included in long-term debt at December 31, 2005 and 2004, are lease obligations, bank borrowings of subsidiaries, and other long-term debt.

Note 15 Provisions and other

Provisions and other consists of the following:

December 31,	2005	2004
Asbestos and related costs (see Note 17)	$ 1,128	$ 1,023
Contract related reserves	647	456
Provisions for warranties and contract penalties	783	739
Derivatives	138	324
Employee benefit costs	83	77
Taxes payable	369	368
Other	621	679
Total	**$ 3,769**	**$ 3,666**

Note 16 Leases

Lease obligations

The Company's lease obligations primarily relate to real estate and office equipment. In the normal course of business, management expects most leases to be renewed or replaced by other leases. Minimum rent expense was $359 million, $371 million and $392 million in 2005, 2004 and 2003, respectively. Sub-lease income received on leased assets by the Company was $39 million, $33 million and $18 million in 2005, 2004 and 2003, respectively.

At December 31, 2005, future net minimum lease payments for operating leases having initial or remaining non-cancelable lease terms in excess of one year consist of the following:

2006	$ 319
2007	263
2008	225
2009	190
2010	177
Thereafter	509
	1,683
Sublease income	(148)
Total	**$ 1,535**

Note 17 Commitments and contingencies

Contingencies – general

The Company is subject to various legal proceedings, including environmental and other claims that have arisen in the ordinary course of business that have not been finally resolved. It is not possible at this time for the Company to predict with any certainty the outcome of such litigation and claims. However, except as stated below, management is of the opinion, based upon information presently available and on advice of external counsel and other advisors, that while any such liability could have a material adverse impact on the Company's net cash flows, it is unlikely that any such liability, to the extent not provided for through insurance or otherwise, would have a material adverse effect on the Company's financial position or results of operations.

Asbestos Liability

Summary

The Company's Combustion Engineering subsidiary has been a co-defendant in a large number of lawsuits claiming damage for personal injury resulting from exposure to asbestos. A smaller number of claims have also been brought against the Company's ABB Lummus Global Inc. subsidiary ("Lummus") as well as against other affiliates of the Company. In October 2002, taking into consideration the growing number and cost of asbestos-related claims, Combustion Engineering and the Company determined that Combustion Engineering's asbestos-related liability should be resolved through a comprehensive settlement that included a plan of reorganization for Combustion Engineering under Chapter 11 of the U.S. Bankruptcy Code.

In November 2002, Combustion Engineering and the representatives of various asbestos claimants entered into a Master Settlement Agreement to settle approximately 154,000 asbestos-related personal injury claims that were then pending against Combustion Engineering. Under that agreement Combustion Engineering established and funded a trust (the "CE Settlement Trust") to provide for partial payment of those claims.

In January 2003, Combustion Engineering reached agreement with various creditors (including representatives of the asbestos claimants who participated in the Master Settlement Agreement and a representative of future claimants) on the terms of a proposed "Pre-Packaged Plan of Reorganization for Combustion Engineering" under Chapter 11 of the U.S. Bankruptcy Code (as amended through June 4, 2003, the "Initial CE Plan"). The Initial CE Plan provided for the issuance of a "channeling injunction" under which asbestos-related personal injury claims related to the operations of Combustion Engineering, Lummus and Basic Incorporated ("Basic"), another subsidiary of the Company that is a former subsidiary of Combustion Engineering, could only be brought against a future trust (separate from the CE Settlement Trust established under the Master Settlement Agreement) to be established and funded by Combustion Engineering, ABB Ltd and other entities of the Company (the "Asbestos PI Trust"). This channeling injunction was intended to free Combustion Engineering, ABB Ltd and its affiliates, as well as certain former direct or indirect owners, joint venture partners and affiliates of Combustion Engineering, including ALSTOM and ALSTOM POWER NV, from further liability for such claims.

The Initial CE Plan was filed with the U.S. Bankruptcy Court on February 17, 2003 and confirmed by the District Court on August 8, 2003. On December 2, 2004, however, the Court of Appeals for the Third Circuit reversed the District Court's confirmation order. The Court of Appeals remanded the Initial CE Plan to the District Court among other things for a determination of whether, in light of the pre-petition payments made by Combustion Engineering to the CE Settlement Trust under the Master Settlement Agreement and the fact that claimants who received partial payments of their claims under the Master Settlement Agreement participated in the approval of the Initial CE Plan, the treatment of asbestos-related personal injury claims against Combustion Engineering under the Initial CE Plan was consistent with the requirements of the U.S. Bankruptcy Code. The Court of Appeals also held that asbestos claims against Lummus and Basic that are not related to Combustion Engineering's operations could not be "channeled" to the Asbestos PI Trust as proposed under the Initial CE Plan.

In March 2005, following extensive discussions with certain representatives of various parties, including the Creditors Committee, the Future Claimants Representative appointed in the Combustion Engineering case (the "CE FCR") and Certain Cancer Claimants (the "CCC") who had opposed the Initial CE Plan, the parties reached an agreement in principle (the "Agreement in Principle") for modifying the Initial CE Plan with a view to bringing it into conformity with the Court of Appeals' decision and for providing a mechanism for resolving finally Lummus' potential asbestos liability. The main terms of the Agreement in Principle provide for the Company and certain of its subsidiaries to make an additional contribution of $204 million to the Asbestos PI Trust not later than two years from the effective date of the Initial CE Plan, as modified as contemplated by the Agreement in Principle, but payment of this additional contribution may be accelerated in whole or in part if Lummus or Lummus assets are sold in the interim; the payment by the Company of the legal fees of the CCC in the amount of $ 8 million; and the filing of a separate Chapter 11 case and a prepackaged plan of reorganization for Lummus (the "Lummus Plan"). The Agreement in Principle contemplates that the "Modified CE Plan" and the Lummus Plan will become effective concurrently.

One of the holdings of the Court of Appeals was that asbestos-related personal injury claims against Basic that are not related to Combustion Engineering's operations could not be "channeled" to the Asbestos PI Trust. The Modified CE Plan and Lummus Plan do not address claims against Basic. Basic's asbestos-related personal injury liabilities will have to be resolved through its own bankruptcy or similar U.S. state court liquidation proceeding, or through the tort system.

Following the Agreement in Principle, the parties negotiated the terms and language of the Lummus Plan and the modifications to the Initial CE Plan. These negotiations lasted for approximately five (5) months, and on August 19, 2005, an amended version of the Initial CE Plan (the "Modified CE Plan") was filed with the U.S. Bankruptcy Court. The Modified CE Plan was filed with the support of all of the original proponents of the Initial CE Plan, as well as the CCC. Shortly thereafter, the Modified CE Plan and the Lummus Plan were mailed to all their respective impaired creditors for voting.

Note 17 Commitments and contingencies, continued

In late September 2005, voting concluded on the Modified CE Plan and the Lummus Plan, and both plans were approved overwhelmingly by the voting creditors. On September 28, 2005, the U.S. Bankruptcy Court held a Confirmation Hearing on the Modified CE Plan. While several insurers filed objections to the Modified CE Plan, all such objections were resolved or withdrawn prior to the conclusion of the hearing. On December 19, 2005, the U.S. Bankruptcy Court entered an Order confirming the Modified CE Plan, and recommending that the U.S. District Court affirm the U.S. Bankruptcy Court's Order. The U.S. District Court entered an order affirming The Modified CE Plan on March 1, 2006. From the date the order was entered, there is a 30-day appeals period. If no appeals are lodged within the appeals period, the Plan will be final.

Background

When the Company sold its 50 percent interest in the former ABB ALSTOM POWER NV joint venture to ALSTOM in May 2000, it retained ownership of Combustion Engineering, a subsidiary that had conducted part of its former power generation business and that now owns commercial real estate that it leases to ABB Inc. and third parties.

From 1989 through February 17, 2003 (the date that Combustion Engineering filed for Chapter 11 as described below), approximately 438,000 asbestos-related claims were filed against Combustion Engineering. On February 17, 2003 there were approximately 164,000 asbestos-related personal injury claims pending against Combustion Engineering. Of these claims, approximately 155,000 were claims by asbestos claimants who participated in the Master Settlement Agreement.

From 1990 through February 17, 2003, Lummus was named as a defendant in approximately 13,000 asbestos-related personal injury claims, of which approximately 11,000 claims were pending on February 17, 2003.

Other entities of the Company have sometimes been named as defendants in asbestos-related claims. At December 31, 2005 and 2004, there were approximately 16,400 asbestos-related claims pending against entities of the Company other than Combustion Engineering and Lummus. These claims, which include approximately 4,300 claims against Basic, are unrelated to Combustion Engineering and Lummus and will not be resolved in the Combustion Engineering bankruptcy case or the contemplated prepackaged bankruptcy case for Lummus. The Company generally seeks dismissals from claims where there is no apparent linkage between the plaintiffs and any entity of the Company. To date, resolving claims against the Company's entities other than Combustion Engineering, and Lummus has not had a material impact on the Company's consolidated financial position, results of operations or cash flows.

Negotiations with representatives of asbestos claimants and pre-packaged Chapter 11 filing

In October 2002, Combustion Engineering and the Company determined that it was likely that the expected asbestos-related personal injury liabilities of Combustion Engineering would exceed the value of its assets of approximately $800 million if its historical settlement patterns continued into the future. At that time, Combustion Engineering and the Company determined to resolve the asbestos-related personal injury liability of Combustion Engineering and its affiliates by reorganizing Combustion Engineering under Chapter 11, the principal business reorganization chapter of the U.S. Bankruptcy Code. Combustion Engineering and the Company determined to structure the Chapter 11 reorganization as a "pre-packaged plan," in which Combustion Engineering would solicit votes from asbestos claimants to approve the plan before the Chapter 11 case was filed with the Bankruptcy Court.

Beginning in October 2002, Combustion Engineering and the Company conducted extensive negotiations with representatives of certain asbestos claimants with respect to a pre-packaged plan. On November 22, 2002, Combustion Engineering and the asbestos claimants' representatives entered into a Master Settlement Agreement for settling open asbestos-related personal injury claims that had been filed against Combustion Engineering prior to November 2002. Combustion Engineering also agreed, pursuant to the Master Settlement Agreement, to form and fund the CE Settlement Trust to administer and pay a portion of the value of asbestos-related personal injury claims settled under the Master Settlement Agreement. Under the terms of the Master Settlement Agreement, eligible claimants who met all criteria to qualify for payment were entitled to receive a percentage of the value of their claim from the CE Settlement Trust and retain a claim against Combustion Engineering for the unpaid balance (the "stub claim"). The Master Settlement Agreement divides claims into three categories based on the status of the claim at November 14, 2002, the status of the documentation relating to the claim and whether or not the documentation establishes a valid claim eligible for settlement and payment by Combustion Engineering. The Master Settlement Agreement was supplemented in January 2003 to clarify the rights of certain claimants whose right to participate in a particular payment category was disputed. The Master Settlement Agreement, as supplemented, settles the value and provides for the partial payment of approximately 155,000 asbestos-related personal injury claims that had been lodged against Combustion Engineering.

The Master Settlement Agreement, as supplemented, provided that the CE Settlement Trust was to be funded by:

- cash contributions from Combustion Engineering in the amount of $5 million;
- cash contributions from ABB Inc., a subsidiary of ABB Ltd, in the amount of $30 million;
- a promissory note from Combustion Engineering in the principal amount of approximately $101 million (guaranteed by Asea Brown Boveri, now merged into Holdings); and
- an assignment by Combustion Engineering of the $311 million unpaid balance of principal and interest due to Combustion Engineering from Asea Brown Boveri, now merged into Holdings, under a loan agreement dated May 12, 2000 (guaranteed by ABB Ltd).

Approximately 155,000 eligible claimants have entered into the Master Settlement Agreement or adoption agreements with Combustion Engineering and the CE Settlement Trust and have received partial payment on their claims.

Note 17 Commitments and contingencies, continued

Pre-packaged plan of reorganization

On January 17, 2003, the Company announced that Combustion Engineering and the Company had reached an agreement with representatives of asbestos claimants on the terms of the Initial CE Plan.

As proposed, the Initial CE Plan provided for the creation of the Asbestos PI Trust, an independent trust separate and distinct from the CE Settlement Trust, to address "Asbestos PI Trust Claims," which are present and future asbestos-related personal injury claims (including the stub claims of claimants who previously settled pursuant to the Master Settlement Agreement) that arise directly or indirectly from any act, omission, products, or operations of Combustion Engineering or Lummus or Basic. The Initial CE Plan provided that, if it were to become effective, a channeling injunction would be issued under Section 105 of the U.S. Bankruptcy Code pursuant to which the Asbestos PI Trust Claims against ABB Ltd and certain of its affiliates (including Combustion Engineering, Lummus and Basic) would be channeled to the Asbestos PI Trust. The effect of the channeling injunction contemplated by the Initial CE Plan would be that the sole recourse of a holder of an Asbestos PI Trust Claim would be to the Asbestos PI Trust and such holder would be barred from asserting such a claim against ABB Ltd and the affiliates covered by the injunction (including Combustion Engineering and, under the Initial CE Plan, Lummus and Basic).

As proposed, the Initial CE Plan provided that on its effective date, the Asbestos PI Trust would be funded with the following:

- a $20 million 5 percent term note (the "CE Convertible Note") with a maximum term of ten years from the effective date of the Initial CE Plan, to be issued by Combustion Engineering and secured by its Windsor, Connecticut, real estate and real estate leases (under certain specified contingencies, the Asbestos PI Trust may have the right to convert the term note into ownership of 80 percent of the voting securities of the reorganized Combustion Engineering);
- excess cash held by Combustion Engineering on the effective date of the Initial CE Plan (the "Excess CE Cash");
- a non-interest bearing promissory note (the "ABB Promissory Note") to be issued by ABB Inc. and ABB Ltd, and guaranteed by certain ABB Ltd subsidiaries, in an aggregate amount of up to $350 million payable in installments (including two $25 million payments contingent upon ABB Ltd generating an earning before interest and taxes margin of 12 percent in 2007 and 2008);
- a non-interest bearing promissory note to be issued on behalf of Lummus (the "Lummus Note") in the amount of $28 million payable in relatively equal annual installments over 12 years;
- a non-interest bearing promissory note to be issued on behalf of Basic (the "Basic Note") in the aggregate amount of $10 million payable in relatively equal annual installments over 12 years;
- 30,298,913 shares of ABB Ltd (the "CE Settlement Shares"), which had a fair value of $293 million, $170 million and $154 million at December 31, 2005, 2004 and 2003, respectively; and
- an assignment by Combustion Engineering, Lummus, and Basic to the Asbestos PI Trust of any proceeds under certain insurance policies. As of December 31, 2005, aggregate unexhausted product liability limits under such policies were approximately $200 million for Combustion Engineering, approximately $43 million for Lummus and approximately $28 million for Basic although amounts ultimately recovered by the Asbestos PI Trust under these policies may be substantially different from the policy limits. In addition, Combustion Engineering would assign to the Asbestos PI Trust scheduled payments under certain of its insurance settlement agreements ($66 million at December 31, 2005). (The proceeds and payments to be assigned are together referred to as "Certain Insurance Amounts".)

