

ABB LTD
Form 20-F
March 19, 2010

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As filed with the Securities and Exchange Commission on March 19, 2010

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

FORM 20-F

- o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
- OR
- ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
- For the fiscal year ended December 31, 2009
- OR
- o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
- OR
- o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 001-16429

ABB Ltd

(Exact name of registrant as specified in its charter)

Switzerland

(Jurisdiction of incorporation or organization)

**Affolternstrasse 44
CH-8050 Zurich
Switzerland**

(Address of principal executive offices)

**Richard A. Brown
Affolternstrasse 44
CH-8050 Zurich
Switzerland
Telephone: +41-43-317-7111
Facsimile: +41-43-317-7992**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

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American Depositary Shares,
each representing one Registered Share
Registered Shares, par value CHF 1.54

New York Stock Exchange
New York Stock Exchange*

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None.**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None.**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 2,329,324,797 Registered Shares (including treasury shares)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:
U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.
item 17 item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

*

Listed on the New York Stock Exchange not for trading or quotation purposes, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the Securities and Exchange Commission.

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INTRODUCTION

ABB Ltd is a corporation organized under the laws of Switzerland. In this Annual Report, "the ABB Group," "ABB," the "Company," "we," "our" and "us" refer to ABB Ltd and its consolidated subsidiaries (unless the context otherwise requires). We also use these terms to refer to ABB Asea Brown Boveri Ltd and its subsidiaries prior to the establishment of ABB Ltd as the holding company for the entire ABB Group in 1999, as described in this Annual Report under "Item 4. Information on the Company Introduction History of the ABB Group." Our American Depositary Shares (each representing one registered share of ABB Ltd) are referred to as "ADSs." The registered shares of ABB Ltd are referred to as "shares." Our principal corporate offices are located at Affolternstrasse 44, CH-8050 Zurich, Switzerland, telephone number +41-43-317-7111.

FINANCIAL AND OTHER INFORMATION

ABB Ltd has prepared its statutory unconsolidated financial statements in accordance with the Swiss Code of Obligations. The Consolidated Financial Statements of ABB Ltd, including the notes thereto, as of December 31, 2009 and 2008 and for each of the years in the three-year period ended December 31, 2009 (our Consolidated Financial Statements) have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP).

In this Annual Report: (i) "\$," "U.S. dollars" and "USD" refer to the lawful currency of the United States of America; (ii) "CHF" and "Swiss francs" refer to the lawful currency of Switzerland; (iii) "EUR" and "euro" refer to the lawful currency of the participating member states of the European Economic and Monetary Union (Eurozone); (iv) "SEK" and "Swedish krona" refer to the lawful currency of Sweden; (v) "GBP" and "pounds sterling" refer to the lawful currency of the United Kingdom; (vi) "Indian rupee" refers to the lawful currency of India; and (vii) "Chinese renminbi" refers to the lawful currency of the People's Republic of China.

Except as otherwise stated, all monetary amounts in this Annual Report are presented in U.S. dollars. Where specifically indicated, amounts in Swiss francs have been translated into U.S. dollars. These translations are provided for convenience only, and they are not representations that the Swiss franc could be converted into U.S. dollars at the rate indicated. These translations have been made using the twelve o'clock buying rate in the City of New York for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York as of December 31, 2009, unless otherwise indicated. The twelve o'clock buying rate for Swiss francs on December 31, 2009 was \$1.00 = CHF 1.0358. The twelve o'clock buying rate for Swiss francs on March 12, 2010 was \$1.00 = CHF 1.0599.

FORWARD-LOOKING STATEMENTS

This Annual Report includes forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes," "estimates," "anticipates," "expects," "intends," "may," "will," or "should" or, in each case, their negative, or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Annual Report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, dispositions, strategies and the countries and industries in which we operate.

These forward-looking statements include, but are not limited to the following:

statements in "Item 3. Key Information Dividends and Dividend Policy" regarding our policy on future dividend payments,

statements in "Item 3. Key Information Risk Factors,"

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statements in "Item 4. Information on the Company" regarding the timing of intended capital expenditures,

statements in "Item 5. Operating and Financial Review and Prospects" regarding our management objectives, including our mid-term outlook, as well as trends in results, prices, volumes, operations, margins and overall market trends, and

statements in "Item 8. Financial Information Legal Proceedings" regarding the outcome of certain legal and compliance matters.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the countries and industries in which we operate, may differ materially from those described in or suggested by the forward-looking statements contained in this Annual Report. In addition, even if our results of operations, financial condition and liquidity, and the development of the countries and industries in which we operate, are consistent with the forward-looking statements contained in this Annual Report, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause actual results to differ materially from our expectations are contained in cautionary statements in this Annual Report and include, without limitation, the following:

Our business is exposed to risks associated with the weakened global economy and political conditions.

Illegal behavior by any of our employees or agents could have a material adverse impact on our consolidated operating results, cash flows, and financial position as well as on our reputation and our ability to do business.

Our operations in emerging markets expose us to risks associated with conditions in those markets.

Undertaking long-term, fixed price or turnkey projects exposes our businesses to risk of loss should our actual costs exceed our estimated or budgeted costs.

Our international operations expose us to the risk of fluctuations in currency exchange rates.

Our hedging activities may not protect us against the consequences of significant fluctuations in exchange rates, interest rates or commodity prices on our earnings and cash flows.

Increases in costs or limitation of supplies of raw materials may adversely affect our financial performance.

The weakening or unavailability of our intellectual property rights could adversely affect our business.

We operate in very competitive markets and could be adversely affected if we fail to keep pace with technological changes.

Many of our contracts contain performance obligations that require innovative design capabilities, are technologically complex, require state-of-the-art manufacturing expertise or are dependent upon factors not wholly within our control. Failure to meet these obligations could adversely affect our profitability and future prospects.

Industry consolidation could result in more powerful competitors and fewer customers.

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We are subject to environmental laws and regulations in the countries in which we operate. We incur costs to comply with such regulations, and our ongoing operations may expose us to environmental liabilities.

We may be the subject of product liability claims.

We may encounter difficulty in managing our business due to the global nature of our operations.

We have retained liability for environmental remediation costs relating to businesses that we sold in 2000, and we could be required to make payments in respect of these retained liabilities in excess of established provisions.

If we fail to make the payments required under the Modified Plan of Reorganization for Combustion Engineering (the CE Plan) we could trigger an injunction default which would lead to the termination of the channeling injunction under the CE Plan.

If we are unable to obtain performance and other guarantees from financial institutions, we may be prevented from bidding on, or obtaining, some contracts, or our costs with respect to such contracts could be higher.

Examinations by tax authorities and changes in tax regulations could result in lower earnings and cash flows.

If we cannot successfully implement the planned integration of our different Enterprise Resource Planning (ERP) systems, then we may be unable to produce reliable accounts, and our business and reputation may be adversely affected.

If we are unable to attract and retain qualified management and personnel then our business may be adversely affected.

Anticipated benefits of mergers, acquisitions, joint ventures or strategic alliances may not be realized.

We could be affected by future laws or regulations enacted to address climate change concerns as well as the physical effects of climate change.

We urge you to read the sections of this Annual Report entitled "Item 3. Key Information Risk Factors," "Item 4. Information on the Company" and "Item 5. Operating and Financial Review and Prospects" for a more complete discussion of the factors that could affect our future performance and the countries and industries in which we operate. In light of these risks, uncertainties and assumptions, the forward-looking circumstances described in this Annual Report and the assumptions underlying them may not occur.

Except as required by law or applicable stock exchange rules or regulations, we undertake no obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Annual Report.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable

Item 2. Offer Statistics and Expected Timetable

Not applicable

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The following table presents our selected financial and operating information at the dates and for each of the periods indicated. You should read the following information together with the information contained in "Item 5. Operating and Financial Review and Prospects," as well as our Consolidated Financial Statements and the Notes thereto, included elsewhere in this Annual Report.

Our selected financial data are presented in the following tables in accordance with U.S. GAAP and have been derived from our published Consolidated Financial Statements. Our Consolidated Financial Statements as of and for each of the years ended December 31, 2009, 2008, 2007, 2006 and 2005 were audited by Ernst & Young AG.

INCOME STATEMENT DATA⁽¹⁾:

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|--|---|-----------------|-----------------|-----------------|-----------------|
| | (\$ in millions, except per share data in \$) | | | | |
| Total revenues | 31,795 | 34,912 | 29,183 | 23,281 | 20,964 |
| Total cost of sales | (22,470) | (23,972) | (20,215) | (16,537) | (15,510) |
| Gross profit | 9,325 | 10,940 | 8,968 | 6,744 | 5,454 |
| Selling, general and administrative expenses | (5,528) | (5,822) | (4,975) | (4,326) | (3,780) |
| Other income (expense), net | 329 | (566) | 30 | 139 | 37 |
| Earnings before interest and taxes | 4,126 | 4,552 | 4,023 | 2,557 | 1,711 |
| Interest and dividend income | 121 | 315 | 273 | 147 | 153 |
| Interest and other finance expense ⁽²⁾ | (127) | (349) | (383) | (307) | (407) |
| Income from continuing operations before taxes and cumulative effect of accounting change | 4,120 | 4,518 | 3,913 | 2,397 | 1,457 |
| Provision for taxes | (1,001) | (1,119) | (595) | (686) | (464) |
| Income from continuing operations before cumulative effect of accounting change, net of tax | 3,119 | 3,399 | 3,318 | 1,711 | 993 |
| Income (loss) from discontinued operations, net of tax ⁽³⁾ | 17 | (21) | 586 | (142) | (127) |
| Income before cumulative effect of accounting change, net of tax | 3,136 | 3,378 | 3,904 | 1,569 | 866 |
| Cumulative effect of accounting change, net of tax ⁽²⁾⁽⁴⁾ | | | (49) | | (5) |
| Net income | 3,136 | 3,378 | 3,855 | 1,569 | 861 |
| Net income attributable to noncontrolling interests | (235) | (260) | (244) | (179) | (126) |
| Net income attributable to ABB | 2,901 | 3,118 | 3,611 | 1,390 | 735 |
| <i>Amounts attributable to ABB shareholders:</i> | | | | | |
| Income from continuing operations before cumulative effect of accounting change, net of tax | 2,884 | 3,142 | 3,083 | 1,544 | 859 |
| Income (loss) from discontinued operations, net of tax | 17 | (24) | 577 | (154) | (119) |
| Cumulative effect of accounting change, net of tax | | | (49) | | (5) |
| Net income | 2,901 | 3,118 | 3,611 | 1,390 | 735 |
| <i>Basic earnings (loss) per share:</i> | | | | | |
| Income from continuing operations before cumulative effect of accounting change | 1.26 | 1.37 | 1.37 | 0.73 | 0.42 |
| Income (loss) from discontinued operations, net of tax | 0.01 | (0.01) | 0.25 | (0.08) | (0.06) |
| Cumulative effect of accounting change, net of tax | | | (0.02) | | |
| Net income | 1.27 | 1.36 | 1.60 | 0.65 | 0.36 |
| <i>Diluted earnings (loss) per share:</i> | | | | | |
| Income from continuing operations before cumulative effect of accounting change | 1.26 | 1.37 | 1.34 | 0.70 | 0.41 |
| Income (loss) from discontinued operations, net of tax | 0.01 | (0.01) | 0.25 | (0.07) | (0.05) |
| Cumulative effect of accounting change, net of tax | | | (0.02) | | |
| Net income | 1.27 | 1.36 | 1.57 | 0.63 | 0.36 |
| <i>Average number of shares (in millions) used to compute:</i> | | | | | |
| Basic earnings (loss) per share attributable to ABB shareholders | 2,284 | 2,287 | 2,258 | 2,128 | 2,029 |
| Diluted earnings (loss) per share attributable to ABB shareholders | 2,288 | 2,296 | 2,308 | 2,248 | 2,138 |