In addition, the Initial CE Plan provided that if Lummus is sold within 18 months after the CE Plan's effective date, ABB Inc. would contribute $5 million to the CE Settlement Trust and $5 million to the Asbestos PI Trust.

Upon the effective date under the Initial CE Plan, ABB Inc. would indemnify the Combustion Engineering estate against up to $ 5 million of liability on account of certain contingent claims held by certain indemnified insurers. Further, on the effective date, Asea Brown Boveri (now merged into Holdings) would provide for the benefit of Combustion Engineering a nuclear and environmental indemnity with regard to obligations arising out of Combustion Engineering's Windsor, Connecticut, site. The two indemnities described in this paragraph are referred to as the "Related Indemnities".

Judicial review process

The solicitation of votes to approve the Initial CE Plan began on January 19, 2003. Combustion Engineering filed for Chapter 11 in the U.S. Bankruptcy Court in Delaware on February 17, 2003, based on the terms previously negotiated in connection with the Initial CE Plan.

On July 10, 2003 the Bankruptcy Court issued an Order recommending to the U.S. District Court, among other things, that the Initial CE Plan be confirmed.

Following the issuance of the Bankruptcy Court's Order a number of interested parties, including a small number of asbestos claimants and certain insurance companies which historically have provided insurance coverage to Combustion Engineering, Lummus and Basic filed appeals based on various objections to the Initial CE Plan. The District Court held a hearing on July 31, 2003, with respect to the appeals and entered an order on August 8, 2003 confirming the Initial CE Plan.

Various parties appealed the District Court's confirmation order to the United States Court of Appeals for the Third Circuit. The Court of Appeals held a hearing with respect to the appeals of the confirmation order of the District Court on June 23, 2004 and issued its decision on December 2, 2004 (the "Third Circuit Decision").

Note 17 Commitments and contingencies, continued

The Third Circuit Decision reversed the District Court's confirmation of the Initial CE Plan. The Third Circuit Decision focused on three issues raised by the appealing parties in respect to the terms of the Initial CE Plan: (i) whether the Bankruptcy Court had "related to" jurisdiction over the claims against the non-debtors, Lummus and Basic, that do not arise from any products or operations of Combustion Engineering (the "non-derivative claims"); (ii) whether the non-debtors, Lummus and Basic, could avail themselves of the protection of the channeling injunction by invoking Section 105 of the Bankruptcy Code and contributing assets to the Asbestos PI Trust; and (iii) whether the two-trust structure and use of stub claims in the voting process comply with the Bankruptcy Code. The Court of Appeals held that there were insufficient factual findings to support "related-to" jurisdiction and that Section 105 of the Bankruptcy Code could not be employed to extend the channeling injunction to the non-derivative claims against non-debtors Lummus and Basic. With regard to the two-trust structure, the Court of Appeals remanded the Initial CE Plan to the District Court to determine whether creditors received fair treatment in light of the pre-petition payments made to the CE Settlement Trust participants and the use of stub claims in the voting process. Among other things, the Court of Appeals instructed the lower courts to consider whether payments under the CE Settlement Trust constituted voidable preferences that were inconsistent with the fair distribution scheme of the Bankruptcy Code.

Notwithstanding the Third Circuit Decision, the Master Settlement Agreement, which settles the amount of and provides for partial payment on approximately 155,000 asbestos-related personal injury claims, remained effective. Early in the Combustion Engineering bankruptcy case, however, an asbestos claimant commenced an action against the trustee of the CE Settlement Trust and individuals who had received distributions from such trust, asserting that further distributions by the CE Settlement Trust should be enjoined because the transaction that created the CE Settlement Trust was a voidable preference. The Bankruptcy Court ruled that it would not dismiss that action for lack of standing. On October 22, 2004, the trustee of the CE Settlement Trust moved to dismiss the complaint in that action. This matter is pending and no decision has been rendered by the Court. The Modified CE Plan contemplates that on its effective date the complaint would be dismissed.

Following the Third Circuit Decision, the lower courts assumed jurisdiction over further confirmation proceedings in respect of the Initial CE Plan. On January 27, 2005, the Bankruptcy Court authorized the CE FCR and the Creditors Committee to file any available bankruptcy-related and similar claims against third parties, including preference claims against certain claimants that did not participate in the CE Settlement Trust, and any potential bankruptcy-related claims against the Company. The Company also entered into a tolling agreement to extend the time period within which bankruptcy-related claims against it could be brought. The Modified CE Plan contemplates that all such actions by the trustee agent and the Company will be dismissed on the effective date of that Plan.

Since February 17, 2003, a stay and preliminary injunction have barred the commencement and prosecution of certain asbestos-related claims against Combustion Engineering, Lummus, Basic, certain other entities of the Company and certain other parties, including parties indemnified by the Company. The barred claims include, among others, claims arising from asbestos exposure caused by Combustion Engineering, Lummus or Basic and claims alleging fraudulent conveyance, successor liability and veil piercing. The Company does not know the number or nature of claims that would now be pending against the protected entities if those legal measures had not been in place.

The Modified CE Plan

In March 2005, following extensive discussions with the CE FCR, the Creditors Committee and representatives of the CCC, Combustion Engineering and the Company reached the Agreement in Principle on certain overall modifications to the Initial CE Plan to bring it into conformity with the Third Circuit Decision and to provide a mechanism for resolving finally Lummus' potential asbestos liability.

The Modified CE Plan, which implements the Agreement in Principle, includes the following material changes to the Initial CE Plan:

- **Additional Contribution** – The Company will make an additional contribution of $204 million (the "ABB Additional Contribution") to the Asbestos PI Trust from the proceeds received from any sale of Lummus in whole or in part, but in no event later than two years from the effective date of the Modified CE Plan regardless of any sale of all or a portion of Lummus;
- **ABB Promissory Note** – The terms of the original ABB Promissory Note have been changed to, among other things, modify the payment schedule and the percentages for EBIT Margin Events that give rise to contingent payments;
- **Guarantees** – Guarantees by certain subsidiaries of the Company of the ABB Promissory Note have been extended for all continuing, modified, and additional contributions of Combustion Engineering, the Company or their respective affiliates under the Modified CE Plan;
- **Lummus Effective Date** – The Effective Date of the Modified CE Plan is conditioned upon the occurrence of the Lummus Effective Date, but this condition becomes inoperative if Lummus fails to file its own chapter 11 case within 15 days after the Confirmation Order in respect to the Modified CE Plan becomes final;
- **Asbestos PI Trust Distributions** – Certain changes have been made to the Asbestos PI Trust documents that modify the Asbestos PI Trust Distribution Procedures under the Modified CE Plan;
- **Settlement of Preference Claims** – The CE Settlement Trust and claimants who received payments from the CE Settlement Trust will receive a release of any preference claims, fraudulent transfer claims, and other similar claims that Combustion Engineering, the CE FCR or creditors of Combustion Engineering may have against them;
- **Elimination of Lummus and Basic** – The Modified CE Plan no longer addresses the direct asbestos related liabilities of Lummus and Basic and eliminates any assignment of insurance rights by Lummus and Basic other than their rights to coverage under Combustion Engineering's insurance policies.

As part of these changes, the Company has paid approximately $8 million of approved legal fees of the CCC.

The Modified CE Plan contemplates a channeling injunction substantially similar to the channeling injunction contemplated by the Initial CE Plan. If the ABB entities fail to perform any of their financial obligation under the Modified CE Plan, the channeling injunction will terminate and the affected asbestos-related personal injury claims could be pursued against the ABB entities.

Note 17 Commitments and contingencies, continued

The Lummus Plan

The negotiations that determined the proposed terms of the Lummus Plan were conducted with an individual appointed by Lummus to represent the interests of its future asbestos claimants (the "Lummus FCR"). These negotiations were held in parallel with the negotiations on the Modified CE Plan over approximately five months.

The material terms of the Lummus Plan are as follows:

- **Lummus Note** – Lummus will execute a note in the principal amount of $33 million (the "Lummus Note") payable to the Trust created under the Lummus Plan (the "Lummus Asbestos PI Trust"). The Lummus Note will bear interest at 6% per annum and be secured by 51% of the capital stock of Lummus.
- **Insurance Recoveries** – The Lummus Asbestos PI Trust will also be entitled to be paid the first $7.5 million in aggregate recoveries from Lummus insurers, with the first $5 million guaranteed by Lummus; and
- **Channeling Injunction** – The Lummus Plan provides for the issuance of a channeling injunction pursuant to Sections 524(g) and 105 of the Bankruptcy Code pursuant to which all asbestos claims against Lummus shall be channeled to the Lummus Asbestos PI Trust.

The Solicitation and Voting Process

In late August 2005, Combustion Engineering distributed informational materials and ballots to claimants who were eligible to vote on the Modified CE Plan or to persons who had been authorized by eligible claimants to cast ballots on their behalf. On August 31, 2005, Lummus set out informational materials and ballots on the Lummus Plan to all affected Lummus creditors for voting.

Separate voting on the Modified CE Plan and Lummus Plan began on about September 1, 2005 and concluded on September 19, 2005. The Modified CE Plan was approved by an overwhelming majority of the votes cast in respect to the Modified CE Plan and the Lummus Plan was approved by an overwhelming majority of those who voted on the Lummus Plan.

Confirmation of the Modified CE Plan

The Bankruptcy Court held a Confirmation Hearing on the Modified CE Plan on September 28, 2005. Several objections to confirmation of the Modified CE Plan had been filed by insurance carriers and others but all such objections were resolved or otherwise withdrawn at or prior to the hearing. As a consequence, there were no objections to confirmation of the Modified CE Plan before the court.

On December 19, 2005 the Bankruptcy Court issued an Order, and accompanying Opinion, confirming the Modified CE Plan and recommending that the U.S. District Court affirm the Bankruptcy Court's Order.

The U.S. District Court entered an order affirming the Modified CE Plan on March 1, 2006. From the date the order was entered, there is a 30-day appeals period. If no appeals are lodged within the appeals period, the Plan will be final.

The Modified CE Plan contemplates that Lummus would file its own Chapter 11 case within 15 days from the date that the confirmation of the Modified CE Plan becomes a final order. However, Lummus is under no obligation to file such a case or to file at any particular time.

We do not know whether any plan or reorganization for Combustion Engineering or Lummus will be ultimately confirmed. If for any reason a Chapter 11 plan relating to Combustion Engineering is not eventually confirmed, Combustion Engineering could be required to enter a Chapter 7 proceeding. If for any reason a Chapter 11 plan relating to Lummus is not eventually confirmed, we expect that Lummus' asbestos-related liabilities will have to be resolved through the tort system, or otherwise.

Entities of the Company that are not included in the protection offered by the channeling injunctions entered pursuant to the Modified CE Plan or the Lummus Plan (if Lummus files its own Chapter 11 case) will continue to resolve current and future asbestos-related claims that are asserted against them in the tort system, or otherwise.

If U.S. federal legislation addressing asbestos personal injury claims is passed, which is speculative at this time, such legislation may affect the amount that will be required to resolve the asbestos-related claims against entities of the Company.

Effect on the Company's financial position

Expenses. The Company recorded expenses related to asbestos of $133 million, $262 million and $142 million in loss from discontinued operations, net of tax, and $0 million, $1 million and $3 million in income from continuing operations, net of tax, for 2005, 2004 and 2003, respectively. Loss from discontinued operations, net of tax, for 2005 includes $123 million resulting from the mark-to-market adjustment relating to the CE settlement shares and other costs of $11 million. Loss from discontinued operations, net of tax, for 2004 reflects a charge of $232 million taken in connection with the agreement the Company reached in March 2005 on the basic terms of the Modified CE Plan, $17 million resulting from the mark-to-market adjustment relating to the CE Settlement Shares, a credit of $6 million resulting from adjustment of the provision for the estimated liability of Basic and other costs of $19 million. Loss from discontinued operations, net of tax, for 2003 includes a charge of $68 million, net of tax, resulting from the mark-to-market adjustment relating to the CE Settlement Shares, a provision of $41 million, representing the then present value of the first two $25 million payments under the ABB Promissory Note, which were previously considered contingent, as well as $33 million of other costs.

Cash Payments. Cash payments, before insurance recoveries, related to Combustion Engineering's asbestos-related claims were $19 million (including $3 million contributed to the CE Settlement Trust, described above), $56 million (including $49 million contributed to the CE Settlement Trust) and $391 million (including $365 million contributed to the CE Settlement Trust), in 2005, 2004 and 2003, respectively. Administration and defense costs were $17 million, $10 million and $36 million in 2005, 2004 and 2003, respectively.

Note 17 Commitments and contingencies, continued

Cash payments related to asbestos-related claims against Lummus aggregated approximately $3 million through December 31, 2005, of which approximately $1 million was paid in 2003 and the remainder in prior years. Administration and defense costs were $4 million, $0 million and $2 million in 2005, 2004 and 2003, respectively.

The aggregate cash payments to resolve asbestos-related claims against Basic and other entities of the Company were approximately $4 million as of December 31, 2005, of which $3 million related to Basic.