Table of Contents**BALANCE SHEET DATA⁽¹⁾:**

| | December 31, | | | | |
|--|------------------|---------------|---------------|---------------|---------------|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| | (\$ in millions) | | | | |
| Cash and equivalents | 7,119 | 6,399 | 4,650 | 4,198 | 3,136 |
| Marketable securities and short-term investments | 2,433 | 1,354 | 3,240 | 351 | 315 |
| Total assets | 34,728 | 33,011 | 30,841 | 24,922 | 22,006 |
| Long-term debt | 2,172 | 2,009 | 2,138 | 3,160 | 3,932 |
| Total debt ⁽⁵⁾ | 2,333 | 2,363 | 2,674 | 3,282 | 4,096 |
| Capital stock and additional paid-in capital | 3,943 | 4,841 | 5,780 | 4,514 | 3,121 |
| Total stockholders' equity (including noncontrolling interests) ⁽⁶⁾ | 14,473 | 11,770 | 11,549 | 6,489 | 3,824 |

CASH FLOW DATA:

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---------|------------------|---------|-------|-------|
| | | (\$ in millions) | | | |
| Net cash provided by operating activities | 4,027 | 3,958 | 3,054 | 1,939 | 1,012 |
| Net cash provided by (used in) investing activities | (2,220) | 114 | (2,291) | (694) | (316) |
| Net cash provided by (used in) financing activities | (1,301) | (2,119) | (625) | (392) | (896) |

- (1) Certain amounts reported in prior years have been reclassified to conform to the current year's presentation. These changes primarily relate to the reclassification of cash-settled call options hedging warrant appreciation rights under our management incentive plan to derivatives (from marketable securities and short-term investments) in the Consolidated Balance Sheets and the presentation of deferred tax assets and liabilities on a net basis (where permitted) rather than on a gross basis in the Consolidated Balance Sheets.
- (2) In 2009, we adopted a new accounting standard that changed the accounting for convertible debt instruments that contained cash settlement features. Although we did not have any convertible debt instruments outstanding at December 31, 2009, 2008 and 2007, we adopted the provisions of this new standard on a retroactive basis to January 1, 2007, as they related to our 1 billion Swiss francs 3.5% convertible bonds (issued 2003) fully converted by bondholders in 2007. The impact on our Consolidated Income Statement in 2007 was (i) a loss of \$49 million from the effect of the accounting change and (ii) a loss of \$97 million from the conversion of bonds and amortization of discount, recorded in "Interest and other finance expense" (see "Note 2 Significant accounting policies - New accounting pronouncements"). As permitted under this standard, we have elected to apply the provisions of the standard only to those convertible instruments outstanding at any time during the periods presented in our Consolidated Financial Statements as of and for the each of the three years ended December 31, 2009. Consequently, the provisions of this standard have not been applied to the above selected financial data for 2006 and 2005.
- (3) Income (loss) from discontinued operations, net of tax, included costs related to the asbestos obligations of our U.S. subsidiary Combustion Engineering Inc, as well as various other minor gains and losses related to business divestments. Income from discontinued operations in 2007 primarily related to the gain of \$530 million realized on the sale of the downstream oil and gas business. For additional information, see "Item 5. Operating and Financial Review and Prospects"; "Note 3 Acquisitions, divestments and discontinued operations" and "Note 15 Commitments and contingencies" to our Consolidated Financial Statements.
- (4) In 2005, we accounted for the adoption of a new accounting standard on asset retirement obligations as a change in accounting principle. Based on our outstanding obligations at that time, we recognized a cumulative loss of \$5 million from the effect of the accounting change in the Consolidated Income Statement.
- (5) Total debt is equal to the sum of short-term debt (including current maturities of long-term debt) and long-term debt.
- (6) In 2009, we adopted a new accounting standard which changed the accounting and reporting for minority interests, which are recharacterized as noncontrolling interests and classified as a component of equity. This change was effective prospectively as of January 1, 2009, except for the presentation and disclosure requirements which apply retrospectively for all periods presented.

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DIVIDENDS AND DIVIDEND POLICY

Payment of dividends is subject to general business conditions, ABB's current and expected financial condition and performance and other relevant factors including growth opportunities. ABB's dividend policy is to pay a steadily rising, sustainable annual dividend over time.

Dividends may be paid only if ABB Ltd has sufficient distributable profits from previous fiscal years or sufficient free reserves to allow the distribution of a dividend. In addition, at least 5 percent of ABB Ltd's annual net profits must be retained and booked as legal reserves, unless these reserves already amount to 20 percent of ABB Ltd's share capital. As a holding company, ABB Ltd's main sources of income are dividend and interest from its subsidiaries. At December 31, 2009, of the CHF 12,901 million of stockholders' equity recorded in the unconsolidated statutory financial statements of ABB Ltd prepared in accordance with Swiss law, CHF 3,587 million was attributable to share capital, CHF 1,064 million was attributable to legal reserves, CHF 1,028 million was attributable to reserves for treasury shares, CHF 3,328 million was attributable to other reserves and CHF 3,894 million represents net income and retained earnings available for distribution.

ABB Ltd may only pay out a dividend if it has been proposed by a shareholder or the board of directors of ABB Ltd and approved at a general meeting of shareholders, and the auditors confirm that the dividend conforms to statutory law and the Articles of Incorporation of ABB Ltd. In practice, the shareholders' meeting usually approves dividends as proposed by the board of directors, if the board of directors' proposal is confirmed by the statutory auditors.

Dividends are usually due and payable no earlier than three trading days after the shareholders' resolution. Dividends not collected within five years after the due date accrue to ABB Ltd and are allocated to its other reserves. For information about the deduction of withholding taxes from dividend payments, see "Item 10. Additional Information Taxation."

We have established a dividend access facility for shareholders who are resident in Sweden under which these shareholders may register with Euroclear Sweden AB, as a holder of up to 600,004,716 shares, and receive dividends in the Swedish kronor equivalent to the dividend paid in Swiss francs without deduction of Swiss withholding tax. For further information, see "Item 10. Additional Information Taxation."

Because ABB Ltd pays cash dividends, if any, in Swiss francs (subject to the exception for certain shareholders in Sweden described above), exchange rate fluctuations will affect the U.S. dollar amounts received by holders of ADSs upon conversion of those cash dividends by Citibank, N.A., the depository, in accordance with the Amended and Restated Deposit Agreement dated May 7, 2001.

With respect to the years ended December 31, 2005 and 2006, ABB Ltd paid a dividend of CHF 0.12 (USD 0.10) per share and CHF 0.24 (USD 0.20) per share, respectively. With respect to each of the years ended December 31, 2007, and 2008, ABB Ltd paid a dividend of CHF 0.48 (USD 0.46 for 2007 and USD 0.45 for 2008) per share by way of a nominal value reduction (reduction in the par value of each share). The USD amounts for each of the foregoing dividend payments made in CHF have been translated using the average rates of the month in which the dividends were paid.

With respect to the year ended December 31, 2009, ABB Ltd's board of directors has proposed to pay a dividend of CHF 0.51 per share by way of a nominal value reduction, subject to approval by shareholders at ABB's 2010 Annual General Meeting and certain subsequent actions required under Swiss law.

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RISK FACTORS

You should carefully consider all of the information set forth in this Annual Report and the following description of risks and uncertainties that we currently believe may exist. Our business, financial condition or results of operations could be adversely affected by any of these risks. Additional risks of which we are unaware or that we currently deem immaterial may also impair our business operations. This Annual Report also contains forward-looking statements that involve risks and uncertainties. Our results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those described below and elsewhere in this Annual Report. See "Forward-Looking Statements."

Our business is exposed to risks associated with the weakened global economy and political conditions.

Adverse changes in economic or political conditions, both inside and outside the U.S., could have a material adverse effect on our business, financial condition, results of operations and liquidity. During the last two years, the volatility in the global financial markets reached very high levels. Volatile oil prices, falling equity market values, declining business, weakened consumer confidence, risks of increased inflation and deflation and increased unemployment rates created fears of a severe recession. These disruptions may continue to have an ongoing adverse effect on the world economy. We are unable to predict how long the economic volatility will last. Continuing economic volatility and financial market disruptions may adversely impact the demand for our products and services. For example, the current lack of confidence and the shortage of credit in the financial markets may prevent our customers and suppliers from obtaining the financing required to pursue their business activities as planned, and thereby force them to modify, delay or cancel plans to purchase or supply our products or services or to execute transactions. Payment terms, especially the level of advance payments in large orders, may become less favorable. In addition, if our customers do not generate sufficient revenue, or fail to obtain access to the capital markets, they may not be able to pay, or may delay payment of, the amounts they owe us. Customers with liquidity issues may lead to additional bad debt expense for us, which may adversely affect our results of operations and cash flows. In addition, we are subject to the risk that the counterparties to our credit agreements and hedging transactions may go bankrupt if they suffer catastrophic demand on their liquidity that will prevent them from fulfilling their contractual obligations to us.