Provisions. At December 31, 2005, 2004 and 2003, the Company recorded total provisions on a consolidated basis of $1,128 million, $1,023 million and $815 million in respect of asbestos-related claims and defense costs related to Combustion Engineering, Lummus and Basic. Based upon the expected implementation of the Modified CE Plan and the Lummus Plan, the Company recorded provisions of $1,080 million and $43 million, respectively, at December 31, 2005, in accrued liabilities and other. If the Modified CE Plan and Lummus Plan become effective, certain amounts will be reclassified as of the effective date to other long-term liabilities based on the timing of the future cash payments to the Asbestos PI Trust or any similar trust created under the Lummus Plan and to Stockholders' Equity for the amounts related to the CE Settlement Shares. Future earnings will be affected by mark-to-market adjustments relating to the CE Settlement Shares through the Effective Date, as well as contingent payments when they become probable of payment. The provisions at December 31, 2003 were based on the Company's obligations under the initial CE Plan and assumed that the initial CE Plan would be confirmed and become effective as proposed.

With respect to Basic, we have established a provision of $4 million relating to its asbestos-related personal injury liabilities based on analysis of historical claims statistics and related settlement costs and a projection of such claims activity over the next several years.

Management believes that it is probable that the full amount of the relevant provisions will be required to settle the respective asbestos-related liabilities of Combustion Engineering and Lummus in accordance with the Modified CE Plan and the proposed Lummus Plan, and those of Basic. The Company may incur liability greater than the existing provisions, whether in connection with modified plans of bankruptcy or otherwise, but management does not believe that the amount of any such incremental liability can be reasonably estimated or that there is a better estimate of these liabilities than the amounts that are provided for.

The Company's provisions in respect of asbestos-related claims include, as stated above, amounts for each of Combustion Engineering, Lummus and Basic. The assets of Combustion Engineering include amounts receivable of approximately $208 million, $221 million and $232 million at December 31, 2005, 2004 and 2003, respectively, for probable insurance recoveries, which were established with respect to asbestos-related claims. The Company has not established a provision for claims against entities other than Combustion Engineering, Lummus and Basic as amounts are immaterial.

In the event the Modified CE Plan or Lummus Plan (if Lummus files its own Chapter 11 case) do not become effective, the ultimate cost for the resolution of asbestos-related personal injury claims against Combustion Engineering and Lummus may be significantly higher and could have a material adverse impact on the Company's consolidated financial position, results of operations and cash flows.

Contingencies – environmental

The Company is a participant in several legal and regulatory actions, which result from various U.S. and other environmental protection legislation, as well as agreements with third parties. While the Company cannot estimate the impact of future legislation, provisions are recorded when it is probable that losses will result from these actions and the amounts of losses can be reasonably estimated. Estimated losses for environmental remediation obligations are not discounted to their present value. In respect to these matters, the Company may be able to recover a portion of the costs from insurers or other third parties. Receivables are recorded when it is probable that recoveries will be collected.

Contingencies related to former Nuclear Technology business

The Company retained liabilities for certain specific environmental remediation costs at two sites in the U.S. that were operated by its Nuclear Technology business, which was sold to British Nuclear Fuels PLC (BNFL) in April 2000. Pursuant to the sale agreement with BNFL, the Company has retained all of the environmental liabilities associated with its Combustion Engineering 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 ABB C-E Nuclear Power Inc. subsidiary's Hematite, Missouri facility. The primary environmental liabilities associated with these sites relate to the costs of remediating radiological and chemical contamination at these facilities. Such costs are not incurred until a facility is taken out of use and generally are incurred over a number of years. Although it is difficult to predict with accuracy the amount of time it may take to remediate radiological and chemical contamination at the Hematite site, based on information that BNFL has made publicly available, the Company believes that it may take until 2013 to remediate the Hematite site. With respect to the Windsor site, the Company believes the remediation may take until 2010.

Under the terms of the sale agreement, BNFL must perform the Hematite remediation 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, the BNFL subsidiary that owns the Hematite site (Westinghouse) has brought legal action against former owner/operators of the Hematite site and the U.S. Government under the Comprehensive Environmental Response Compensation and Liability Act (CERCLA) to recover past and future remediation costs. The defendants are contesting Westinghouse's claims. If Westinghouse's CERCLA cost recovery action is unsuccessful, the cost to the Company may increase in the future. This risk is included in the high end of the estimated contingent liability set forth below.

At the Windsor site, a significant portion of the contamination is related to activities that were formerly conducted by or for the U.S. government. The Company believes that a significant portion of the remediation costs will be covered by the U.S. government under the government's Formerly Utilized Sites Remedial Action Program.

(U.S. dollar amounts in millions, except per share amounts)

Note 17 Commitments and contingencies, continued

The Company established a reserve of $300 million in loss from discontinued operations in 2000 for its estimated share of the remediation costs for these facilities. The Company, as of December 31, 2005, has recorded in other liabilities a reserve of $255 million, net of payments from inception of $43 million, and a reversal of $2 million to loss from discontinued operations in 2005 reflecting realized cost savings. At December 31, 2005 the Company estimated the total contingent liability for its share of the remediation costs for these facilities in a range of loss from $220 million to $402 million. Expenditures charged to the remediation reserve were $9 million, $10 million and $6 million during 2005, 2004 and 2003, respectively. The Company does not expect the majority of the remaining costs to be paid in cash during 2006.

Contingencies – Regulatory and Compliance

Disclosures of suspect payments to the SEC and the United States Department of Justice
In April 2005 the Company voluntarily disclosed to the United States Department of Justice (DoJ) and the 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 Company subsidiaries in a number of countries, including a country in the Middle East. These payments were discovered by ABB as a result of the Company's internal compliance reviews. The payments may be in violation of the Foreign Corrupt Practices Act (FCPA) or other applicable laws. The consequences for ABB could include penalties, other costs and business-related impacts. ABB is cooperating on these issues with the relevant authorities, and is continuing its internal investigations and compliance reviews.

Earnings overstatement in an Italian subsidiary
In September 2004, the Company restated its financial statements for all prior periods as a result of earnings overstatements by a business unit of the Company's Power Technologies division in Italy. The restatement followed an internal investigation by the Company which showed 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 has reported this matter to the Italian Public Prosecutor's Office, which is conducting its own investigation, as well as to the SEC. The Company cannot be certain as to the outcome of the Italian Public Prosecutor's Office investigation or as to the position of the SEC.

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 promptly such practices to the appropriate authorities including the European Commission. The Company has received conditional amnesty from the European Commission and is cooperating with it and the other national competition authorities involved in the respective investigations.

Vetco Gray
ABB Vetco Gray Inc. and ABB Vetco Gray UK Ltd., two of the Company's subsidiaries that were sold in 2004 as part of the Upstream business, pleaded guilty in July 2004 to violation of the FCPA and paid an aggregate fine to the DoJ totaling $10.5 million. In addition, in July 2004, in a related action the Company agreed with the SEC to resolve civil charges relating to the FCPA, including the payment of $5.9 million to disgorge allegedly unlawful profits earned by the two subsidiaries and to retain an independent consultant to review the Company's FCPA compliance policies and procedures.

Guarantees – general

Certain guarantees issued or modified after December 31, 2002 are accounted for in accordance with Financial Accounting Standards Board Interpretation No. 45 *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45). Upon issuance or modification of certain guarantees, a liability, equal to the fair value of the guarantee, is recorded.

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 the Company's expected results.

The carrying amount of liabilities recorded in the Consolidated Balance Sheets reflects the Company's best estimate of future payments it may incur as part of fulfilling its guarantee obligations.

December 31,	2005		2004	
	Maximum potential payments	Carrying amount of liabilities	Maximum potential payments	Carrying amount of liabilities
Third-party performance guarantees	$ 1,197	$ 1	$ 1,525	$ 2
Financial guarantees	209	–	253	1
Indemnification guarantees	150	13	198	16
Total	**$ 1,556**	**$ 14**	**$ 1,976**	**$ 19**

Guarantees – third-party performance

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.

(U.S. dollar amounts in millions, except per share amounts)

Note 17 Commitments and contingencies, continued

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. 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 2015 but in some cases have no definite expiration. In May 2000, the Company sold its interest in the ABB ALSTOM POWER NV joint venture 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, formerly ABB 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 is approximately $756 million and $875 million at December 31, 2005 and 2004, 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 business sold in July 2004. The guarantees primarily consist of third-party performance guarantees, advance payment guarantees and other miscellaneous guarantees. The guarantees have maturity dates ranging from one to five years. The maximum amount payable under the guarantees is approximately $440 million and $650 million at December 31, 2005 and 2004, 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 is approximately $108 million and $146 million at December 31, 2005 and 2004, respectively.

Guarantees – financial

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

At December 31, 2005 and 2004, the Company had $209 million and $253 million, respectively, of financial guarantees outstanding. Of those amounts, $95 million and $123 million, respectively, were issued on behalf of companies in which the Company currently has or formerly had an equity interest. The guarantees have original maturity dates ranging from one to thirteen years.

Guarantees – indemnification

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 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 the Upstream business and Reinsurance business guarantees related to assets and liabilities divested in 2004. The maximum liability at December 31, 2005 and 2004, of approximately $150 million and $198 million, respectively, relating to the Upstream and Reinsurance businesses will reduce over time, pursuant to the respective sales agreements.

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 provision for warranties and contract penalties in Note 15 includes penalties resulting from delays in contract fulfillment, which is not included in the amounts below.

Reconciliation of the provision for warranties, including guarantees of product performance is as follows:

December 31,	2005	2004
Balance at the beginning of year	$ 677	$ 513
Claims paid in cash or in kind	(119)	(72)
Net increase to provision for changes in estimates, warranties issued and warranties expired	237	178
Exchange rate differences	(65)	58
Balance at the end of year	**$ 730**	**$ 677**

IBM Outsourcing Agreement

In 2003, the Company entered into a 10-year global framework agreement with International Business Machines Corporation (IBM) to outsource the Company's information systems infrastructure services to IBM. The global framework agreement includes an obligation for IBM to lease new personal computers and other IT equipment to the Company as older equipment is retired. The Company accounts for these items as capital leases or operating leases based on the terms of the leases.

Further, pursuant to the global framework agreement, IBM will receive monthly payments from the Company's subsidiaries in the respective countries related to information systems infrastructure services. Expected annual costs during the 10-year term of the global framework agreement approximate $230 million based on the current level of usage of the services.

(U.S. dollar amounts in millions, except per share amounts)

Note 17 Commitments and contingencies, continued

Related party transactions

The IBM global framework agreement, referred to above, was negotiated between IBM and the Company. However, it should be noted that Jürgen Dormann, the Company's Chairman, is a member of the Board of Directors of IBM, and Hans-Ulrich Märki, a director on the Company's Board of Directors, is Chairman of IBM Europe/Middle East/Africa.

The Company maintains banking relationships with Skandinaviska Enskilda Banken AB (publ) (SEB) and Dresdner Bank AG. Specifically, both SEB and Dresdner Bank AG, each have a commitment to ABB of $120 million under our $2 billion multicurrency revolving credit facility of which no amounts were drawn at December 31, 2005. In addition, SEB is an arranger and dealer of the Company's 5 billion Swedish krona commercial paper program, signed in November 2005. Jacob Wallenberg, a member of the Company's Board of Directors, is the vice-chairman of SEB. Bernd W. Voss, a member of the Company's Board of Directors, is a member of the supervisory board of Dresdner Bank AG. In addition, during 2005, the Company sold its Finnish Lease portfolio business to SEB.

Note 18 Taxes

Provision for taxes consists of the following:

Year ended December 31,	2005	2004	2003
Current taxes on income	$ 445	$ 332	$ 215
Deferred taxes	37	(1)	18
Tax expense from continuing operations	**482**	**331**	**233**
Tax (benefit) expense from discontinued operations	(8)	21	54

The weighted-average tax rate is the tax rate that results from applying each subsidiary's statutory income tax rate to the income from continuing operations before taxes and minority interest. The Company operates in countries that have differing tax laws and rates. Consequently, the consolidated weighted-average effective rate will vary from year to year according to the source of earnings or losses by country.

Year ended December 31,	2005	2004	2003
Reconciliation of taxes:			
Income (loss) from continuing operations before taxes and minority interest and cumulative effect of accounting change	$ 1,496	$ 837	$ (115)
Weighted-average tax rate	34.2%	38.9%	12.2%
Taxes at weighted-average tax rate	**512**	**326**	**(14)**
Items taxed at rates other than the weighted-average tax rate	(39)	(36)	15
Changes in valuation allowance	(19)	115	276
Changes in tax laws and enacted tax rates	(22)	3	4
Other, net	50	(77)	(48)
Tax expense from continuing operations	**$ 482**	**$ 331**	**$ 233**
Effective tax rate for the year	**32.2%**	**39.5%**	**(202.6)%**

In 2003, items taxed at rates other than the weighted-average tax rate included the tax effect of an $84 million expense comprising the change in fair value of the embedded derivative contained in the Company's $968 million convertible bonds combined with the continued amortization of the discount on issuance of these bonds (see Note 14), partially offset by earnings recognized in relation to certain of the Company's equity accounted investments.

The reconciliation of taxes for 2005, 2004 and 2003 included changes in the valuation allowance recorded in certain jurisdictions in respect of deferred tax assets that were recognized for net operating losses incurred in those jurisdictions. The change in valuation allowance was required as the Company determined it was more likely than not that such deferred tax assets would either be realized or no longer be realized. In 2005, the change in valuation allowance is predominately related to the Company's operations in certain countries including the United States. In 2004, the change in valuation allowance is predominately related to the Company's operations in certain countries including Canada and France. In 2003, the change in valuation allowance included an allowance of approximately $258 million and $9 million on deferred tax assets as a result of the Company's determination that it was more likely than not that such deferred tax assets would no longer be realized within the Company's remaining Oil, Gas and Petrochemicals business and certain countries within Central Europe respectively.

In 2005, the reconciling item "Other, net" included an expense of approximately $60 million relating to items that are deducted for accounting purposes, but are not included in the computation of taxable income such as interest expense, state and local taxes on productive activities, disallowed meals and entertainment expenses and other similar items.

In 2004 and 2003, the reconciling item "Other, net" included a benefit of approximately $39 million and approximately $56 million, respectively, relating to the favorable resolution of certain prior year tax matters, including the release of a $38 million tax provision related to a tax case ruled in favor of the Company in 2003. Furthermore, 2004 included the one-time benefit of approximately $45 million from the losses of a post divestment reorganization and 2003 included the expense of approximately $16 million related to a tax claim filed in Central Europe. Additionally, in 2003, "Other, net" included $5 million, related to expenses that are no longer deductible under the Italian tax law as a result of the overstatement within the Company's Power Technologies division in Italy (see Note 17).

(U.S. dollar amounts in millions, except per share amounts)

Note 18 Taxes, continued

In 2003, the loss from continuing operations before taxes and minority interest and cumulative effect of accounting change of $115 million included an $84 million expense comprising the change in fair value of the embedded derivative contained in the Company's $968 million convertible bonds combined with the continued amortization of the discount on issuance of these bonds. Furthermore, the tax expense from continuing operations included the release of a $38 million tax provision related to a tax case ruled in favor of the Company, offset by expense of approximately $16 million related to a tax claim filed in Central Europe. In addition, the tax expense from continuing operations included a valuation allowance of approximately $258 million and $9 million on deferred tax assets as a result of the determination that it was more likely than not that such deferred tax assets would no longer be realized within the Company's remaining Oil, Gas and Petrochemicals business and certain countries within Central Europe respectively. The effective tax rate applicable to income from continuing operations excluding the tax effect of these items would be 38.7 percent.

Deferred income tax assets and liabilities consist of the following:

December 31,	2005	2004
Deferred tax liabilities:		
Financing receivables	$ 0	$ (33)
Property, plant and equipment	(165)	(290)
Pension and other accrued liabilities	(572)	(479)
Other	(142)	(148)
Total deferred tax liability	**(879)**	**(950)**
Deferred tax assets:		
Investments and other	28	36
Property, plant and equipment	53	77
Pension and other accrued liabilities	1,057	833
Unused tax losses and credits	1,575	1,694
Other	341	551
Total deferred tax asset	**3,054**	**3,191**
Valuation allowance	(1,953)	(2,017)
Deferred tax asset, net of valuation allowance	**1,101**	**1,174**
Net deferred tax asset	**$ 222**	**$ 224**

Certain entities have deferred tax assets related to net operating loss carry-forwards and other items. Because recognition of these assets is uncertain, valuation allowances of $1,953 million and $2,017 million have been established at December 31, 2005 and 2004, respectively.

At December 31, 2005, net operating loss carry-forwards of $4,182 million and tax credits of $128 million are available to reduce future taxes of certain subsidiaries, of which $2,106 million loss carry-forwards and $108 million tax credits expire in varying amounts through 2025 and the remainder does not expire. These carry-forwards are predominantly related to the Company's U.S. and German operations.

The Company operates in numerous tax jurisdictions and, as a result, is regularly subject to audit by tax authorities. The Company provides for tax contingencies on the basis of their technical merits, including relative tax law and OECD guidelines, as well as on items relating to potential audits by tax authorities based upon its best estimate of the facts and circumstances as of each reporting period. Changes in the facts and circumstances could result in a material change to the tax accruals. The Company provides for contingencies whenever it is deemed probable that a tax asset has been impaired or a tax liability has been incurred for events such as tax claims or changes in tax laws. A significant part of the tax contingency provisions that have been accrued relate to pending court cases in Northern Europe relating to certain sale and leaseback transactions, as well as contingencies arising related to our interpretation of tax law and OECD guidelines.

Note 19 Other liabilities

Other liabilities consist of the following:

December 31,	2005	2004
Nuclear technology environmental provisions (see Note 17)	$ 255	$ 266
Non-current deposit liabilities (see Note 10)	309	314
Deferred income	120	143
Non current derivative liabilities	63	53
Other liabilities non-current	241	306
Total	**$ 988**	**$ 1,082**

(U.S. dollar amounts in millions, except per share amounts)

Note 20 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 some 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.

Obligations and funded status

The following tables set forth the change in benefit obligations, the change in plan assets and the funded status recognized in the Consolidated Financial Statements at December 31, 2005 and 2004, for the Company's benefit plans:

	Pension benefits		Other benefits	
	2005	2004	2005	2004
Benefit obligation at the beginning of year	$ 8,713	$ 7,721	$ 369	$ 397
Service cost	189	190	3	3
Interest cost	364	375	18	23
Contributions from plan participants	39	46	10	10
Benefit payments	(511)	(523)	(37)	(39)
Benefit obligations of businesses acquired	–	38	–	–
Benefit obligations of businesses disposed	(20)	(118)	–	–
Actuarial (gain) loss	330	366	11	(23)
Plan amendments and other	–	(14)	(104)	(3)
Exchange rate differences	(1,093)	632	–	1
Benefit obligation at the end of year	**8,011**	**8,713**	**270**	**369**
Fair value of plan assets at the beginning of year	7,262	6,041	–	–
Actual return on plan assets	758	476	–	–
Contributions from employer	558	753	27	29
Contributions from plan participants	39	46	10	10
Benefit payments	(511)	(523)	(37)	(39)
Plan assets of businesses acquired	–	34	–	–
Plan assets of businesses disposed	(1)	(92)	–	–
Plan amendments and other	–	(8)	–	–
Exchange rate differences	(933)	535	–	–
Fair value of plan assets at the end of year	**7,172**	**7,262**	**–**	**–**
Unfunded amount	**839**	**1,451**	**270**	**369**
Unrecognized transition liability	–	–	(8)	(11)
Unrecognized actuarial loss	(819)	(1,019)	(144)	(141)
Unrecognized prior service cost	(13)	(22)	113	16
Net amount recognized	**$ 7**	**$ 410**	**$ 231**	**$ 233**

(U.S. dollar amounts in millions, except per share amounts)

Note 20 Employee benefits, continued

The following amounts have been recognized in the Company's Consolidated Balance Sheet at December 31, 2005 and 2004:

	Pension benefits		Other benefits	
	2005	2004	2005	2004
Prepaid pension cost	$ (605)	$ (536)	$ –	$ –
Accrued pension cost	919	1,272	231	233
Intangible assets	(2)	(11)	–	–
Accumulated other comprehensive loss	(305)	(315)	–	–
Net amount recognized	**$ 7**	**$ 410**	**$ 231**	**$ 233**

Included in the $1,233 million and $1,551 million of pension and other benefits in the Consolidated Balance Sheet at December 31, 2005 and 2004, respectively, are $83 million and $46 million of long-term employee-related obligations not accounted for under Statement of Financial Accounting Standards No. 87, *Employers' Accounting for Pensions* (SFAS 87) or Statement of Financial Accounting Standards No. 106 *Employers' Accounting for Postretirement Benefits Other Than Pensions* (SFAS 106). Additionally, provisions and other (see Note 15), contains an accrual of $83 million and $77 million at December 31, 2005 and 2004, respectively, for short-term employee benefits that do not meet the criteria of SFAS 87 or SFAS 106.

The pension and other employee benefits liability reported in the Consolidated Balance Sheets includes $307 million and $326 million at December 31, 2005 and 2004, respectively, to record a minimum pension liability. Accumulated other comprehensive loss includes $214 million and $206 million of minimum pension liability at December 31, 2005 and 2004, respectively.

The accumulated benefit obligation (ABO) for all defined benefit pension plans was $7,603 million and $8,228 million at December 31, 2005 and 2004, respectively.

The projected benefit obligation (PBO) and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets were:

December 31,	2005			2004		
	PBO	Assets	Difference	PBO	Assets	Difference
PBO exceeds assets	$ 5,161	$ 4,116	$ 1,045	$ 8,294	$ 6,810	$ 1,484
Assets exceed PBO	2,850	3,056	(206)	419	452	(33)
Total	**$ 8,011**	**$ 7,172**	**$ 839**	**$ 8,713**	**$ 7,262**	**$ 1,451**

The accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were:

December 31,	2005			2004		
	ABO	Assets	Difference	ABO	Assets	Difference
ABO exceeds assets	$ 1,708	$ 930	$ 778	$ 5,008	$ 3,910	$ 1,098
Assets exceed ABO	5,895	6,242	(347)	3,220	3,352	(132)
Total	**$ 7,603**	**$ 7,172**	**$ 431**	**$ 8,228**	**$ 7,262**	**$ 966**

Components of net periodic benefit cost

For the years ended December 31, 2005, 2004 and 2003, net periodic benefit cost consists of the following:

	Pension benefits			Other benefits		
	2005	2004	2003	2005	2004	2003
Service cost	$ 189	$ 190	$ 204	$ 3	$ 3	$ 3
Interest cost	364	375	369	18	23	26
Expected return on plan assets	(357)	(330)	(325)	–	–	–
Amortization transition liability	–	5	1	–	2	6
Amortization prior service cost	4	4	9	(4)	(2)	–
Amortization of net actuarial loss	46	37	45	7	9	9
Other	2	4	8	1	2	–
Net periodic benefit cost	**$ 248**	**$ 285**	**$ 311**	**$ 25**	**$ 37**	**$ 44**

(U.S. dollar amounts in millions, except per share amounts)

Note 20 Employee benefits, continued

Assumptions

The following weighted-average assumptions were used to determine benefit obligations at December 31, 2005 and 2004:

	Pension benefits		Other benefits	
	2005	2004	2005	2004
Discount rate	4.29%	4.60%	5.50%	5.75%
Rate of compensation increase	2.41%	2.23%	–	–

The discount rate assumption is derived from rates of high quality fixed income investments of appropriate durations for the respective plans.

The following weighted-average assumptions were used to determine net periodic benefit cost for years ended December 31, 2005, 2004 and 2003:

	Pension benefits			Other benefits		
	2005	2004	2003	2005	2004	2003
Discount rate	4.60%	4.97%	5.10%	5.75%	6.25%	6.74%
Expected long-term return on plan assets	5.45%	5.57%	6.06%	–	–	–
Rate of compensation increase	2.23%	2.28%	3.07%	–	–	–

The expected long-term rate of return on assets assumption is derived from the current and projected asset allocation, the current and projected types of investments in each asset category and the long-term historical returns for each investment type.

The Company maintains non-pension postretirement benefit plans, which are generally contributory with participants' contributions adjusted annually.

	2005	2004
Health care cost trend rate assumed for next year	10.38%	11.76%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	6.02%	6.24%
Year that the rate reaches the ultimate trend rate	2013	2013

Assumed health care cost trends have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects at December 31, 2005:

	1-percentage-point increase	1-percentage-point decrease
Effect on total of service and interest cost	$ 1	$ (1)
Effect on postretirement benefit obligation	$ 19	$ (16)

As of July 1, 2004, the Company adopted Financial Accounting Standards Board Staff Position (FSP) No. FAS 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (which superseded FAS FSP No. 106-1). The effects of these provisions resulted in a reduction of $24 million in 2004 in ABO with an offset to unrecognized net actuarial loss in other benefits. The U.S. government will begin making the subsidy payments for employers in 2006.

During 2005, the Company amended the retiree medical health benefits in the United States to eliminate its subsidy on post-65 retiree medical and prescription drug coverage effective January 1, 2007 for certain retiree groups and effective January 1, 2006 for a union plan. For accounting purposes the amendments were effective September 1, 2005 and November 1, 2005, respectively. These amendments reduced the accumulated postretirement benefit obligation by $101 million and net periodic benefit costs for 2005 by $5 million.

Plan assets

The Company's pension plan weighted-average asset allocations at December 31, 2005 and 2004, and approximate long-term target allocation is as follows:

	Plan assets		Long term target allocation
	2005	2004	
Asset category:			
Equity securities	34%	33%	20%–40%
Debt securities	54%	54%	50%–70%
Real estate	7%	9%	0%–15%
Other	5%	4%	0%–15%
Total	**100%**	**100%**	

(U.S. dollar amounts in millions, except per share amounts)

Note 20 Employee benefits, continued

The pension plan assets for each individual plan are invested in accordance with statutory regulations, pension plan rules, and decisions of the pension fund trustees. The investment allocation strategy is expected to remain consistent with historical averages.

ABB constantly reviews the asset allocation in light of the duration of its pension liabilities and analysis trends and events that may affect assets values in order to initiate appropriate measures at an early stage.

At December 31, 2005 and 2004, the plan assets included approximately 800,000 of the Company's capital stock with a total value of $8 million and $5 million respectively.

Contributions

During 2005, the Company made a non-cash contribution of $262 million of available-for-sale debt securities to certain of the Company's pension plans in Germany and cash contributions of $296 million to other pension plans and $27 million to other benefit plans.

The Company expects to contribute approximately $160 million to its pension plans and $30 million to its other postretirement benefit plans in 2006 to meet minimum statutory requirements. The Company may make additional discretionary pension contributions during 2006.

The Company also maintains several defined contribution plans. The expense for these plans was $101 million, $71 million and $86 million in 2005, 2004 and 2003, respectively. The Company also contributed $61 million, $74 million and $80 million to multi-employer plans in 2005, 2004 and 2003, respectively.

Estimated future benefit payments

The expected future cash flows to be paid by the Company in respect of pension and other postretirement benefit plans at December 31, 2005 is as follows:

		Other postretirement benefits	
	Pension benefits	Benefit payments	Medicare subsidies
2006	$ 466	$ 31	$ (2)
2007	469	24	(1)
2008	469	23	(1)
2009	482	23	(1)
2010	485	23	(1)
Years 2011–2015	$ 2,390	119	$ (8)

Additionally, the Medicare subsidies column represents payments estimated to be received from the U.S. government as part of the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

Note 21 Employee incentive plans

Management incentive plan

The Company maintains a management incentive plan (MIP Plan) under which it offers stock warrants and warrant appreciation rights (WARs) to key employees for no consideration.

Warrants granted under the MIP Plan allow participants to purchase shares of the Company at predetermined prices. Participants may sell the warrants rather than exercise the right to purchase shares. Equivalent warrants are listed on the SWX Swiss Exchange, which facilitates valuation and transferability of warrants granted under this plan. If the participant elects to sell the warrant on the market rather than exercise the right to purchase shares, the warrant may then be held by a non-employee of the Company. Each WAR gives the participant the right to receive, in cash, the market price of a warrant on the date of exercise of the WAR. The WARs are non-transferable.