Apart from the effects of the credit crisis and the economic slowdown that it entailed, our business environment is influenced by numerous other economic or political uncertainties which will affect the global economy and the international capital markets. In periods of slow economic growth or decline, our customers are more likely to decrease expenditures on the types of products and systems we supply and we are more likely to experience decreased revenues as a result. Our power technology divisions are affected by the level of investments by utilities, and our automation technology divisions are affected by conditions in a broad range of industries, including the automotive, pharmaceutical, pulp and paper, marine, metals and minerals and manufacturing and consumer industries. At various times during the last several years, we also have experienced, and may experience in the future, gross margin declines in certain businesses, reflecting the effect of items such as competitive pricing pressures, inventory write-downs, charges associated with the cancellation of planned expansion, increases in pension and postretirement benefit expenses, and increases in component and manufacturing costs resulting from higher labor and material costs borne by our manufacturers and suppliers that, as a result of competitive pricing pressures or other factors, we are unable to pass on to our customers. Economic downturns also may lead to restructuring actions and associated expenses. Uncertainty about future economic conditions makes it difficult for us to forecast operating results and to make decisions about future investments.

In addition, we are subject to the risks that our business operations in or with certain countries, including those identified as state sponsors of terrorism, may be adversely affected by trade or economic sanctions or other restrictions imposed on these countries and that actual or potential

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investors that object to these business operations may adversely affect the price of our shares by disposing of, or deciding not to, purchase our shares.

Illegal behavior by any of our employees or agents could have a material adverse impact on our consolidated operating results, cash flows, and financial position as well as on our reputation and our ability to do business.

Certain of our employees or agents have taken, and may in the future take, actions that violate or are alleged to violate the U.S. Foreign Corrupt Practices Act of 1977 (FCPA), legislation promulgated pursuant to the 1997 Organization for Economic Co-operation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, applicable antitrust laws and other applicable laws or regulations. For more information regarding investigations of past actions taken by certain of our employees, see "Item 8. Financial Information Legal Proceedings." Such actions have resulted, and in the future could result, in governmental investigations, enforcement actions and civil and criminal penalties, including monetary penalties and other sanctions. It is possible that any governmental investigation or enforcement action arising from these matters could conclude that a violation of applicable law has occurred and the consequences of any such investigation or enforcement action may have a material adverse impact on our consolidated operating results, cash flows and financial position. In addition, such actions, whether actual or alleged, could damage our reputation and ability to do business.

Further, detecting, investigating and resolving such actions could be expensive and could consume significant time and attention of our senior management. While we are committed to conducting business in a legal and ethical manner, our internal control systems have not been, and in the future may not be, completely effective to prevent and detect such improper activities by our employees and agents.

Our operations in emerging markets expose us to risks associated with conditions in those markets.

A significant amount of our operations is conducted in the emerging markets of Latin America, Asia, the Middle East and Africa. In 2009, approximately 40 percent of our consolidated revenues were generated from these emerging markets. Operations in emerging markets can present risks that are not encountered in countries with well-established economic and political systems, including:

economic instability, which could make it difficult for us to anticipate future business conditions in these markets, cause delays in the placement of orders for projects that we have been awarded and subject us to volatile geographic markets,

political or social instability, which could make our customers less willing to make cross-border investments in such regions and could complicate our dealings with governments regarding permits or other regulatory matters, local businesses and workforces,

boycotts and embargoes that may be imposed by the international community on countries in which we operate, which could adversely affect the ability of our operations in those countries to obtain the materials necessary to fulfill contracts and our ability to pursue business or establish operations in those countries,

foreign state takeovers of our facilities in these countries,

significant fluctuations in interest rates and currency exchange rates,

the imposition of unexpected taxes or other payments on our revenues in these markets,

the ability to obtain financing and/or insurance coverage from export credit agencies, and

the introduction of exchange controls and other restrictions by foreign governments.

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Additionally, political and social instability resulting from increased violence in certain countries in which we do business have raised concerns about the safety of our personnel. These concerns may hinder our ability to send domestic personnel abroad and to hire and retain local personnel. Such concerns may require us to increase security for personnel traveling to such facilities or to conduct more operations from our other facilities rather than from facilities located in these political and socially unstable countries, which may negatively impact our operations and result in higher costs and inefficiencies.

In addition, the legal and regulatory systems of many emerging market countries are less developed and less well-enforced than in industrialized countries. Therefore, our ability to protect our contractual and other legal rights in these countries could be limited. Consequently, our exposure to the conditions in or affecting emerging markets may adversely affect our business, financial condition, results of operations and liquidity.

Undertaking long-term, fixed price or turnkey projects exposes our businesses to risk of loss should our actual costs exceed our estimated or budgeted costs.

We derive a portion of our revenues from long-term, fixed price or turnkey projects that are awarded on a competitive basis and can take many months, or even years, to complete. Such contracts involve substantial risks, including the possibility that we may underbid and the fact that we typically assume substantially all of the risks associated with completing the project and the post-completion warranty obligations. These risks include the project's technical risk, meaning that we must tailor our products and systems to satisfy the technical requirements of a project even though, at the time we are awarded the project, we may not have previously produced such a product or system. The revenue, cost and gross profit realized on such contracts can vary, sometimes substantially, from our original projections because of changes in conditions, including but not limited to:

unanticipated technical problems with the equipment being supplied or developed by us which may require us to incur incremental expenses to remedy the problem,

changes in the cost of components, materials or labor,

difficulties in obtaining required governmental permits or approvals,

project modifications which create unanticipated costs,

delays caused by local weather and geological conditions, including natural disasters,

customer delays,

shortages of construction equipment,

changes in law or government policy,

supply bottlenecks, especially of key components, and

suppliers', subcontractors' or consortium partners' failure to perform.

These risks are exacerbated if the duration of the project is extended because there is an increased risk that the circumstances upon which we originally bid and developed a price will change in a manner that increases our costs. In addition, we sometimes bear the risk of delays caused by unexpected conditions or events. Our project contracts often make us subject to penalties if we cannot complete portions of the project in accordance with agreed-upon time limits and guaranteed performance levels.

Our international operations expose us to the risk of fluctuations in currency exchange rates.

Exchange rate fluctuations have had, and could continue to have, a material impact on our operating results, the comparability of our results between periods, the value of assets or liabilities as

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recorded on our Consolidated Balance Sheet and the price of our securities. The global financial crisis has led to increased volatility in exchange rates, which makes it harder to predict exchange rates and thus do accurate financial planning. Changes in exchange rates can unpredictably and adversely affect our consolidated operating results, and could result in exchange losses.

Currency Translation Risk. The results of operations and financial position of most of our non-U.S. companies are initially recorded in the currency, which we call "local currency," of the country in which the respective company resides. That financial information is then translated into U.S. dollars at the applicable exchange rates for inclusion in our Consolidated Financial Statements. The exchange rates between local currencies and the U.S. dollar can fluctuate substantially, which could have a significant translation effect on our reported consolidated results of operations and financial position.

Increases and decreases in the value of the U.S. dollar versus local currencies will affect the reported value of our local currency assets, liabilities, revenues and costs in our Consolidated Financial Statements, even if the value of these items has not changed in local currency terms. These translations could significantly and adversely affect our results of operations and financial position from period to period.

Currency Transaction Risk. Currency risk exposure also affects our operations when our sales are denominated in currencies that are different from those in which our manufacturing or sourcing costs are incurred. In this case, if after the parties agree on a price, the value of the currency in which the price is to be paid were to weaken relative to the currency in which we incur manufacturing or sourcing costs, there would be a negative impact on the profit margin for any such transaction. This transaction risk may exist regardless of whether or not there is also a translation risk as described above.

Currency exchange rate fluctuations in those currencies in which we incur our principal manufacturing expenses or sourcing costs may adversely affect our ability to compete with companies whose costs are incurred in other currencies. If our principal expense currencies appreciate in value against such other currencies, our competitiveness may be weakened.

Our hedging activities may not protect us against the consequences of significant fluctuations in exchange rates, interest rates or commodity prices on our earnings and cash flows.

Our policy is to hedge material currency exposures by entering into offsetting transactions with third party financial institutions. Given the effective horizons of our risk management activities and the anticipatory nature of the exposures intended to be hedged, there can be no assurance that our currency hedging activities will fully offset the adverse financial impact resulting from unfavorable movements in foreign exchange rates. In addition, the timing of the accounting for recognition of gains and losses related to a hedging instrument may not coincide with the timing of gains and losses related to the underlying economic exposures.

As a resource-intensive operation, we are exposed to a variety of market and asset risks, including the effects of changes in commodity prices and interest rates. We monitor and manage these exposures as an integral part of our overall risk management program, which recognizes the unpredictability of markets and seeks to reduce the potentially adverse effects on our business. Nevertheless, changes in commodity prices and interest rates cannot always be predicted or hedged.

If we are unable to successfully manage the risk of changes in exchange rates, interest rates or commodity prices or if our hedging counterparties are unable to perform their obligations under our hedging agreements with them, then changes in these rates and prices could have an adverse effect on our financial condition and results of operations.

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Increases in costs or limitation of supplies of raw materials may adversely affect our financial performance.

We purchase large amounts of commodity-based raw materials, including steel, copper, aluminum, and oil. Prevailing prices for such commodities are subject to fluctuations due to changes in supply and demand and a variety of additional factors beyond our control, such as global political and economic conditions. Historically, prices for some of these raw materials have been volatile and unpredictable, and such volatility is expected to continue. Therefore, commodity price changes may result in unexpected increases in raw material costs, and we may be unable to increase our prices to offset these increased costs without suffering reduced volumes, revenues or operating income. We do not fully hedge against changes in commodity prices and our hedging procedures may not work as planned.

We depend on third parties to supply raw materials and other components and may not be able to obtain sufficient quantities of these materials and components, which could limit our ability to manufacture products on a timely basis and could harm our profitability. For some raw materials and components, we rely on a single supplier or a small number of suppliers. If one of these suppliers were unable to provide us with a raw material or component we need, our ability to manufacture some of our products could be adversely affected until we are able to establish a new supply arrangement. We may be unable to find a sufficient alternative supply channel in a reasonable time period or on commercially reasonable terms, if at all. If our suppliers are unable to deliver sufficient quantities of materials on a timely basis, the manufacture and sale of our products may be disrupted, we might have obligations under our performance guarantees and our sales and profitability could be materially adversely affected.

The weakening or unavailability of our intellectual property rights could adversely affect our business.

Our intellectual property rights are fundamental to all of our businesses. We generate, maintain, utilize and enforce a substantial portfolio of trademarks, trade dress, patents and other intellectual property rights. We use our intellectual property rights to protect the goodwill of our products, promote our product recognition, protect our proprietary technology and development activities, enhance our competitiveness and otherwise support our business goals and objectives. However, there can be no assurance that the steps we take to obtain, maintain and protect our intellectual property rights will be adequate. Our intellectual property rights may fail to provide us with significant competitive advantages, particularly in foreign jurisdictions that do not have, or do not enforce, strong intellectual property rights. The weakening or unavailability of our trademarks, trade dress, patents and other intellectual property rights could adversely affect our business.

We operate in very competitive markets and could be adversely affected if we fail to keep pace with technological changes.

We operate in very competitive environments in particular with respect to product performance, developing integrated systems and applications that address the business challenges faced by our customers, pricing, new product introduction time and customer service. The relative importance of these factors differs across the geographic markets and product areas that we serve. The markets for our products and services are characterized by evolving industry standards (particularly for our automation technology products and systems), rapidly changing technology and increased competition as a result of privatization (particularly for our power products and systems). For example, for a number of years, power transmission and distribution providers throughout the world have been undergoing substantial privatization. This has increased their need for timely product and service innovations that increase efficiency and allow them to compete in a deregulated environment. Additionally, the continual development of advanced technologies for new products and product enhancements is an important way in which we maintain acceptable pricing levels. If we fail to keep pace with technological changes in the industrial sectors that we serve, we may experience price erosion and lower margins.

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The principal competitors for our automation technology products, systems and services include Emerson Electric Co., Honeywell International, Inc., Invensys plc, Schneider Electric SA and Siemens AG. We primarily compete with Areva SA, Schneider Electric SA and Siemens AG in sales of our power technology products and systems. All of our primary competitors are sophisticated companies with significant resources that may develop products and services that are superior to our products and services or may adapt more quickly than we do to new technologies, industry changes or evolving customer requirements. Our failure to anticipate or respond quickly to technological developments or customer requirements could adversely affect our business, results of operations, financial condition and liquidity.

Many of our contracts contain performance obligations that require innovative design capabilities, are technologically complex, require state-of-the-art manufacturing expertise or are dependent upon factors not wholly within our control. Failure to meet these obligations could adversely affect our profitability and future prospects.

We design, develop and manufacture technologically advanced and innovative products and services applied by our customers in a variety of environments. Problems and delays in development or delivery as a result of issues with respect to design, technology, licensing and patent rights, labor, learning curve assumptions or materials and components could prevent us from achieving contractual requirements.

In addition, our products cannot be tested and proven in all situations and are otherwise subject to unforeseen problems. Examples of unforeseen problems that could negatively affect revenue and profitability include premature failure of products that cannot be accessed for repair or replacement, problems with quality, country of origin, delivery of subcontractor components or services and unplanned degradation of product performance. Among the factors that may affect revenue and profits could be unforeseen costs and expenses not covered by insurance or indemnification from the customer, diversion of management focus in responding to unforeseen problems, loss of follow-on work, and, in the case of certain contracts, repayment to the customer of contract cost and fee payments we previously received.

Industry consolidation could result in more powerful competitors and fewer customers.

Competitors in the industries in which our business divisions operate are consolidating. In particular, the automation industry is undergoing consolidation that is reducing the number but increasing the size of companies that compete with us. As our competitors consolidate, they likely will increase their market share, gain economies of scale that enhance their ability to compete with us and/or acquire additional products and technologies that could displace our product offerings.

Our customer base also is undergoing consolidation. Consolidation within our customers' industries (such as the marine and cruise industry, the automotive, aluminum, steel, pulp and paper, pharmaceutical industries and the oil and gas industry) could affect our customers and their relationships with us. If one of our competitors' customers acquires any of our customers, we may lose its business. Additionally, as our customers become larger and more concentrated, they could exert pricing pressure on all suppliers, including us. For example, in an industry such as power transmission, which historically has consisted of large and concentrated customers such as utilities, price competition can be a factor in determining which products and services will be selected by a customer.

We are subject to environmental laws and regulations in the countries in which we operate. We incur costs to comply with such regulations, and our ongoing operations may expose us to environmental liabilities.

Our operations are subject to U.S., European and other laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. Our

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manufacturing facilities use and produce paint residues, solvents, metals, oils and related residues. We use petroleum-based insulation in transformers, polyvinylchloride (PVC) resin to manufacture PVC cable and chloroparaffin as a flame retardant. We have manufactured and sold, and we are using in some of our factories, certain types of transformers and capacitors containing polychlorinated biphenyls (PCBs). These are considered to be hazardous substances in many jurisdictions in which we operate. We may be subject to substantial liabilities for environmental contamination arising from the use of such substances. All of our manufacturing operations are subject to ongoing compliance costs in respect of environmental matters and the associated capital expenditure requirements.

In addition, we may be subject to significant fines and penalties if we do not comply with environmental laws and regulations including those referred to above. Some environmental laws provide for joint and several strict liability for remediation of releases of hazardous substances, which could result in us incurring a liability for environmental damage without regard to our negligence or fault. Such laws and regulations could expose us to liability arising out of the conduct of operations or conditions caused by others, or for our acts which were in compliance with all applicable laws at the time the acts were performed. Additionally, we may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances. Changes in the environmental laws and regulations, or claims for damages to persons, property, natural resources or the environment, could result in substantial costs and liabilities to us.

We may be the subject of product liability claims.

We may be required to pay for losses or injuries purportedly caused by the design, manufacture or operation of our products and systems. Additionally, we may be subject to product liability claims for the improper installation of products and systems designed and manufactured by others.

Product liability claims brought against us may be based in tort or in contract, and typically involve claims seeking compensation for personal injury or property damage. If the claimant runs a commercial business, claims are often made also for financial losses arising from interruption of operations. Based on the nature and application of many of the products we manufacture, a defect or alleged defect in one of these products could have serious consequences. For example:

If the products produced by our power technology divisions are defective, there is a risk of fires, explosions and power surges and significant damage to electricity generating, transmission and distribution facilities as well as electrical shock causing injury or death.

If the products produced by our automation technology divisions are defective, our customers could suffer significant damage to facilities and equipment that rely on these products and systems to properly monitor and control their manufacturing processes. Additionally, people could be exposed to electrical shock and/or other harm causing injury or death.

If any of the products produced by us contain hazardous substances then there is a risk that such products or substances could injure or kill people.

If we were to incur a very large product liability claim, our insurance protection might not be adequate or sufficient to cover such a claim in terms of paying any awards or settlements, and/or paying for our defense costs. Further, some claims may be outside the scope of our insurance coverage. If a litigant were successful against us, a lack or insufficiency of insurance coverage could result in an adverse effect on our business, financial condition, results of operations and liquidity. Additionally, a well-publicized actual or perceived problem could adversely affect our market reputation which could result in a decline in demand for our products.

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We may encounter difficulty in managing our business due to the global nature of our operations.

We operate in approximately 100 countries around the world and, as of December 31, 2009, employed approximately 116,000 people. As of December 31, 2009, approximately 52 percent of our employees were located in Europe, approximately 15 percent in the Americas, approximately 26 percent in Asia and approximately 7 percent in the Middle East and Africa. In order to manage our day-to-day operations, we must overcome cultural and language barriers and assimilate different business practices. In addition, we are required to create compensation programs, employment policies and other administrative programs that comply with the laws of multiple countries. We also must communicate and monitor group-wide standards and directives across our global network. Our failure to manage successfully our geographically diverse operations could impair our ability to react quickly to changing business and market conditions and to enforce compliance with group-wide standards and procedures.

We have retained liability for environmental remediation costs relating to businesses that we sold in 2000, and we could be required to make payments in respect of these retained liabilities in excess of established provisions.

We have retained liability for environmental remediation costs at two sites in the U.S. that were operated by our nuclear technology business, which we sold in April 2000 to British Nuclear Fuels plc (BNFL). We have retained all environmental liabilities associated with our Combustion Engineering subsidiary's Windsor, Connecticut facility and a portion of the liabilities associated with our former 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 upon decommissioning the facilities. Based on information that BNFL has made available, we believe remediation may take until at least 2015 at the Hematite site. We estimate that the remediation will take at least until 2012 at the Windsor site. At the Windsor site, we believe that a significant portion of such remediation costs will be the responsibility of the U.S. government pursuant to U.S. federal law, although the exact amount of such responsibility cannot reasonably be estimated. In connection with the sale of the nuclear business in April 2000, we established a provision of \$300 million in respect of estimated remediation costs related to these facilities. Expenditures charged to the remediation provision were \$11 million and \$4 million during 2009 and 2008, respectively. The provision balance was \$230 million and \$241 million at December 31, 2009 and 2008, respectively. Due to the nature of remediation activities, it is possible that we could be required to make expenditures in excess of the provision. Potential excess expenditures cannot reasonably be estimated at this time. See "Item 5. Operating and Financial Review and Prospects Environmental Liabilities."

If we fail to make the payments required under the Modified Plan of Reorganization for Combustion Engineering (the CE Plan) we could trigger an injunction default which would lead to the termination of the channeling injunction under the CE Plan.

Our Combustion Engineering, Inc. subsidiary (CE) had been a co-defendant in a large number of lawsuits claiming damage for personal injury resulting from exposure to asbestos. Since early 2003, we and our subsidiaries have been seeking to resolve our asbestos-related personal injury liabilities related to CE. A plan of reorganization for CE was filed under Chapter 11 of the U.S. Bankruptcy Code and during 2006 the CE Plan became effective.

On the effective date of the CE Plan, the U.S. Bankruptcy Court issued an injunction, referred to as a channeling injunction, pursuant to which all asbestos-related personal injury claims against ABB Ltd and certain entities in the ABB group (including CE) arising out of CE's business operations will be settled or otherwise satisfied from the proceeds of the trust established for such purposes.

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Under the CE Plan, ABB Ltd and certain of its subsidiaries have contingent payment obligations of \$50 million for which we established a provision. Failure to satisfy those payment obligations could lead to an injunction default which would lead to the termination of the channeling injunction under the plan. In such case, all claims which were previously subject to the injunction would need to be resolved through the tort system. This could also cause our credit ratings to be downgraded, restrict our access to the capital markets or otherwise have a material adverse effect on our financial condition, results of operations, cash flows and liquidity.

If we are unable to obtain performance and other guarantees from financial institutions, we may be prevented from bidding on, or obtaining, some contracts, or our costs with respect to such contracts could be higher.

In the normal course of our business and in accordance with industry practice, we provide a number of guarantees including bid-bonds, advance payment guarantees and performance guarantees, which guarantee our own performance. These guarantees may include guarantees that a project will be completed or that a project or particular equipment will achieve defined performance criteria. If we fail to attain the defined criteria, we must make payments in cash or in kind. Performance guarantees frequently are requested in relation to large projects in our core power and automation businesses.