Participants may exercise or sell warrants and exercise WARs after the vesting period, which is three years from the date of grant. Vesting restrictions can be waived in certain circumstances such as death or disability. All warrants and WARs expire six years from the date of grant. As the primary trading market for shares of ABB Ltd is the SWX Swiss Exchange (virt-x), the exercise prices of warrants and the trading prices of equivalent warrants listed on the SWX Swiss Exchange are denominated in Swiss francs. Accordingly, exercise prices are presented below in Swiss francs. Fair values are presented in U.S. dollars based upon exchange rates in effect as of the applicable period.

Warrants

The Company accounts for the warrants using the intrinsic value method of APB 25 as permitted by SFAS 123. All warrants were issued with exercise prices greater than the market prices of the stock on the dates of grant. Accordingly, the Company recorded no compensation expense related to the warrants, except in circumstances when a participant ceased to be employed by a consolidated subsidiary, such as after a divestment by the Company. In accordance with Financial Accounting Standards Board Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation,* the Company recorded compensation expense based on the fair value of warrants retained by participants on the date their employment ceased, with an offset to additional paid in capital. The impact of such expense was not material.

(U.S. dollar amounts in millions, except per share amounts)

Note 21 Employee incentive plans, continued

Presented below is a summary of warrant activity for the years shown:

	Number of warrants	Number of shares [1]	Weighted-average exercise price (Swiss francs) [2]
Outstanding at January 1, 2003	**68,391,060**	**23,197,199**	**26.77**
Granted [3]	27,254,250	5,450,850	7.00
Forfeited	(1,435,000)	(361,758)	19.66
Outstanding at December 31, 2003	**94,210,310**	**28,286,291**	**23.05**
Granted [4]	14,475,000	2,895,000	7.50
Forfeited	(3,000,000)	(661,864)	9.94
Expired	(10,538,000)	(8,612,664)	22.17
Outstanding at December 31, 2004	**95,147,310**	**21,906,763**	**21.74**
Forfeited	(1,200,000)	(240,000)	7.06
Expired	(19,213,060)	(4,843,539)	32.01
Outstanding at December 31, 2005	**74,734,250**	**16,823,224**	**18.99**
Exercisable at December 31, 2003	49,381,060	18,404,851	30.11
Exercisable at December 31, 2004	55,230,560	13,923,413	30.08
Exercisable at December 31, 2005	**36,017,500**	**9,079,874**	**29.06**

(1) All warrants granted prior to 1999 require the exercise of 100 warrants for 81.73 shares of ABB Ltd. Warrants granted in 1999, 2000 and 2001 require the exercise of 100 warrants for 25.21 shares of ABB Ltd. No warrants were granted in 2002. Warrants granted in 2003 and 2004 required the exercise of five warrants for one share of ABB Ltd. Information presented reflects the number of shares of ABB Ltd that warrant holders can receive upon exercise.
(2) Information presented reflects the exercise price per share of ABB Ltd.
(3) The aggregate fair value at date of grant of warrants issued in 2003 was $12 million, assuming a zero percent dividend yield, expected volatility of 44 percent, risk-free interest rate of 2.41 percent, and an expected life of six years.
(4) The aggregate fair value at date of grant of warrants issued in 2004 was $4 million, assuming dividend yield of 1.53 percent, expected volatility of 29 percent, risk-free interest rate of 1.98 percent, and an expected life of six years.

Of the outstanding warrants at December 31, 2005, 2004 and 2003, 9.9 million, 7.3 million and 6.6 million warrants, respectively, have been sold on the market by participants, representing 2.5 million, 1.8 million and 3.1 million shares, respectively.

Presented below is a summary of warrants outstanding at December 31, 2005.

Range of exercice prices (in Swiss francs) [1]	Number of warrants	Number of shares [2]	Weighted-average remaining life
42.05	19,630,000	4,948,648	0.4 years
13.49	16,387,500	4,131,226	1.9 years
7.00	24,391,750	4,878,350	3.9 years
7.50	14,325,000	2,865,000	4.9 years
7.00–42.05	**74,734,250**	**16,823,224**	**2.8 years**

(1) Information presented reflects the exercise price per share of ABB Ltd.
(2) Information presented reflects the number of shares of ABB Ltd that warrant holders can receive upon exercise of warrants.

In February 2006, the Company granted 12,130,000 warrants to employees for no consideration under its MIP Plan. The warrants give the right to purchase 2,426,000 shares of ABB Ltd and have a strike price of 15.30 Swiss francs, vest over three years and have a life of six years.

WARs

As each WAR gives the holder the right to receive cash equal to the market price of a warrant on date of exercise, the Company is required by APB 25 to record a liability based upon the fair value of outstanding WARs at each period end, amortized on a straight-line basis over the three-year vesting period. In selling, general and administrative expenses, the Company recorded expense of $31 million for 2005, income of $4 million for 2004 and expense of $1 million for 2003, as a result of changes in the fair value of the outstanding WARs and the vested portion. To hedge its exposure to fluctuations in the fair value of outstanding WARs, the Company purchased cash-settled call options, which entitle the Company to receive amounts equivalent to its obligations under the outstanding WARs. In accordance with EITF 00-19 the cash-settled call options have been recorded as assets measured at fair value (see Note 5), with subsequent changes in fair value recorded through earnings as an offset to the compensation expense recorded in connection with the WARs. In the fourth quarter of 2005, the Company changed the income statement classification of the cash-settled call options and, as a result, reclassified expense of $15 million and $9 million for 2004 and 2003, respectively, from interest and other finance expense to selling general and administrative expenses. In 2005, the Company recognized income of $26 million in selling, general and administrative expenses related to the cash-settled call options.

(U.S. dollar amounts in millions, except per share amounts)

Note 21 Employee incentive plans, continued

The aggregate fair value of outstanding WARs was $53 million and $14 million at December 31, 2005 and 2004, respectively. The fair value of WARs was determined based upon the trading price of equivalent warrants listed on the SWX Swiss Exchange.

Presented below is a summary of WAR activity for the years shown.

	Number of WARs outstanding
Outstanding at January 1, 2003	**98,294,240**
Granted	21,287,000
Exercised	(2,052,500)
Forfeited	(1,850,000)
Outstanding at December 31, 2003	**115,678,740**
Granted	30,490,000
Exercised	(3,481,220)
Forfeited	(2,600,000)
Expired	(7,895,000)
Outstanding at December 31, 2004	**132,192,520**
Exercised	(7,100,000)
Forfeited	(2,050,000)
Expired	(17,045,520)
Outstanding at December 31, 2005	**105,997,000**

At December 31, 2005 and 2004, 58,107,500 and 81,590,520 of the WARs were exercisable, respectively. No WARs were granted in 2005. The aggregate fair value at date of grant of WARs granted in 2004 and 2003 was $8 million and $9 million, respectively.

In February 2006, the Company granted 34,172,500 WARs to employees for no consideration under its MIP Plan. Each WAR gives the participant the right to receive, in cash, the market price of a warrant on the date of exercise of the WAR. The WARs vest over three years and have a life of six years.

Employee share acquisition plan

To incentivize employees, the Company has an employee share acquisition plan (ESAP Plan). The ESAP Plan is an employee stock option plan with a savings feature. Employees save over a twelve-month savings period, by way of monthly salary deductions. The maximum monthly savings amount is the lower of 10 percent of gross monthly salary or the local currency equivalent of 750 Swiss francs. At the end of the savings period, employees choose whether to exercise their stock options using their savings plus interest to buy ABB Ltd shares (American Depositary Shares (ADS) in the case of employees in the United States - each ADS representing one registered share of the Company) at the exercise price set at the grant date, or have their savings returned with interest. The savings are accumulated in a bank account held by a third party trustee on behalf of the participants and earn interest.

The maximum number of shares that each employee can purchase has been determined based on the exercise price and the aggregate savings for the twelve-month period, increased by 10 percent to allow for currency fluctuations. If, at the exercise date, the balance of savings plus interest exceeds the maximum amount of cash the employee must pay to fully exercise their stock options, the excess funds will be returned to the employee. If the balance of savings and interest is insufficient to permit the employee to fully exercise their stock options, the employee has the choice but not the obligation, to make an additional payment so that the employee may fully exercise their stock options.

If an employee ceases to be employed by the Company, the accumulated savings as of the date of cessation of employment will be returned to the employee and the employee's right to exercise their stock options will be forfeited. Employees can withdraw from the ESAP Plan at any time during the savings period and will be entitled to a refund of their accumulated savings.

(U.S. dollar amounts in millions, except per share amounts)

Note 21 Employee incentive plans, continued

Presented below is a summary of the ESAP Plan.

	Number of stock options (1)
Outstanding at January 1, 2004	**–**
Granted (2004 grant) (2)	7,548,360
Forfeited (2004 grant)	(2,620)
Outstanding at December 31, 2004	**7,545,740**
Forfeited (2004 grant)	(333,440)
Not exercised – savings returned plus interest (2004 grant)	(585,750)
Exercised (2004 grant)	(6,626,550)
Granted (2005 grant) (3)	6,222,890
Forfeited (2005 grant)	(2,290)
Outstanding at December 31, 2005	**6,220,600**

(1) Includes shares represented by ADS.
(2) The aggregate fair value at date of grant was $5 million, assuming a zero percent dividend yield, expected volatility of 28 percent, a risk-free interest rate of 0.97 percent and a life of one year from date of grant.
(3) The aggregate fair value at date of grant was $5 million, assuming a dividend yield of 0.97 percent, expected volatility of 27 percent, a risk-free rate of 1.40 percent and a life of one year from date of grant.

The exercise price per share and ADS of 6.95 Swiss francs and $5.90, respectively, for the 2004 grant, and 10.30 Swiss francs and $7.88, respectively for the 2005 grant, were determined using the closing price of the ABB Ltd share on SWX Swiss Exchange (virt-x) and ADS on the New York Stock Exchange on the respective grant dates of November 9, 2004 and November 8, 2005.

The Company accounts for awards under the ESAP Plan using the intrinsic value method of APB 25. The awards were issued with an exercise price equal to the market price of the stock on grant date. Accordingly, the intrinsic value as of grant date was zero and the Company has recorded no compensation expense related to the ESAP Plan.

Performance incentive share plan

The Company has a Performance incentive share plan (Performance Plan) for members of its Executive Committee (EC Members). The Performance Plan involves annual conditional grants of the Company's stock. The number of shares conditionally granted is dependent upon the base salary of the EC Member. The actual number of shares that each participant will receive free of charge at a future date is dependent on (1) the performance of ABB Ltd shares during a defined period (Evaluation Period) compared to those of a selected peer group of publicly-listed multinational companies and (2) the term of service of the respective EC Member in that capacity during the Evaluation Period. The actual number of shares received after the Evaluation Period cannot exceed 100 percent of the conditional grant.

The performance of the Company compared to its peers over the Evaluation Period will be measured as the sum, in percentage terms, of the average percentage price development of the ABB Ltd share price over the Evaluation Period and an average annual dividend yield percentage (the Company's Performance).

In order for shares to vest, the Company's Performance over the Evaluation Period must be positive and equal to or better than half of the defined peers. The actual number of shares to be delivered will be dependent on the Company's ranking in comparison with the defined peers. The full amount of the conditional grant will vest when the Company's Performance is better than three-quarters of the defined peers.

If during the vesting period, an EC Member gives notice of resignation or, under certain circumstances, is given notice of termination, then the right to shares is forfeited. In the event of death or disability during the vesting period, the conditional grant size for that participant is reduced pro rata based on the remaining vesting period. If, during the vesting period, a Performance Plan participant ceases to be an EC Member for reasons other than described above, the conditional grant size is reduced pro rata based on the portion of the vesting period remaining when the participant ceases to be an EC Member, unless otherwise determined by the Company's Nomination and Compensation Committee. In respect of a Performance Plan grant for which the vesting period has not expired, the Nomination and Compensation Committee can invite a new EC Member to receive a conditional grant, adjusted to reflect the shorter service period.

In 2004, 443,430 shares were conditionally granted to EC Members. In January 2005, and December 2005, a further 59,001 and 15,870 shares, respectively, were conditionally granted under the 2004 launch to new EC Members, resulting in a total conditional grant under the 2004 launch of 518,301 shares.

In December 2005, 1,044,456 shares were conditionally granted to EC Members under the 2005 launch of the Performance Plan.

Presented below is a summary of the Performance Plan.

Launch year	Evaluation Period	Total numbers of shares conditionally granted	Reference price (Swiss francs) (1)
2004	March 15, 2004, to March 15, 2006	518,301 (2)	7.68
2005	March 15, 2005, to March 15, 2008	1,044,456	7.15

(1) For the purpose of comparison with the peers, the reference price is calculated as the average of the closing prices of the ABB Ltd share on SWX Swiss Exchange (virt-x) over the 20 trading days preceding March 15 of the respective launch year.
(2) Includes shares conditionally granted in 2005 under the 2004 launch of the Performance Plan.

Note 21 Employee incentive plans, continued

The Company accounts for awards under the Performance Plan using the intrinsic value method of APB 25. As the shares that vest are awarded free of charge, the intrinsic value of the award is equivalent to the market price of the stock. Since the actual number of shares that participants will ultimately receive is not determinable until after the end of the Evaluation Period, the Performance Plan is deemed to be a variable plan in accordance with APB 25. Up to January 1, 2006, the date of adoption of SFAS 123R, changes in the fair value of the Company's stock and the number of shares anticipated to vest result in a change in the intrinsic value and amount of the awards and a corresponding change to compensation expense over the vesting period. The amount of compensation expense recorded in selling, general and administrative expenses for 2005 was $4 million while the amount for 2004 was insignificant.

The aggregate fair value of the 2005 and 2004 launches at their grant dates was approximately $9 million and $3 million, respectively, assuming vesting of the maximum award in March 2008 and March 2006, respectively.

Note 22 Stockholders' equity

In March 2003, the Company sold 80 million treasury shares in two transactions for approximately $156 million.