Some customers require that performance guarantees be issued by a financial institution. In considering whether to issue a guarantee on our behalf, financial institutions consider our credit ratings. In addition, the global financial crisis has made it more difficult and expensive to obtain these guarantees. If, in the future, we cannot obtain such a guarantee from a financial institution on reasonable terms, we could be prevented from bidding on, or obtaining, some contracts, or our costs with respect to such contracts could be higher, which would reduce the profitability of the contracts. If we cannot obtain guarantees on commercially reasonable terms from financial institutions in the future, there could be a material impact on our business, financial condition, results of operations or liquidity.

Examinations by tax authorities and changes in tax regulations could result in lower earnings and cash flows.

We operate in approximately 100 countries and therefore are subject to different tax regulations. Changes in tax law could result in higher tax expense and payments. Furthermore, this could materially impact our tax receivables and liabilities as well as deferred tax assets and deferred tax liabilities. In addition, the uncertainty of tax environment in some regions could limit our ability to enforce our rights. As a globally operating organization, we conduct business in countries subject to complex tax rules, which may be interpreted in different ways. Future interpretations or developments of tax regimes may affect our tax liability, return on investments and business operations. We are regularly examined by tax authorities in various jurisdictions.

If we cannot successfully implement the planned integration of our different ERP systems, then we may be unable to produce reliable accounts, and our business and reputation may be adversely affected.

In a number of specific countries, we are integrating our various ERP systems into country-wide ERPs in an effort to standardize and consolidate our accounting and reporting processes. A significant portion of these remaining system integrations are planned to occur during 2010. If we cannot successfully implement the planned integration activities, we may be unable to produce reliable accounts and our business and reputation may be adversely affected.

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If we are unable to attract and retain qualified management and personnel then our business may be adversely affected.

Our success depends in part on the abilities of our personnel, particularly our senior management team and key employees. If we are unable to attract and retain members of our senior management team and key employees this could have an adverse effect on our business.

Anticipated benefits of mergers, acquisitions, joint ventures or strategic alliances may not be realized.

As part of our overall strategy, we may, from time to time, merge with or acquire businesses, or form joint ventures or create strategic alliances. Whether we realize the anticipated benefits from these transactions depends, in part, upon the integration between the businesses involved, the performance of the underlying products, capabilities or technologies and the management of the transacted operations. Accordingly, our financial results could be adversely affected from unanticipated performance issues, transaction-related charges, amortization of expenses related to intangibles, charges for impairment of long-term assets and partner performance. Although we believe that we have established appropriate and adequate procedures and processes to mitigate these risks, there is no assurance that these transactions will be successful.

We could be affected by future laws or regulations enacted to address climate change concerns as well as the physical effects of climate change.

Although we do not believe existing or pending laws and regulations intended to address climate change concerns will materially adversely affect our current business or operations, such laws and regulations could materially affect us in the future. We may need to incur additional costs to comply with these laws and regulations. We could also be affected indirectly by increased prices for goods or services provided to us by companies that are directly affected by these laws and regulations and pass their increased costs through to their customers. At this time, we cannot estimate what impact such costs may have on our business, results of operations or financial condition. We could also be affected by the physical consequences of climate change itself, although we cannot estimate what impact those consequences might have on our business or operations.

Item 4. Information on the Company

INTRODUCTION

About ABB

We are a global leader in power and automation technologies that are designed to improve performance and lower the environmental impact for our utility and industrial customers. We provide a broad range of products, systems, solutions and services that are designed to improve power grid reliability, increase industrial productivity and enhance energy efficiency. Our focus on power transmission, distribution and power-plant automation serves electric, gas and water utilities, as well as industrial and commercial customers. We also deliver automation systems that measure, control, protect and optimize plant applications across a full range of industries.

History of the ABB Group

The ABB Group was formed in 1988 through a merger between Asea AB and BBC Brown Boveri AG. Initially founded in 1883, Asea AB was a major participant in the introduction of electricity into Swedish homes and businesses and in the development of Sweden's railway network. In the 1940s and 1950s, Asea AB expanded into the power, mining and steel industries. Brown Boveri and Cie. (later renamed BBC Brown Boveri AG) was formed in Switzerland in 1891 and initially specialized in power

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generation and turbines. In the early to mid 1900s, it expanded its operations throughout Europe and broadened its business operations to include a wide range of electrical engineering activities.

In January 1988, Asea AB and BBC Brown Boveri AG each contributed almost all of their businesses to the newly formed ABB Asea Brown Boveri Ltd, of which they each owned 50 percent. In 1996, Asea AB was renamed ABB AB and BBC Brown Boveri AG was renamed ABB AG. In February 1999, the ABB Group announced a group reconfiguration designed to establish a single parent holding company and a single class of shares. ABB Ltd was incorporated on March 5, 1999, under the laws of Switzerland. In June 1999, ABB Ltd became the holding company for the entire ABB Group. This was accomplished by having ABB Ltd issue shares to the shareholders of ABB AG and ABB AB, the two publicly traded companies that formerly owned the ABB Group. The ABB Ltd shares were exchanged for the shares of those two companies, which, as a result of the share exchange and certain related transactions, became wholly-owned subsidiaries of ABB Ltd and are no longer publicly traded. ABB Ltd shares are currently listed on the SIX Swiss Exchange, the NASDAQ OMX Stockholm Exchange and the New York Stock Exchange (in the form of American Depositary Shares).

Organizational structure

Our business is international in scope and we generate revenues in numerous currencies. We operate in approximately 100 countries and have structured our global organization into four regions: Europe, the Americas, Asia and the Middle East and Africa (MEA). We are headquartered in Zurich, Switzerland.

We manage our business based on a divisional structure. In 2009, our business comprised five divisions: Power Products, Power Systems, Automation Products, Process Automation and Robotics. For a breakdown of our consolidated revenues (i) by core division and (ii) derived from each geographic region in which we operate, see "Item 5. Operating and Financial Review and Prospects Analysis of Results of Operations Revenues."

As of January 1, 2010, the automation divisions primarily the Automation Products and Robotics divisions were realigned to better meet market demands. For 2010, therefore, our business comprises the Power Products, Power Systems, Low Voltage Products, Discrete Automation and Motion, and Process Automation divisions. See "Business Divisions Industry Background Automation Market" for additional information related to the realignment of certain business divisions. Except where the context otherwise requires or where otherwise indicated, the information below is presented to reflect our business prior to this realignment.

Following the sale of the majority of our non-core activities, Non-core and Other is no longer presented separately but included in Corporate and Other.

Our principal corporate offices are located at Affolternstrasse 44, CH-8050 Zurich, Switzerland, telephone number +41-43-317-7111. Our agent for U.S. federal securities law purposes is ABB Holdings Inc., located at 501 Merritt 7, Norwalk, Connecticut 06851.

BUSINESS DIVISIONS

Industry Background

Our five divisions operate across two key markets, the power market and the automation market. Revenue figures presented in this Business Divisions section are before interdivisional eliminations.

Power Market

The power market uses products, systems and services designed primarily to deliver electricity. Electricity is generated in power stations and is then fed into an electricity grid, from where it is transmitted and distributed to consumers. The portions of an electricity grid that operate at the highest

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voltages are "transmission" systems, while those that operate at lower voltages are "distribution" systems. Transmission systems link power generation sources to distribution systems, often over long distances. Distribution systems then branch out over shorter distances to carry electricity from the transmission system to end users. These electricity networks incorporate sophisticated devices to control and monitor operations and to prevent damage from failures or stresses.

Electricity is transformed at different stages in the delivery process between the source and the ultimate end user. For example, electrical power is often generated in large power plants at 10 to 20 kilovolts. Because this voltage is too low to be transmitted efficiently, transformers are used to increase the voltage (up to 1,000 kilovolts) for long-distance transmission. This reduces losses and increases the amount of power that can be carried per line.

Transformers are also used to decrease the voltage at the local end for distribution to end users, such as residential, commercial or industrial consumers. An electric utility distribution system comprises distribution substations and networks, both overhead and underground. Some large industrial and commercial facilities receive electricity at higher voltage levels from the transmission or distribution network, while most industrial, commercial and residential users receive electricity from distribution network feeders at lower voltages.

Drivers in the power market vary by region. In North America the focus is on replacing aged infrastructure and improving grid reliability. In Europe the focus is on replacement of aged infrastructure and the integration of renewable energy sources, such as wind farms in the North Sea. Another driver in Europe is the increased demand for interconnections between countries to facilitate the market for energy trading. Both in North America and in Europe, improving energy efficiency also stimulates power investment. In the Middle East, a high level of investments is driven by large infrastructure projects and the related need for electricity. In emerging markets, including most parts of Asia, there is a need for electricity grid increases to cope with rising energy needs.

There is a global trend toward deregulation and privatization of the power market, which is creating a more competitive environment for our customers. This trend is evident in the United States, parts of South America, and Europe, and is developing in other regions. The creation of a free market for electricity requires our customers to become more cost-efficient and reliable to compete as a lowest-cost provider among power suppliers. Grid operators must be able to deliver power to customers that are hundreds or thousands of miles away within a few minutes. As more disturbance-sensitive loads (such as computers and telecommunications systems) have been added to networks, demand for reliable, high-quality electricity and "smarter" grids has increased. Power suppliers can achieve this efficiency and reliability in a number of ways, including the following:

replacing and modernizing assets and investing in information technology-based control and monitoring equipment and communications networks to control and supervise power networks based on instantaneous access to information,

upgrading current technologies and introducing new technologies to improve network reliability, increase network power rating and enhance the control of power flow through existing transmission and distribution assets,

developing new power transmission systems to link power generation sources with distant load centers, as is the case, for example, in China, or to link neighboring power grids in order to optimize existing power generation capacity across borders, as, for example, in Europe between Central Europe and Scandinavia, and

developing energy trading systems.

Another major trend is the discussion on climate change, which has created a strong interest in energy-efficient and environmentally-friendly solutions. Both drivers have a direct impact on our

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business as ABB delivers solutions to increase the energy efficiency of existing electrical infrastructure and to integrate renewable energy such as wind and solar power into the electricity grid.

Automation Market

The automation market uses products, systems and services designed primarily to improve product quality, energy efficiency and productivity in industrial and manufacturing applications. The automation market can be divided into three sectors:

Process automation refers to control systems, plant electrification and other applications used in processes where the main objective is continuous production, such as in the oil and gas, power, chemicals, minerals, metals and pulp and paper industries. Product lines for this market include plant electrification, instrumentation, analytical measurement and control products and systems, as well as motors and drives.

Factory automation refers to discrete operations that manufacture individual items for automotive and general industry areas such as foundry, metal fabrication, plastics, consumer electronics and food and beverage. Product lines for this market include robots and application equipment, product and system services and modular manufacturing solutions, as well as motors, drives, and low voltage products for control and power applications.

Building automation comprises product lines and applications particularly targeted at the building industry. Product lines for this market include a wide range of low-voltage products for control of climate, lighting and security for optimal management of the energy cost of buildings.

Effective January 1, 2010, ABB reorganized its automation divisions to align their activities more closely with those of its customers. These changes are expected to enable ABB to better capture growth opportunities in service, expand its presence in the discrete manufacturing sector and better respond to the increasing demand for energy efficient solutions.

Under the realignment, the business units from the Automation Products and Robotics divisions were regrouped into two new divisions Discrete Automation and Motion, and Low Voltage Products. The Process Automation division remained unchanged except for the addition of the instrumentation business from the Automation Products division.

The new divisions are as follows:

the new Low Voltage Products division includes businesses producing mainly low-voltage electrical equipment that is sold to wholesalers, original equipment manufacturers (OEMs) as well as system integrators. This equipment provides an opportunity to offer customers a moderate level of service, such as spare parts and replacements. If the divisional realignment was applied to 2009 data, the division would have had revenues of \$4.1 billion and about 18,800 employees.

the new Discrete Automation and Motion division includes products and systems targeted at discrete manufacturing applications, such as robotics and programmable logic controllers, and providing motion in plants, such as motors and drives. These businesses help customers to increase the productivity and energy efficiency of their assets. It also includes a significant offering of products and services for the renewable sectors of solar and wind, as well as the rail segment. These businesses sell mainly to OEMs, system integrators and directly to end users, and provide an opportunity to offer customers a more intensive, tailored level of service. If the divisional realignment was applied to 2009 data, the division would have had revenues of \$5.4 billion and about 17,700 employees.

Process Automation will remain unchanged except for the addition of our instrumentation business, which was part of the Automation Products division. The move will strengthen the division's process automation platform as instruments measuring temperature, flow, pressure, and so forth, are key to optimizing industrial processes. If the divisional realignment was applied to 2009 data, the division would have had revenues of \$7.8 billion and about 28,200 employees.

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Power Products Division

Overview

Our Power Products division serves primarily electric utilities, as well as gas and water utilities and industrial and commercial customers, with a broad range of products and services for power transmission and distribution. Direct sales account for a majority of the division's total product sales, and sales through external channel partners, such as wholesalers, distributors and OEMs, account for the remainder. Key technologies include high- and medium-voltage switchgear, circuit breakers for various current and voltage levels, power and distribution transformers, as well as sensors and products to automate and control electrical and other utility networks. The division had approximately 33,300 employees and 110 manufacturing plants as of December 31, 2009 and generated \$11.2 billion of revenues in 2009.

The Power Products Division

Our Power Products division manufactures three categories of products: High-voltage Products, Medium-voltage Products and Transformers. The division sells primarily to utilities, distributors, wholesalers, installers and OEMs in the utilities and power generation industries. Some of the division's products are integrated into the offerings of the Power Systems and Process Automation divisions or are sold through external channel partners such as engineering, procurement and construction (EPC) firms.

The division manufactures distribution transformers (up to 72.5 kilovolts) for use in industrial facilities, commercial buildings and utility distribution networks to step down electrical voltage to the levels needed by end users. Industrial transformers are mainly delivered to the steel and aluminum industry, which need their own high-voltage transformers and substations on-site to service their heavy electricity requirements. We manufacture and sell a full range of distribution transformers including oil-type, dry-type and special application distribution transformers. Although oil-type transformers are more commonly used, demand for dry-type transformers is growing because they minimize fire hazards and have applications in high-density office buildings, windmills, offshore drilling platforms, marine vessels and high-volume industrial plants.

We also design and manufacture power transformers (72.5 to 1,000 kilovolts) for utility, transportation and industrial customers, as well as transformer components such as bushings and tap changers. Generator transformers are used in power generation when it is necessary to increase power voltage from a power plant for long-distance transmission. We produce traction transformers used in electric locomotives and we provide a wide range of transformer service and retrofit solutions for utilities and industry customers. The division also produces insulation material.

In the medium-voltage area, the division develops products and systems that reduce outage times and improve power quality and control, which are key to improving operational efficiency of both utility and industrial customers. It supplies switching equipment both directly to end users and through distributors and OEMs. Some of its products provide connections between higher voltage substations and lower voltage uses. It produces a comprehensive line of medium-voltage equipment (1 to 50 kilovolts), including products such as indoor and outdoor switch disconnectors, breakers, reclosers, fuses, contactors, instrument transformers and sensors as well as air- and gas-insulated switchgear, motor control centers, and ring main units for primary and secondary distribution. It also produces indoor and outdoor modular systems, compact substations and power distribution centers. In addition, a significant portion of its products are sold through external channel partners such as OEMs.

The Power Products division also provides high-voltage transmission equipment to power utilities that enables them to operate more efficiently and with lower environmental impact, both of which are significant business concerns in the market in which our customers operate. We manufacture the principal components of power transmission systems (50 to 800 kilovolts), including air- and gas-insulated switchgear, capacitors, high-voltage circuit breakers, grounding switches and instrument transformers. The division also

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delivers the entire ABB portfolio of low-, medium- and high-voltage capacitors and surge arresters. Its products and components also include circuit breaker drives and cable accessories.

Customers

The Power Products division's principal customers are electric utilities, owners and operators of power transmission systems, utilities that own or operate networks and owners and operators of power generating plants. Other customers include gas and water utilities, gas transmission companies, local distribution companies and multi-utilities, which are involved in the transmission or distribution of more than one commodity. The division also serves industrial and commercial customers, such as operators of large commercial buildings and heavy industrial plants.

Sales and Marketing

The Power Products division sells its products individually and as part of larger systems through our Power Systems division. Direct sales account for a majority of the division's total product sales, and sales through external channel partners, such as wholesalers, distributors and OEMs, account for the remainder. Because the Power Products and Power Systems divisions share many of the same customers and technologies, and are influenced by the same market drivers, the two divisions share a common sales force in most regions and countries.

Competition

On a global basis, the Power Products division's principal competitors are Siemens AG and Areva SA, and, in the medium-voltage market, Schneider Electric SA. We also compete regionally with companies such as Cooper Industries, Eaton Corporation, Crompton Greaves and Bharat Heavy Electricals Ltd.

Capital Expenditures

The Power Products division's capital expenditures for property, plant and equipment were \$272 million in 2009, compared to \$305 million and \$209 million in 2008 and 2007, respectively. Principal investments in 2009 were in China, Sweden, Germany and the United States. Geographically, in 2009, Europe accounted for 51 percent of our capital expenditures, followed by 24 percent in Asia, 15 percent in the Americas and 10 percent in Middle East and Africa.

Power Systems Division

Overview

Our Power Systems division serves utilities, industrial and commercial customers with system solutions and services for the generation, transmission and distribution of electricity. Turnkey solutions include power plant electrics and automation, bulk power transmission, substations and network management. The division had approximately 16,000 employees in 80 countries as of December 31, 2009 and generated \$6.5 billion of revenues in 2009.

The Power Systems Division

Our Power Systems division delivers systems in four areas: grid systems, network management, power generation, and substations. The division sells primarily to utilities, EPC companies and power generation industries. Some of the Power Products division's products are integrated into the offering of the Power Systems division.

For grid systems, we provide power systems that are essential to grid reliability, including flexible alternating current transmission systems (FACTS) and we also sell high-voltage direct current (HVDC)

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systems. Critical components in these systems are power semiconductors and cables which are also manufactured by the Power Systems division.

We are a leading manufacturer of HVDC technology, which is an advanced technology for transporting electricity over long distances, feeding power from mainland sites to off-shore platforms or integrating large off-shore windpower into the power grid. It reduces power losses, increases system stability and provides a more controllable flow than high-voltage alternating current. An HVDC transmission system typically includes converters, which change alternating current to direct current and then back to alternating current when it reaches the terminal point, and transmission line cables, either above or below ground. Advances in converter and cable technology have enabled us to introduce a system called HVDC Light™. Converter stations for HVDC Light™ are approximately one-fifth the size of conventional HVDC technology for the same rated power. HVDC Light™ extends the range of applications for underground or submarine high-voltage direct current. Typical applications include interconnection of separate networks that operate on different frequencies or provide variational power quality, such as wind parks. The system can also be used as a substitute for local power generation in remote areas, islands or oil platforms.

We also provide FACTS devices to enhance power grid stability, improve power quality and increase transmission capability. FACTS devices include series compensators, static volt-amperes reactive compensators (SVCs) and SVC Light™ (based on the same unique technology as HVDC Light™).

HVDC, HVDC Light™, FACTS, and SVC Light™ systems rely on advanced power semiconductor components. Our power semiconductor business develops and manufactures tailor-made components to maximize the performance of these systems. The Power Systems division supplies power semiconductor devices to other ABB businesses and to external customers in the power transmission and distribution, drives, and transportation markets.

Our cable business is specialized in sub-sea cable solutions and land-cables for bulk energy transfer over long distances.

Our network systems offering includes high-end supervisory control and data acquisition (SCADA) systems for power and gas customers. SCADA systems are used to monitor and control energy transmission, distribution and power generation. They are also used in market systems for power networks providing real time information about the status of the grid. SCADA systems allow utilities to optimize their business by improving the performance of their installed network equipment to meet changing customer requirements and new market conditions.

The division also provides wireless and fixed communication systems for power, water and gas utilities, including both operational and corporate communication networks. It offers fiber optics, microwave radio and power line applications for data networking and broadband network management, as well as teleprotection and substation communication networks and voice switching management systems.

In the area of power generation, the division offers complete system integration of instrumentation, control and electrical equipment for the power generation market. The services offered include combustion management, plant performance optimization, condition monitoring and asset management. We also offer turnkey water pumping stations including control systems.

Substations interconnect electricity grids operating on different voltage levels, sectionalize portions of the grid and protect the electrical system against damage from outside sources such as lightning and overload. By sectionalizing the grid, power can be rerouted from portions of the transmission system that are experiencing problems to sections that are functioning properly, thereby enhancing the overall reliability of the power supply.

We deliver complete air- and gas-insulated substations for power transmission. Substations are also necessary in a power distribution network to sectionalize and reduce the voltage of the main power lines

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and cables to the lower voltages required for efficient distribution and consumption. For power distribution, we sell traditional custom-engineered substations.

This division offers services and support for management of existing power transmission and distribution assets, including both ABB products and those manufactured by third parties.