At the Company's annual general meeting held on May 16, 2003, the Company's shareholders approved amendments to its articles of incorporation providing for an increase in authorized share capital and an increase in contingent share capital. The amendments included the creation of 250 million Swiss francs in authorized share capital (expiring May 2005), replacing the 100 million Swiss francs in authorized share capital that expired in June 2001. This entitled the Company's Board of Directors to issue up to 100 million new ABB Ltd shares, including approximately 30 million CE Settlement Shares (see Note 17). The amendments also included an increase of contingent capital from 200 million Swiss francs to 750 million Swiss francs, allowing the issuance of up to a further 300 million new ABB Ltd shares which may be used primarily for the exercise of conversion rights granted in connection with issuance of bonds and other financial market instruments and for the issuance of new shares to employees.

In October 2003, the Company announced a three-component capital-strengthening program, comprised of a share capital increase, a credit facility agreement and a bond issuance. As part of this program, in November 2003, an extraordinary shareholders' meeting resolved to increase the Company's share capital by approximately 840 million shares through a rights issue. In December 2003, the Company completed the 7-for-10 rights offering for the 840 million new registered shares at an offer price of 4 Swiss francs per share resulting in a net increase of capital stock and additional paid in capital of approximately $2.5 billion.

In December 2003, the Company issued 30,298,913 CE Settlement Shares out of its authorized capital for purposes of fulfilling the Company's obligations under a pre-packaged plan of reorganization under Chapter 11 of the U.S. Bankruptcy Code of Combustion Engineering. In accordance with its then current articles of incorporation, the pre-emptive rights of the shareholders were excluded and allocated to a Company subsidiary, which subscribed for these shares and holds them until they will be contributed to the Asbestos PI Trust or any similar trust, once a plan of reorganization of Combustion Engineering is declared effective.

In November 2005, the Company issued 6,626,550 shares from contingent capital stock for the purposes of fulfilling the Company's obligations under the ESAP Plan (see Note 21).

At December 31, 2005, the Company had 2,370,314,947 authorized shares. Of these, 2,076,941,497 shares are registered and issued, including 30,298,913 CE Settlement Shares that are reserved for use in connection with a plan of reorganization of Combustion Engineering. As these shares are presently held by one of the Company's subsidiaries and carry no participation rights, these shares are not treated as outstanding for the purposes of the Company's Consolidated Financial Statements. The CE Settlement Shares will only become outstanding and carry participation rights once a plan of reorganization for Combustion Engineering becomes effective and the shares have been contributed to the Asbestos PI Trust or any similar trust created under such a plan. Should a plan ultimately not become effective, the CE Settlement Shares reserved for such use would be cancelled by the Company.

At December 31, 2005, the Company had outstanding obligations to deliver approximately 50 million shares at exercise prices ranging from 7.00 to 42.05 Swiss francs for securities issued under employee incentive plans and call options sold to a bank at fair value during 2001, 2003 and 2004. These financial instruments expire in periods ranging from June 2006 to December 2010 and were recorded as equity instruments in accordance with EITF 00-19. Also, at December 31, 2005, the Company had obligations to deliver approximately 107 million shares at a conversion price of $9.03 as a result of the issuance of convertible bonds in May 2002 and to deliver approximately 105 million shares at a conversion price of 9.53 Swiss francs as a result of the issuance of convertible bonds in September 2003. In addition, at December 31, 2005, the Company had outstanding contingent obligations to deliver up to a maximum of 1.6 million shares free of charge to EC Members under the 2004 and 2005 launches of the Performance Plan.

Dividends are payable to the Company's stockholders based on the requirements of Swiss law, ABB Ltd's Articles of Incorporation and stockholders' equity as reflected in the unconsolidated financial statements of ABB Ltd prepared in compliance with Swiss law. At December 31, 2005, of the 9,017 million Swiss francs stockholders' equity reflected in such unconsolidated financial statements, 5,192 million Swiss francs is share capital, 2,219 million Swiss francs is restricted, 1,235 million Swiss francs is unrestricted and 371 million Swiss francs is available for distribution.

Note 23 Earnings per share

Basic earnings (loss) per share is calculated by dividing income (loss) by the weighted-average number of shares outstanding during the year. Diluted earnings (loss) per share is calculated by dividing income (loss) by the weighted-average number of shares outstanding during the year, assuming that all potentially dilutive securities were exercised, if dilutive. Potentially dilutive securities comprise: outstanding written call options; outstanding options granted under the Company's employee incentive plans; and shares issuable in relation to outstanding convertible bonds. In 2005, 2004 and 2003, outstanding securities representing a maximum of 133 million, 265 million and 271 million shares, respectively, were excluded from the calculation of diluted earnings (loss) per share as their inclusion would have been antidilutive.

Basic earnings (loss) per share:

Year ended December 31,	2005	2004	2003
Income (loss) from continuing operations before cumulative effect of accounting change	$ 883	$ 404	$ (415)
Loss from discontinued operations, net of tax	(143)	(439)	(364)
Cumulative effect of accounting change, net of tax	(5)	–	–
Net income (loss)	**$ 735**	**$ (35)**	**$ (779)**
Weighted-average number of shares outstanding (in millions)	2,029	2,028	1,220
Basic earnings (loss) per share:			
Income (loss) from continuing operations before cumulative effect of accounting change	$ 0.44	$ 0.20	$ (0.34)
Loss from discontinued operations, net of tax	(0.08)	(0.22)	(0.30)
Cumulative effect of accounting change, net of tax	–	–	–
Net income (loss)	**$ 0.36**	**$ (0.02)**	**$ (0.64)**

Diluted earnings (loss) per share:

Year ended December 31,	2005	2004	2003
Income (loss) from continuing operations before cumulative effect of accounting change	$ 883	$ 404	$ (415)
Effect of dilution:			
Interest on convertible bonds, net of tax	26	–	–
Income (loss) from continuing operations before cumulative effect of accounting change, adjusted	**909**	**404**	**(415)**
Loss from discontinued operations, net of tax	(143)	(439)	(364)
Cumulative effect of accounting change, net of tax	(5)	–	–
Net income (loss), adjusted	**$ 761**	**$ (35)**	**$ (779)**
Weighted-average number of shares outstanding (in millions)	2,029	2,028	1,220
Effect of dilutive securities:			
Call options	4	1	–
Convertible bonds	105	–	–
Diluted weighted-average number of shares outstanding (in millions)	**2,138**	**2,029**	**1,220**
Diluted earnings (loss) per share:			
Income (loss) from continuing operations before cumulative effect of accounting change	$ 0.43	$ 0.20	$ (0.34)
Loss from discontinued operations, net of tax	(0.07)	(0.22)	(0.30)
Cumulative effect of accounting change, net of tax	–	–	–
Net income (loss), adjusted	**$ 0.36**	**$ (0.02)**	**$ (0.64)**

Note 24 Transformer business and other restructuring charges

On June 30, 2005, the Company announced its decision to consolidate its global transformer business in the Power Technology division, including closing certain plants and employment reductions, as a result of overcapacity, increasing raw material costs and a regional shift in demand experienced by the transformer business. This consolidation program is expected to be completed by the end of 2008 and will result in approximately $240 million of total charges.

During 2005, the Company recorded a charge of $123 million; $105 million was recorded in cost of sales, $3 million in selling, general and administrative expenses and $15 million in other income (expense) net. This charge consisted of $58 million related to employee severance costs, $24 million related to inventory and long-lived asset impairments and $41 million of estimated contract settlement costs and loss order costs.

Note 24 Transformer business and other restructuring charges, continued

Liabilities associated with these charges are expected to be settled primarily by the end of 2006 and consist of the following:

(in millions)	Employee severance costs	Contractual settlement/(loss) order costs	Total
Charges	$ 58	$ 41	$ 99
Cash paid	(7)	(10)	(17)
Liability at December 31, 2005	**$ 51**	**$ 31**	**$ 82**

The Company will continue to assess other potential losses and costs it might incur in relation to the transformer business consolidation program. These future costs are not yet accruable; however, the Company expects that additional costs will be incurred throughout the duration of the transformer business consolidation program.

In addition to the transformer business consolidation described above, the Company continues to restructure individual facilities and factories programs to increase efficiencies by reducing headcount and streamlining operations. At December 31, 2005, liabilities related to these other programs consist of $23 million for workforce reductions and $35 million for lease termination and other exit costs. These liabilities will be paid over approximately eleven years as lease shortfall payments are made.

Note 25 Segment and geographic data

Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131), establishes standards for reporting information about operating segments. The following information is provided in accordance with the requirements of SFAS 131 and is consistent with how business results are reviewed by management.

For the years ended December 31, 2005, 2004 and 2003, the Company maintained two business divisions, Power Technologies and Automation Technologies. The remaining operations of the Company are grouped in Non-core activities. Effective January 1, 2005, the Company's remaining New Ventures business area, previously reported separately within Non-core activities was reclassified into Other Non-core activities. All periods presented have been restated to reflect the organizational structure of the Company.

- The Power Technologies division produces transformers, switchgear, breakers, capacitors, cables and other products and technologies for high- and medium-voltage applications. It serves electric, gas, and water utilities as well as industrial and commercial customers, with a broad range of products, systems and services for power transmission, distribution and power plant automation. The division's principal customers are electric, gas and water utilities, owners and operators of power transmission and generating systems and operators of large commercial buildings and heavy industrial plants.
- The Automation Technologies division provides products, systems, software and services for the automation and optimization of industrial and commercial processes. Key technologies include measurement and control, instrumentation, process analysis, drives and motors, turbochargers, power electronics, robots, and low voltage products. These technologies are sold to customers of the automotive, cement, chemical, distribution, electronics, food and beverage, life sciences, marine, metals, mining, paper, petroleum, printing and telecommunications industries with application-specific power and automation technology.
- Non-core activities include the following:
  - The Company's remaining Oil, Gas and Petrochemicals business, consisting of a full service engineering company which, in addition to having expertise in engineering, procurement and construction projects, also licenses process technologies in the refining, chemical, petrochemical and polymer fields;
  - The Company's remaining Equity Ventures business, consisting primarily of the Company's investment in Jorf Lasfar Energy Company S.C.A. (JLEC);
  - The Company's remaining Structured Finance business;
  - The Company's remaining Building Systems business which designs, builds and maintains complete installations for industrial, infrastructure and commercial facilities; and
  - The Company's Customer Service and Logistic Systems business areas.
- Corporate/Other includes Headquarters, Central Research and Development, Real Estate and Group Treasury Operations.

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, minority interest, and loss from discontinued operations, net of tax. In accordance with SFAS 131, the Company presents division revenues, depreciation and amortization, earnings before interest and taxes, total assets and capital expenditures, all of which have been restated to reflect the changes to the Company's internal structure, including the effect of inter-division transactions. The Company accounts for inter-division sales and transfers as if the sales and transfers were to third parties, at current market prices. Earnings (loss) before interest and taxes on inter-divisional sales for products not yet delivered to third-party customers is eliminated in the division for the years ended December 31, 2005 and 2004. In 2003, the Company eliminated such earnings (loss) before interest and taxes in the Inter-division line in the table below.

(U.S. dollar amounts in millions, except per share amounts)

Note 25 Segment and geographic data, continued

The following tables summarize information for each segment:

2005	Revenues	Depreciation and amortization	Earnings (loss) before interest and taxes	Total assets [1]	Capital expenditures [2]
Power Technologies	$ 9,784	$ 199	$ 789	$ 6,338	$ 159
Automation Technologies	12,161	295	1,312	7,929	220
Non-core activities:					
Oil, Gas and Petrochemicals	933	12	48	1,182	–
Equity Ventures	2	4	69	625	–
Structured Finance	5	1	–	53	–
Building Systems	421	2	(37)	211	2
Other Non-core activities	60	3	(46)	80	5
Total Non-core activities	**1,421**	**22**	**34**	**2,151**	**7**
Corporate/Other	733	81	(393)	5,858	70
Inter-division elimination	(1,657)	–	–	–	–
Consolidated	**$ 22,442**	**$ 597**	**$ 1,742**	**$ 22,276**	**$ 456**

2004	Revenues	Depreciation and amortization	Earnings (loss) before interest and taxes	Total assets [1]	Capital expenditures [2]
Power Technologies	$ 8,675	$ 213	$ 608	$ 6,142	$ 163
Automation Technologies	11,000	293	1,023	8,222	243
Non-core activities:					
Oil, Gas and Petrochemicals	1,079	26	(4)	1,460	54
Equity Ventures	7	6	69	640	10
Structured Finance	4	1	(14)	764	–
Building Systems	508	3	(70)	270	1
Other Non-core activities	93	7	(43)	124	14
Total Non-core activities	**1,691**	**43**	**(62)**	**3,258**	**79**
Corporate/Other	887	84	(523)	7,055	58
Inter-division elimination	(1,643)	–	–	–	–
Consolidated	**$ 20,610**	**$ 633**	**$ 1,046**	**$ 24,677**	**$ 543**

2003	Revenues	Depreciation and amortization	Earnings (loss) before interest and taxes	Capital expenditures [2]
Power Technologies	$ 7,524	$ 187	$ 592	$ 134
Automation Technologies	9,602	253	735	225
Non-core activities:				
Oil, Gas and Petrochemicals	1,895	–	(296)	57
Equity Ventures	26	5	76	56
Structured Finance	31	3	(68)	1
Building Systems	1,829	9	(104)	5
Other Non-core activities	540	59	(128)	12
Total Non-core activities	**4,321**	**76**	**(520)**	**131**
Corporate/Other	905	69	(497)	57
Inter-division elimination	(2,020)	–	(23)	–
Consolidated	**$ 20,332**	**$ 585**	**$ 287**	**$ 547**

[1] In 2004 and 2003, the Company evaluated its segments financial position based on net operating assets. In 2005, the Company reviewed segment performance based on total assets. It is not practicable for the Company to present total asset information based on the segment structure indicated above for 2003.

[2] Capital expenditures reflect purchases of property, plant and equipment and intangible assets.