In addition, the Power Systems division offers a range of services aimed at reducing the in-house operational and maintenance requirements of utility customers. Our services range from contracts for spare parts management, support agreements and retrofits, to service, consulting and training. The Power Systems division also undertakes analyses of the design of new transmission and distribution systems as well as optimization that take into account technical, economic and environmental considerations.

Customers

The Power Systems division's principal customers are electric utilities, owners and operators of power transmission systems, utilities that own or operate networks and owners and operators of power generating plants. Other customers include gas and water utilities, transmission companies, local distribution companies and multi-utilities, which are involved in the transmission or distribution of more than one commodity. The division also serves industrial and commercial customers, such as operators of large commercial buildings and heavy industrial plants.

Sales and Marketing

The Power Systems division sells its offering primarily through a direct sales force of specialized sales engineering teams. Some sales are also handled through third-party channels, such as OEMs and system integrators or EPC firms. Because the Power Systems and Power Products divisions share many of the same customers and technologies, and are influenced by the same market drivers, the two divisions share a common sales force in most regions and countries.

Competition

On a global basis, the Power Systems division's principal competitors are Siemens AG and Areva SA. In the power generation area, the division's principal competitors are Areva SA, Emerson Electric Co., General Electric Company, Invensys plc and Siemens AG.

Capital Expenditures

The Power Systems division's capital expenditures for property, plant and equipment were \$131 million in 2009, compared to \$89 million and \$50 million in 2008 and 2007, respectively. Principal investments in 2009 included replacement of existing equipment as well as capacity expansion, particularly in Sweden and Switzerland. Geographically, in 2009, Europe accounted for 86 percent of our capital expenditures, followed by 9 percent in Middle East and Africa, 3 percent in the Americas and 2 percent in Asia.

Automation Products Division

Overview

The Automation Products division provides products, with related services, that are used as components in machinery, switchboards, distribution panels, and building and automation systems. The Automation Products offering covers a wide range of products and services including low-voltage switchgear, breakers, switches, control products, DIN-rail components, enclosures, wiring accessories, instrumentation, drives, motors, generators, and power electronics systems. These products help customers to improve productivity, save energy and increase safety. Key applications include power distribution, protection and control, energy conversion, data acquisition and processing, and actuation. The majority of these applications are for industrial applications, with others provided for building construction, rail transportation, and utilities.

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The Automation Products division had approximately 35,000 people worldwide as of December 31, 2009, and generated \$8.9 billion of revenues in 2009 through sales activities in more than 100 countries. The division has more than 100 manufacturing sites in 50 countries. Each day, the division delivers around one million products.

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

The Automation Products Division

The Automation Products division manufactures low-voltage circuit breakers, switches and control products to protect people, installations and electronic equipment from electrical overloads. It also manufactures instrumentation products to measure and control the flow of fluids.

This division makes line protection products, wiring accessories and enclosures and cable systems that are primarily used for control and protection in building installations. It also produces European Installation Bus/Powernet systems, which integrate and automate a building's electrical installations, ventilation, security and data communication networks.

The process instrumentation products manufactured by this division interact with the Open Control System products from the Process Automation division and include products for the measurement of process variables such as pressure, temperature, volume and flow. The increasing sophistication of many process automation systems often requires thousands of measurement points for such variables. These instrumentation products are sold separately or in combination with control systems. The various analytical measurement devices produced by this division form an important part of instrumentation and control systems. These devices measure chemical characteristics while process instrumentation products measure physical characteristics.

This division also provides low-voltage and medium-voltage AC drive products and systems for industrial, commercial and residential applications. Drives provide motion and torque while adding control and efficiency to equipment such as fans, pumps, compressors, conveyors, kilns, centrifuges, mixers, hoists, cranes, extruders, printing machinery and textile machines. Our drives are used in the building automation, marine, power, transportation and manufacturing industries, among others.

The Automation Products division also produces a range of power electronics products. These include static excitation and synchronizing systems that provide stability for power stations, as well as high power rectifiers that convert AC power to DC power for very high-amperage applications such as furnaces in zinc plants and aluminum and magnesium smelters. The division also manufactures frequency converters that use semiconductor technology to convert electrical power into the type and frequency required by individual customers.

In addition, this division supplies a comprehensive range of electrical motors and generators, including high-efficiency motors that conform to leading environmental and efficiency standards. Efficiency is an important criterion for selection by customers, because electric motors account for nearly two-thirds of the electricity consumed by industrial plants. This division manufactures synchronous motors for the most demanding applications and a full range of low and high-voltage induction motors.

Customers

The Automation Products division serves a wide range of customers, primarily through channel partners such as distributors, wholesalers and OEMs. Customers include residential and commercial building contractors, process industries such as pulp and paper, oil and gas and metals and mining

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companies, rail equipment manufacturers, discrete manufacturing companies and renewable energy suppliers, particularly in the wind and solar sectors.

Sales and Marketing

Sales are made both through direct sales forces as well as through third-party channel partners, such as distributors, wholesalers, installers, machine builders and OEMs, system integrators, and panel builders. The proportion of direct sales compared to channel partner sales varies among the different industries, product technologies and geographic markets. For the division as a whole, the majority of products are sold through channel partners, with the remainder sold through the division's own direct sales channels.

Competition

The Automation Products division's principal competitors vary by product line but include Alstom, Baldor Electric Company, Eaton Corporation, Emerson Electric Co., Endress+Hauser, Legrand, Mitsubishi, Rockwell Automation, Schneider Electric SA, Siemens AG, Yokogawa Electric Corporation and WEG Industries.

Capital Expenditures

The Automation Products division's capital expenditures for property, plant and equipment were \$264 million in 2009, compared to \$305 million and \$193 million in 2008 and in 2007, respectively. Principal investments in 2009 were primarily related to ordinary course replacements of machinery and equipment mainly in Germany, Finland, Italy and China plus expansion investments in China, India and Bulgaria. Geographically, in 2009, Europe accounted for 64 percent of the capital expenditure, followed by 26 percent in Asia, 9 percent in Middle East and Africa and 1 percent in the Americas.

Process Automation Division

Overview

The Process Automation division provides products, systems, and services for the automation and optimization of industrial processes. Our main offerings are process automation, plant electrification and quality control systems, analytical measurement devices, turbochargers and marine propulsion systems. Our key end markets are the oil and gas, pulp and paper, metals and minerals, chemicals and pharmaceuticals, turbocharging and marine industries. The division had approximately 25,500 employees as of December 31, 2009, and generated revenues of \$7.3 billion in 2009.

The Process Automation division offers its products both as separately sold devices and as part of a total automation system. Our technologies are marketed both through direct sales forces and third party channels.

The Process Automation Division

The Process Automation division offers integrated process control systems, plant electrification systems, information management systems and industry-specific application knowledge for a variety of industries, primarily pulp and paper, minerals and mining, metals, chemicals and pharmaceuticals, oil and gas, turbocharging, power and the marine industry. Some of the Automation Products, Power Products and Robotics divisions' products are integrated into the offering of the Process Automation division.

Our control systems are used in applications such as batch management, asset optimization, energy management and safety control. They are the hubs that link instrumentation, devices and systems for control and supervision of industrial processes and enable customers to integrate their production

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systems with their enterprise, resource and planning systems, thereby providing a link to their ordering, billing and shipping processes. This link allows customers to manage their entire manufacturing and business process based on real-time access to plant information. Additionally, it allows customers to increase production efficiency, optimize their assets and reduce environmental waste.

This division emphasizes Open Control Systems, including batch control systems, supervisory control and data acquisition systems, and, to a lesser extent, programmable logic controls and remote terminal units.

Batch control systems control the production of a variety of products in shorter runs, such as certain pharmaceuticals and food and beverage products. Supervisory control and data acquisition systems are used to collect and manage data over wide areas or long distances such as those involved in operating electric power networks.

A key element of this division's product offering is its System 800xA process automation platform. This product extends the capability of traditional process control systems, introducing advanced functions such as batch management, asset optimization and field device integration which "plug in" to a common user environment. The same user interface may also be used to manage components of existing multiple ABB control systems that have been installed in the market over approximately the past 20 years. In this way, System 800xA gives customers a way to migrate to new functions one step at a time, rather than having to make a large-scale capital investment to replace their entire control system. By creating a common user interface that can be used to manage multiple systems, the System 800xA also reduces the research and development investment needed to achieve a "one size fits all" solution across our large installed systems base.

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

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

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

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

We also offer full-service contracts across all of our customer segments, in which we take over in-house maintenance activities for customers and apply strategies to reduce overall maintenance costs and help optimize these investments. Demand for our process automation services is increasing as our customers seek to increase productivity by improving the performance of existing assets.

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Customers

The Process Automation division's end customers are primarily companies in the oil and gas, minerals and mining, metals, pulp and paper, chemicals and pharmaceuticals, turbocharging and the marine industries.

Sales and Marketing

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

Competition

The Process Automation division's principal competitors vary by industry or product line but include, Emerson Electric Co., Honeywell International Inc., Invensys plc, Metso Automation, Rockwell Automation, Schneider Electric SA, Siemens AG, Voith AG, Aspen Technologies, and Yokogawa Electric Corporation.

Capital Expenditures

The Process Automation division's capital expenditures for property, plant and equipment were \$90 million in 2009, compared to \$79 million and \$91 million in 2008 and in 2007, respectively. Principal investments in 2009 were primarily related to our turbocharging production facilities and service stations in Switzerland, China, Japan, the United States and project-related investments mainly in Algeria, Finland, India, Sweden and Germany. In 2009, Europe accounted for 63 percent of capital expenditures, followed by 23 percent in Asia, 8 percent in the Americas and 6 percent in Middle East and Africa.

Robotics Division

Overview

Our Robotics division offers robot products, systems and services for the automotive and manufacturing industries. The division develops standardized manufacturing cells for many applications including machine tending, welding, cutting, painting, finishing and packing. It also provides fully engineered systems to automobile manufacturers for press automation, paint process automation, body in white assembly and power train assembly. The division also provides a full range of robotics services, from product and system maintenance to system design. The division had approximately 4,200 employees as of December 31, 2009 and generated \$970 million of revenues in 2009. The Robotics division's manufacturing and research and development locations are organized globally, with headquarters in China.

The Robotics Division

The Robotics division offers robot products, systems and services for the automotive manufacturers and their sub-suppliers as well as general manufacturing industries, to improve product quality, productivity and consistency in manufacturing processes. Robots are also used in inhospitable environments which may be hazardous to employee health and safety, such as repetitive lifting, cold rooms or painting booths.