(U.S. dollar amounts in millions, except per share amounts)

Note 25 Segment and geographic data, continued

Geographic information

	Revenues Year ended December 31,			Long-lived assets at December 31,	
	2005	2004	2003	2005	2004
Europe	$ 11,139	$ 10,750	$ 10,950	$ 1,902	$ 2,295
The Americas	4,231	3,557	3,844	237	264
Asia	5,127	4,261	3,519	317	283
Middle East and Africa	1,945	2,042	2,019	109	122
	$ 22,442	**$ 20,610**	**$ 20,332**	**$ 2,565**	**$ 2,964**

Revenues have been reflected in the regions based on the location of the customer. The United States generated approximately 11 percent, 11 percent and 12 percent of the Company's total revenues in 2005, 2004 and 2003 respectively. Germany generated approximately 10 percent, 11 percent and 11 percent of the Company's total revenues in 2005, 2004 and 2003 respectively. More than 95 percent of the Company's total revenues were generated outside Switzerland in 2005, 2004 and 2003. Long-lived assets represent property, plant and equipment, net, and are shown by location of the assets. Switzerland and Germany represented approximately 22 percent and 15 percent, respectively, of the Company's long-lived assets at both December 31, 2005 and 2004, respectively.

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

Management estimates that approximately 62 percent of the Company's employees are subject to collective bargaining agreements in various countries. These agreements are subject to various regulatory requirements and are renegotiated on a regular basis in the normal course of business.

2006 Realignment

On September 6, 2005, the Company announced a realignment of our business divisions and a change in the composition of our Executive Committee, which was effective beginning January 1, 2006. The realignment was made to strengthen the Company's focus on customer relationships and growth. Effective January 1, 2006, the Company will operate five reporting segments that are grouped on the basis of similar product, market and operating factors:

- Power Products Division, which designs and manufactures power transformers for utility, transportation and industrial customers, as well as transformer components.
- Power Systems Division, which undertakes turnkey contracts to install and upgrade transmission and distribution systems incorporating components manufactured by both ABB and by third parties.
- Automation Products Division manufactures low-voltage circuit breakers, drives and motors, switches and control products to protect people, installations and electronic equipment from electrical overloads, as well as instrumentation products to measure and control the flow of fluids.
- Process Automation which develops integrated process control and information management systems and turbochargers for a variety of industries, primarily pulp and paper, minerals and mining, chemicals and pharmaceuticals, oil and gas, and the marine industry.
- Robotics Division which develops and manufactures industrial robots and related equipment for the automotive and other manufacturing industries.

The Company will report segment information based on the realigned divisions starting in the first quarter of 2006.

ABB Ltd Group Auditors' Report

The Stockholders of ABB Ltd:

As auditors of the Group, we have audited the accompanying consolidated balance sheets of ABB Ltd as of December 31, 2005 and 2004, and the related consolidated income statements, statements of cash flows and statements of changes in stockholders' equity for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audits. We confirm that we meet the legal requirements concerning professional qualification and independence.

We did not audit the 2004 and 2003 financial statements of Jorf Lasfar Energy Company, a corporation in which the Company has a 50% interest (the Company's equity in Jorf Lasfar Energy Company's net income is stated at $63 million in 2004 and $60 million in 2003). Those statements were audited by other auditors whose report has been furnished to us. Our opinion, insofar as it relates to amounts included for Jorf Lasfar Energy Company, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and in accordance with Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ABB Ltd at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

In accordance with Swiss Auditing Standards, without qualifying our opinion, we are required to draw your attention to Notes 3 and 17 to the consolidated financial statements, which describe certain risks and uncertainties relating to the Company's asbestos liabilities.

As discussed in Note 2 to the consolidated financial statements, in 2005 the Company changed its method of accounting for conditional asset retirement obligations.

Ernst & Young AG

C. Barone **S. Reid**

Auditors in charge

Zurich, March 3, 2006

Financial Statements of ABB Ltd, Zurich

Income Statement

Year ended December 31 (CHF in thousands)	2005	2004
Personnel expenses	(23,772)	(32,718)
Other expenses	(23,809)	(28,450)
Interest income	56,838	54,344
Interest expense	(27,627)	(24,014)
Loss on bond repurchase	(23,048)	–
Revaluation of own shares	101,861	–
Net income/(loss)	**60,443**	**(30,838)**

Balance Sheet

December 31 (CHF in thousands)	2005	2004
Cash and equivalents	26,993	600
Receivables	3,910	6,050
Total current assets	**30,903**	**6,650**
Long-term loans – group company	4,078,300	4,470,000
Participations	5,278,132	5,300,910
Own shares	147,022	45,968
Total non-current assets	**9,503,454**	**9,816,878**
Total assets	**9,534,357**	**9,823,528**
Current liabilities	20,703	18,272
Short-term loan – group company	–	5,697
Long-term loans – group company	50,000	50,000
Provisions	238,628	238,628
Bonds	208,300	600,000
Total liabilities	**517,631**	**912,597**
Share capital	5,192,354	5,175,787
Legal reserve	1,808,454	1,779,669
Reserve for treasury shares	410,168	411,814
Other reserves	1,534,736	1,533,090
Retained earnings	10,571	41,409
Net income/(loss)	60,443	(30,838)
Total stockholders' equity	**9,016,726**	**8,910,931**
Total liabilities and stockholders' equity	**9,534,357**	**9,823,528**

Notes to Financial Statements

Note 1 General

ABB Ltd, Zurich (the Company) is the parent company of the ABB Group whose Consolidated Financial Statements include 100 percent of the assets, liabilities, revenues, expenses, income and cash flows of ABB Ltd and group companies in which the Company has a controlling interest, as if the Company and its group companies were a single company. The Consolidated Financial Statements are of overriding importance for the purpose of the economic and financial assessment of the Company. The unconsolidated financial statements of the Company are prepared in accordance with Swiss law and serve as complementary information to the Consolidated Financial Statements.

Note 2 Cash and equivalents

(CHF in thousands)	2005	2004
Cash and bank	528	600
Cash deposit with ABB Group Treasury Operations	26,465	–
Total	**26,993**	**600**

ABB Group maintains an internal treasury function, Group Treasury Operations, comprising certain indirect subsidiaries of the Company, to provide group companies with deposit and borrowing facilities.

Note 3 Receivables

(CHF in thousands)	2005	2004
Non-trade receivables	102	74
Accrued income	1,015	–
Accrued income – group companies	2,793	5,976
Total	**3,910**	**6,050**

Note 4 Long-term loans – group company

(CHF in thousands)	2005	2004
Long-term loans – group company	4,078,300	4,470,000

The Company maintains interest bearing credit agreements with ABB Asea Brown Boveri Ltd. These loans are stated at cost.

Note 5 Participations

				Ownership interest	
Company name	Purpose	Domicile	Share capital	2005	2004
ABB Asea Brown Boveri Ltd	Holding	CH-Zurich	CHF 2,768,000,000	100%	100%
BBC Brown Boveri Ltd	Holding	CH-Zurich	CHF 570,580	–	100%

The investment in subsidiary is valued at the lower of cost or fair value, using valuation models accepted under Swiss law.

Note 6 Current liabilities

(CHF in thousands)	2005	2004
Non-trade payables	1,026	415
Non-trade payables – group companies	1,321	1,183
Accrued expenses	18,078	16,055
Accrued expenses – group companies	278	619
Total	**20,703**	**18,272**

Note 7 Provisions

In conjunction with the issuance in September 2003 and May 2002, by a group company, of bonds convertible into ABB Ltd shares, the Company granted options to the group company issuing the bonds to enable the group company to meet its obligations to deliver shares when the bonds are converted. If the bonds fully convert, an additional 212,130,022 ABB Ltd shares, including shares represented by American Depository Shares, would be issued upon exercise of the options by the issuing group company. Provisions of CHF 238,628 thousand were recorded to reflect the cash received by the Company related to the options. When the bonds are converted and the options are exercised or when the options expire without exercise because the bonds did not convert, the provisions will be released to other reserves in stockholders' equity.

Note 8 Bonds

(CHF in thousands)		2005	2004
Bond 1999–2009	3.75% coupon	108,300	500,000
Note 2001–2008	3.75% coupon	100,000	100,000
Total		**208,300**	**600,000**

On October 3, 2005, the Company repurchased CHF 391,700 thousand of the bonds, maturing 2009, and recorded a loss of CHF 23,048 thousand.

The bonds are stated at their nominal value.

In April 2005, the Company, through Group Treasury Operations, entered into several interest rate swap transactions with banks to effectively convert the CHF 500,000 thousand 3.75% bonds, due 2009, into floating rate obligations. In October 2005, in line with the repurchase of bonds, a portion of the swaps were terminated.

Note 9 Stockholders' equity

(CHF in thousands)	Share capital	Legal reserve	Reserve for treasury shares	Other reserves	Retained earnings	Net (loss)/ income	Total 2005
Opening balance as of Jan. 1	5,175,787	1,779,669	411,814	1,533,090	41,409	(30,838)	8,910,931
Allocation to retained earnings					(30,838)	30,838	–
Employee plan issuances	16,567	50,653					67,220
Use of share premium		(21,868)					(21,868)
Increase of other reserves			(1,646)	1,646			–
Net income for the year						60,443	60,443
Closing balance as of Dec. 31	**5,192,354**	**1,808,454**	**410,168**	**1,534,736**	**10,571**	**60,443**	**9,016,726**

Share capital as of December 31, 2005	Number of registered shares	Par value	Total (CHF in thousands)
Issued shares	2,076,941,497	CHF 2.50	5,192,354
Contingent shares	293,373,450	CHF 2.50	733,434

Share capital as of December 31, 2004	Number of registered shares	Par value	Total (CHF in thousands)
Issued shares	2,070,314,947	CHF 2.50	5,175,787
Contingent shares	300,000,000	CHF 2.50	750,000
Authorized shares	69,701,087	CHF 2.50	174,253

The authorized shares expired in May 2005.

As described in Note 21 to the Consolidated Financial Statements of ABB Ltd, the ABB Group has an Employee Share Acquisition Plan (ESAP Plan). To enable the group company that facilitates the ESAP Plan to deliver shares to employees who have exercised their stock options, the group company entered into an agreement with the Company to acquire the required number of shares at their then market value from the Company. Consequently on November 10, 2005, the Company issued, out of contingent capital, to the group company, 6,626,550 shares at CHF 10.25 per share, thereby increasing the Company's share capital and legal reserve by CHF 16,567 thousand and CHF 50,653 thousand, respectively. The Company used CHF 21,868 thousand of the share premium, recognized on issuance, to reduce the carrying value of its participation in the subsidiary.

Own shares	2005		2004	
	Number of shares	Avg. price per share CHF	Number of shares	Avg. price per share CHF
Opening balance	11,611,529	18.98	11,611,529	18.98
Purchase	11,780	8.64	–	–
Subtotal	11,623,309	18.97	11,611,529	18.98
Sales	(92,203)	9.86	–	–
Closing balance	**11,531,106**	**18.97**	**11,611,529**	**18.98**

The own shares are valued at the lower of cost or fair value (December 31, 2005 and 2004, CHF 12.75 and CHF 3.96 per share, respectively). The revaluation resulted in a gain of CHF 101,861 thousand in 2005.

In addition, at December 31, 2005 and 2004, the subsidiary held 30,298,913 ABB Ltd shares for use in connection with a plan of reorganization of Combustion Engineering Inc ("CE") (see Note 10).

Note 9 Stockholders' equity, continued

The net equity value of the Company as reflected in these unconsolidated financial statements is approximately CHF 9 billion compared to a net equity value of approximately CHF 4.6 billion (approximately $3.5 billion) disclosed in the Consolidated Financial Statements of ABB Ltd. The difference derives from the separate accounting bases applied to the unconsolidated and Consolidated Financial Statements. In the unconsolidated financial statements, the net equity value reflects the use of the lower of cost or fair value to value ABB Ltd's shares and participation in subsidiary whereas the net equity value disclosed in the Consolidated Financial Statements reflects the aggregation of the equity of ABB Ltd and its group companies.

Note 10 Contingent liabilities

(CHF in thousands)	2005	2004
Financial guarantee – group company	–	337,122
Performance guarantee – group company	–	50,859
Total	**–**	**387,981**

The Company was completely released from the financial guarantee and performance guarantee obligations as per December 31, 2005.

In addition, the Company has entered into Keep-well agreements with certain group companies. A Keep-well agreement is a shareholder agreement between the Company and a group company. These agreements provide for maintenance of a minimum net worth in the group company and the maintenance of 100 percent direct or indirect ownership by the Company.

For those group companies acting on the capital markets, the Keep-well agreements additionally provide that if at any time the group company has insufficient liquid assets to meet any payment obligation on its debt (as defined in the agreements) and has insufficient unused commitments under its credit facilities with its lenders, the Company will make available to the group company sufficient funds to enable it to fulfill such payment obligation as it falls due. A Keep-well agreement is not a guarantee by the Company for payment of the indebtedness, or any other obligation, of a group company. No party external to the ABB Group is a party to any of these Keep-well agreements.

Combustion Engineering Inc. (CE), an indirect wholly owned subsidiary of the Company is a defendant in numerous asbestos-related claims in the United States. Some claimants have named the Company in connection with claims against CE, but there has been no adjudication that the Company has liability for such claims. On March 1, 2006, the U.S. District Court entered an order affirming a revised plan of reorganization for CE. From the date the order was entered there is a 30 day appeals period. If no appeals are lodged then the plan will be final. The Company and its subsidiaries' potential commitments and current provisions relating to this matter are further described in Note 17 of the Consolidated Financial Statements of ABB Ltd.

There are also a lesser number of asbestos-related claims against certain other subsidiaries of the Company, which are not related to CE. Please refer to Note 17 of the Consolidated Financial Statements of ABB Ltd for more detailed information.

The ultimate outcome of efforts to resolve the asbestos-related personal injury claims against CE and other entities of the ABB Group remains uncertain. The related costs may be higher than the ABB Group's provisions reflect and could have a material adverse impact on the ABB Group's consolidated financial position, results of operations and cash flows.

The Company is part of a value added tax group and therefore jointly liable to the federal tax department for the value added tax liabilities of the other members.

Note 11 Credit facility agreement

On July 4, 2005, the Company and certain of its group companies entered into a new five-year $2 billion multicurrency revolving credit facility and canceled the previous $1 billion credit facility that was due to expire in November 2006. The Company is a guarantor of the new $2 billion facility. No amounts were drawn under this facility at December 31, 2005, nor under the previous $1 billion facility at December 31, 2004.

Note 12 Significant shareholders

On March 8, 2005, Investor AB, Stockholm Sweden, announced that it reduced its holdings in ABB Ltd to 187,374,142 shares, representing 9.1 percent of the Company's share capital at that date. Based on its year-end report for 2005, Investor AB has reduced its investment in ABB Ltd to 166,330,142 shares at December 31, 2005, representing 8.0 percent of the Company's share capital.

To the best of the Company's knowledge, no other shareholder holds 5 percent or more of ABB Ltd shares.

Proposed appropriation of available earnings

(CHF in thousands)	2005	2004
Net income/(loss) for the year	60,443	(30,838)
Carried forward from previous year	10,571	41,409
Release of other reserves	300,000	–
Profit available to the Annual General Meeting	**371,014**	**10,571**
Dividend (see below)		–
Balance to be carried forward		**10,571**

The Board of Directors proposes to release CHF 300,000,000 of the other reserves to retained earnings and that out of the profit available to the Annual General Meeting a dividend of CHF 0.12 gross per registered share be distributed, payable as of May 9, 2006. Calculated on the total number of issued shares of 2,076,941,497 (1), this corresponds to a maximum total amount of CHF 249,232,980. In deciding on the appropriation of dividends, the Annual General Meeting shall take into account that the Company will pay dividends only on shares that do not participate in the dividend access facility as per art. 8 of the Articles of Incorporation.

Shareholders who are resident in Sweden participating in the established dividend access facility will receive an amount in Swedish kronor from ABB Participation AB which corresponds to the dividend resolved on a registered share of the Company without deduction of the Swiss withholding tax. This amount however is subject to taxation according to Swedish law.

The remaining amount of the available earnings is to be carried forward.

(1) Depending on the actual number of shares issued as of the record date.

Report of the Statutory Auditors

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes; pages 89 to 92) of ABB Ltd, Zurich, for the year ended December 31, 2005.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the Company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

Without qualifying our opinion, we draw your attention to note 10 of these financial statements which describes certain risks and uncertainties relating to ABB Group's asbestos liabilities.

Ernst & Young AG

C. Barone
(Certified Public Accountant)

Y. Vontobel
(Certified Accountant)

Auditors in charge

Zurich, March 3, 2006

Investor information

ABB Ltd share price trend during 2005

During 2005, the price of ABB Ltd shares traded on the SWX Swiss Exchange (virt-x) increased 101 percent, while the Swiss Performance Index increased 36 percent. The price of ABB Ltd shares on Stockholmsbörsen increased 103 percent, compared to the OMX Stockholm Index, which increased by 33 percent.

Source: Bloomberg, SWX Swiss Exchange (virt-x), Stockholmsbörsen

Share price (data based on closing prices)

	SWX Swiss Exchange (virt-x/CHF)	Stockholms-börsen (SEK)	New York Stock Exchange (US$)
High	12.95	77.75	9.79
Low	6.48	38.00	5.42
Year-end	12.75	77.00	9.72
Average daily traded number of shares	11,923,121	2,746,778	1,186,138

Market capitalization

On December 31, 2005, ABB Ltd's market capitalization based on outstanding shares (total number of outstanding shares: 2,035,111,478) was approximately $19.8 billion (CHF 25.9 billion, SEK 156.7 billion, EUR 16.8 billion)

Shareholder structure

As of December 31, 2005, the total number of shareholders directly registered with ABB Ltd was approximately 168,000. In addition, another 120,000 shareholders hold shares indirectly through nominees. In total, ABB has approximately 288,000 shareholders.

Major shareholders

As of December 31, 2005, Investor AB, Stockholm, Sweden, owned 166,330,142 shares of ABB Ltd, corresponding to 8.0 percent of total capital and votes.

To the best of the company's knowledge, no other shareholder holds 5 percent or more of the total voting rights.

Dividend proposal

ABB's Board of Directors has proposed a dividend for 2005 of CHF 0.12 per share. Translated into U.S. dollars using year-end 2005 exchange rates, the dividend corresponds to approximately 26 percent of ABB's 2005 net income. The proposal is subject to approval by shareholders at the company's annual general meeting, scheduled for May 4, 2006, in Zurich, Switzerland. Should the proposal be approved, the ex-dividend date would be May 9, 2006.

Key data

	2005	2004
Dividend per share (CHF)	0.12 (1)	–
Par value per share (CHF)	2.50	2.50
Vote per share	1	1
Earnings (loss) per share (US$) (2)	0.36	(0.02)
Stockholders' equity per share (US$) (3)	1.71	1.39
Cash flow from operations per share (US$) (2)	0.47	0.44
Dividend pay-out-ratio (%)	26%	–
Weighted average number of shares outstanding (in millions)	2,029	2,028
Diluted weighted average number of shares outstanding (in millions)	2,138	2,029

(1) Proposed by the Board of Directors and subject to approval by shareholders at the Annual General Meeting on May 4, 2006, in Zurich, Switzerland.
(2) Calculation based on diluted weighted average number of shares outstanding
(3) Calculation based on the number of shares outstanding as of December 31

ABB Ltd annual general meeting

The 2006 Annual General Meeting of ABB Ltd will be held at 10:00 a.m. on Thursday, May 4, 2006 at the Messe Zurich hall in Zurich-Oerlikon, Switzerland. The Annual General Meeting will be held principally in German and will be simultaneously translated into Swedish, English and French. Shareholders entered in the share register, with the right to vote, by April 24, 2006, are entitled to participate in the Annual General Meeting.

Admission cards

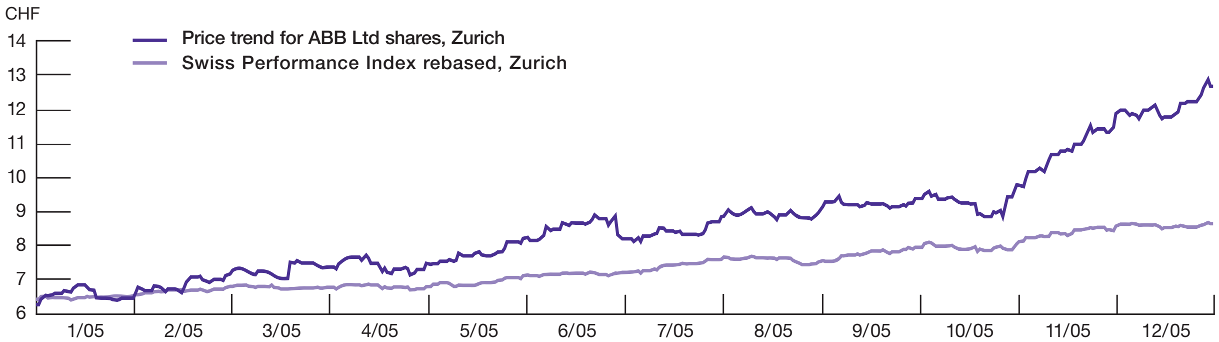
Holders of registered shares of ABB Ltd will receive their admission cards on request using the reply form enclosed with the invitation. The reply form or a corresponding notification must reach the company not later than April 27, 2006. For technical reasons, notifications arriving after that date can no longer be taken into consideration. The full text of the invitation in accordance with Article 700 of the Swiss Code of Obligations will be published in the Schweizerisches Handelsamtsblatt of April 10, 2006.

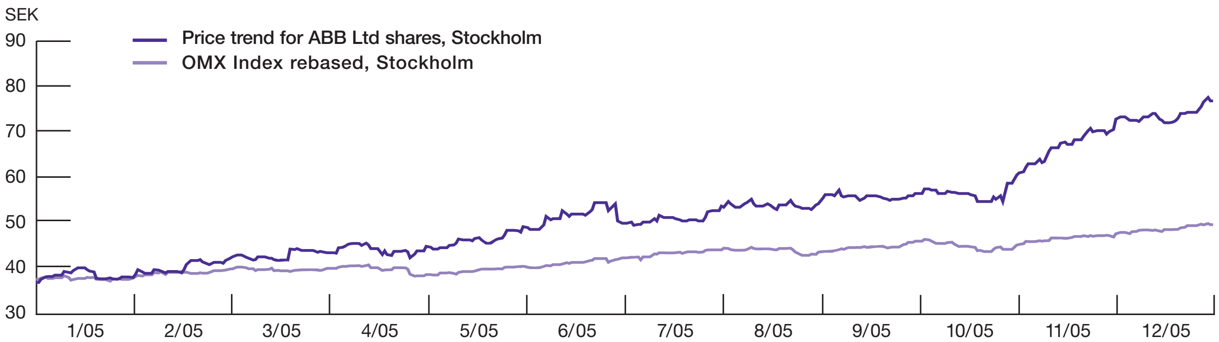
For shareholders in Sweden an Information Meeting will be held in Västerås, Sweden, on May 8, 2006 at 1:00 p.m.

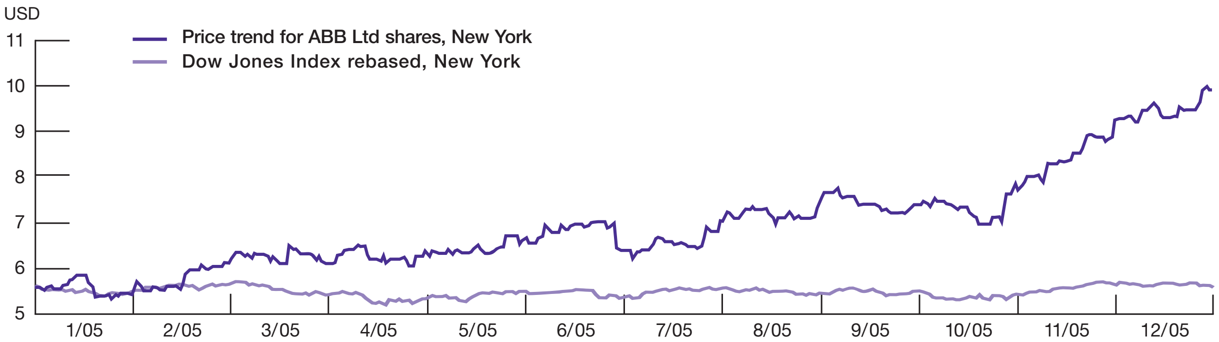
ABB shareholders' calendar 2006

Three-month results 2006	April 27
ABB Ltd Annual General Meeting, Zurich	May 4
ABB Ltd Information Meeting, Västerås	May 8
Six-month results 2006	July 27
Nine-month results 2006	October 26

Price trend for ABB Ltd shares







Source: Bloomberg

Stock Exchange listings

ABB Ltd is listed on the SWX Swiss Exchange (virt-x), Stockholmsbörsen and the New York Stock Exchange.

The global ISIN code for the ABB share is: CH 001 222 171 6.

Ticker symbols for ABB Ltd

SWX Swiss Exchange (virt-x)	ABBN
Stockholmsbörsen	ABB
New York Stock Exchange (NYSE)	ABB

Ticker symbols for ABB Ltd at Bloomberg

SWX Swiss Exchange (virt-x)	ABBN VX
Stockholmsbörsen	ABB SS
New York Stock Exchange (NYSE)	ABB US

Ticker symbols for ABB Ltd at Reuters

SWX Swiss Exchange (virt-x)	ABBN.VX
Stockholmsbörsen	ABB.ST
New York Stock Exchange (NYSE)	ABB.N

Credit rating for ABB Ltd as of February 28, 2006

Standard & Poor's

Long-term Corporate Credit Rating:	BB+
Long-term Senior Unsecured debt:	BB–
Short-term Corporate Credit Rating:	B
CreditWatch with positive implications	

Moody's

Long-term Senior Implied Rating:	Ba2
Long-term Senior Unsecured Rating:	Ba2
Short-term Debt rating:	Not Prime
Positive outlook	

The credit rating is subject to revision at any time.

Bondholder information

Outstanding public bonds as of February 28, 2006.

Issuer	Original issued principal amount	Coupon	Due	Bloomberg ticker	Reuters ticker
ABB International Finance Ltd	USD 968 million Convertible	4.625%	2007	ABB 4.625 05/16/07	CH014749721=
ABB International Finance Ltd	EUR 500 million	9.5%*	2008	ABB 9.5 01/15/08	CH014855653=
ABB International Finance Ltd	GBP 200 million	10%*	2009	ABB 10 05/29/09	CH014855661=
ABB Ltd	CHF 500 million	3.75%	2009	ABB 3.75 09/30/09	CH896367=S
ABB International Finance Ltd	CHF 1,000 million Convertible	3.5%	2010	ABB 3.5 09/10/10	CH1653740=S
ABB International Finance Ltd	EUR 650 million	6.5%	2011	ABB 6.5 11/30/11	CH018119617=

* Excl. step-up

Exchange rates

Main exchange rates used in the translation of the Financial Statements

		2005		2004	
Currency	ISO Codes	Average	Closing	Average	Closing
		Currency unit equivalent to one USD			
Australian Dollar	AUD	1.31	1.37	1.35	1.28
Brazilian Real	BRL	2.42	2.33	2.91	2.66
Canadian Dollar	CAD	1.21	1.16	1.30	1.21
Chinese Yuan Renminbi	CNY	8.19	8.07	8.28	8.28
Danish Krone	DKK	5.97	6.32	5.96	5.45
Euro	EUR	0.80	0.85	0.80	0.73
Indian Rupee	INR	44.04	45.03	45.15	43.47
Japanese Yen	JPY	109.84	117.63	107.48	102.49
Norwegian Krone	NOK	6.43	6.76	6.70	6.03
Polish Zloty	PLN	3.23	3.27	3.61	2.99
Pound Sterling	GBP	0.55	0.58	0.55	0.52
Swedish Krona	SEK	7.43	7.96	7.30	6.61
Swiss Franc	CHF	1.24	1.32	1.24	1.13

The ABB Annual Report 2005 consists of an Operational review, a Financial review and a Sustainability review.

For an additional copy of this or any of the other reviews, please use the contact information on the back of this document or download copies from **www.abb.com.**

The Operational review and a financial summary (contained in the Operational review) are published in English, German and Swedish. The Financial review is published in English and German. The Sustainability review is published in English. For all documents in the Annual Report series, only the English-language version is the binding version.

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