In the automotive industry, the division's products and systems are used in such areas as press shop, body shop, paint shop, power train assembly, trim and final assembly. General industry segments in which robotics solutions are used range from metal fabrication, foundry, plastics, food and beverage,

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chemicals and pharmaceuticals to consumer electronics, solar and wood. Typical general industry applications include welding, material handling, painting, picking, packing and palletizing.

Shortened product life cycles and rapidly changing consumer preferences have brought new challenges to our robotics customers. They must be able to adapt their production lines to increasingly frequent changes in product design. At the same time, they have to continuously deliver their products faster and at higher quality standards. Furthermore, constant price pressure requires them to decrease production costs by improving manufacturing processes. Robots and robotics systems continue to play a key role in our customers' ability to adapt to their rapidly-changing business environment.

Our services include design and project management, engineering, installation, training and life-cycle care of the complete production line.

Customers

The Robotics division's end customers are primarily companies in the automotive and manufacturing industries.

Sales and Marketing

Sales are made through both direct and indirect sales forces and third-party channel partners, such as distributors, system integrators, OEMs and machine builders. The proportion of direct sales compared to indirect sales varies among the different industries, product technologies and geographic markets. Sales from the systems and service businesses are made almost entirely through direct sales forces.

Competition

The Robotics division's principal competitors vary by product and system but major competitors include Fanuc Robotics Inc., Kuka Robot Group, Yaskawa Electric Corporation, Dürr AG, Kawasaki Robotics and Stäubli AG, as well as a growing base of small and medium-sized system integrators.

Capital Expenditures

The Robotics division's capital expenditures for property, plant and equipment were \$14 million in 2009, compared to \$28 million and \$14 million in 2008 and 2007, respectively. Geographically, in 2009, Asia accounted for 54 percent of the capital expenditure, followed by 38 percent in Europe and 8 percent in the Americas.

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DISCONTINUED OPERATIONS

Overview

The following businesses and costs are included in our Consolidated Financial Statements as discontinued operations at December 31, 2009, 2008 and 2007:

Our Transformer business in South Africa, which was sold in 2008.

Our Lummus Global business, which was sold during 2007.

Our Building Systems business in Germany, which was sold during 2007.

In 2006, we and the buyer of the upstream oil and gas business entered into an agreement to settle certain items which were disputed by the buyer after the closing of the transaction in 2004. In 2007, we recorded income in connection with the release of certain provisions related to the divestment.

Our Power Lines businesses in Brazil and Mexico, which were sold during 2007.

Provisions and other expenses incurred in connection with asbestos-related claims. The status of our potential asbestos obligation is described in "Note 15 Commitments and contingencies" to our Consolidated Financial Statements.

Legal, professional and other fees related to the above disposals.

See "Note 3 Acquisitions, divestments and discontinued operations" to our Consolidated Financial Statements for additional information.

CAPITAL EXPENDITURES

Total capital expenditures for property, plant and equipment including non-acquisition related intangible assets amounted to \$967 million, \$1,171 million and \$756 million in 2009, 2008 and 2007, respectively. Compared to the depreciation expenses, capital expenditures were 48 percent higher in 2009, 77 percent higher in 2008 and 26 percent higher in 2007.

Due to the current geographic distribution of our production facilities, capital expenditures in 2009 remained at a significant level in mature markets, but were below the previous year's level. Capital expenditures in Europe were primarily driven by maintenance and upgrades of existing production facilities to improve productivity, mainly in Switzerland, Sweden and Germany. Capital expenditures in emerging markets also decreased somewhat from their record level in 2008, but are still significantly above the level of 2007. Expenditures were highest in China, India and Poland. Capital expenditures in emerging markets were mostly made to expand or build new facilities to increase the production capacity. The share of emerging markets capital expenditure as a percentage of total capital expenditure was 42 percent in 2009.

The carrying value of property, plant and equipment sold amounted to \$22 million, \$50 million and \$30 million in 2009, 2008 and 2007, respectively.

Of the total sales of property, plant and equipment in 2009, a significant portion was related to real estate properties, mainly in Norway, France, Brazil and Switzerland. The remainder was related to machinery and equipment in various locations. Of the total sales of property, plant and equipment in 2008, the majority related to real estate properties in Switzerland, Brazil, Mexico, Poland and Italy. Of the total sales of property, plant and equipment in 2007, a significant portion was related to real estate properties in Norway, Sweden and Italy.

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Construction in progress for property, plant and equipment at December 31, 2009 was \$564 million, mainly in Switzerland, Sweden, Germany, China, India and Poland. Construction in

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progress for property, plant and equipment at December 31, 2008 was \$534 million, mainly in Sweden, the United States, Switzerland, China and Germany. Construction in progress for property, plant and equipment at December 31, 2007 was \$285 million, mainly in Sweden, the United States, China, India, Switzerland and Germany.

In 2010, we plan to reduce our capital expenditures, but estimate the amount will be higher than our annual depreciation and amortization charge. We anticipate higher investments in the Americas and correspondingly lower capital spending in Europe.

SUPPLIES AND RAW MATERIALS

We purchase a variety of raw materials for use in our production and project execution processes. The primary materials used in our products, by weight, are steel, copper, aluminum, mineral oil and various plastics. We also purchase a wide variety of fabricated products and electronic components. We operate a worldwide supply chain management network with employees dedicated to this function in business units and key countries. Over twenty global, and many divisional commodity teams take advantage of opportunities to leverage the scale of ABB, to optimize the efficiency of our supply networks, and to capture lowest possible costs worldwide.

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

pool and leverage procurement of materials and services used by many of our production facilities,

improve our collaboration with supplier partners, through tools such as our supplier portal,

enhance the transparency of our spending through a comprehensive performance and reporting system linked to all of our ERP systems, and

build on the experience in our organization to establish a supply chain management excellence network, that supports the day-to-day requirements of our supply chain employees worldwide.

The price of raw materials is highly volatile, and has varied substantially, from year to year. For many commodities we purchase, such as steel, copper, aluminum and products derived from crude oil, continuing global economic growth in China and other emerging economies, coupled with the uncertainty brought upon the markets by the recent world financial crisis, and the volatility in foreign exchange rates, all led to significant fluctuations in raw material costs over the last few years. While some market volatility will be offset through the use of either long-term contracts or hedging, we expect global commodity prices to remain highly volatile.

We mitigate our exposure to commodity risk arising from changes in prices of raw materials by entering into hedges. For example, we manage copper and aluminum price risk using principally swap contracts based on London Metal Exchange prices or on New York Mercantile Exchange prices for these commodities. Our hedging policy is designed to minimize price volatility and create a stable cost base. Hedging has the effect of minimizing the unfavorable impact of price increases in commodities, but it also limits the favorable impact of decreasing prices. Certain gains and losses derived from our commodity hedging transactions are deferred and reflected in the cost of goods sold when the underlying physical transaction affects cost of goods sold. In addition to using hedging to reduce our exposure to fluctuations in raw materials prices, in some cases we can reduce this risk by incorporating changes in raw materials prices into the prices of our products.

The costs for most of our electronic components, subassemblies and fabricated products were in line with our cost reduction initiatives and in many cases reduced compared to 2008. Procurement personnel in the business units, and in the countries in which we operate, along with the global commodities teams, continued to focus on component cost reduction efforts in all areas.

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PATENTS AND TRADEMARKS

We believe that intellectual property is as important as tangible assets for a technology group such as ABB. Over the past ten years, we have almost doubled our total number of first patent filings, and we intend to continue our aggressive approach to seeking patent protection. Currently, we have about 18,000 patent applications and registrations, of which approximately 9,000 are pending applications. In 2009, we filed patent applications for approximately 800 new inventions. Based on our existing intellectual property strategy, we believe that we have adequate control over our core technologies. The "ABB" trademarks and logo are protected in all of the countries in which we operate. We aggressively defend the reputation associated with the ABB brand.

SUSTAINABILITY ACTIVITIES

Sustainability management is one of our highest business priorities. We seek to address sustainability issues in all our business operations in order to improve our social and environmental performance continuously, and to enhance the quality of life in the communities and countries where we operate.

Our social and environmental efforts include:

regularly implementing sustainability objectives covering all relevant parts of our operations,

joining initiatives that foster economic, environmental, social and educational development, and strengthen observance of human rights in business practice,

making positive contributions in the communities where we operate so they will welcome us and consider ABB an attractive employer and a good investment,

offering our customers eco-efficient products that save energy and are safe to use, that optimize the use of natural resources, minimize waste and reduce environmental impact over their complete life cycles,

applying non-financial risk assessment to projects, and key business decision-making processes,

sharing our latest technologies with emerging markets by, for example, helping customers in developing countries implement environmentally sound processes and technologies and providing environmental awareness training,

ensuring that our operations and processes comply with applicable environmental standards and social legislation. Specifically, every operating unit must implement an environmental management system that seeks to continuously improve its environmental performance.

ensuring that our social and environmental policies are communicated and implemented,

working towards achieving best practices in occupational health and safety, and ensuring the health and safety of our employees, contractors and others involved in or affected by our activities,

ensuring that suppliers have sustainability policies and systems similar to our own, and

continuing our program to decontaminate sites that were polluted by historical manufacturing processes.

To manage environmental aspects of our own operations, we have implemented environmental management systems according to the ISO 14001 standard at our manufacturing and service sites. Almost all such sites currently work in compliance with the requirements of the standard (approximately 360 sites) and our environmental management program now covers operations in 54 countries. For non-manufacturing sites we have implemented an adapted environmental management

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system in order to ensure management of environmental aspects and continual improvement of performance.

We have Environmental Product Declarations to communicate the environmental performance of our core products. These describe the significant environmental aspects and impacts of a product line, viewed over its complete life cycle. Declarations are based on Life Cycle Assessment studies, created according to the international standard ISO/TR 14025. More than 70 declarations for major product lines are published on our Web site (*www.abb.com*), some of which have been externally certified by agencies such as Det Norske Veritas (DNV) of Norway and the RINA Management System Certification Society in Italy.

In 2009, a total of 85 percent of our employees were covered by confirmed data gathered through ABB's formal environmental reporting system that is verified by an independent verification body. The parts of our business that are not yet covered by our reporting system, mainly sales offices in countries where we do not perform manufacturing, have very limited environmental exposure. A total of twelve environmental incidents were reported in 2009, none of which had a material environmental impact.

In 2009, a total of 95 percent of employees were covered by confirmed data gathered through ABB's formal social reporting system that is verified by an independent verification body. The parts of our business that are not yet covered by our reporting system, mainly sales offices in countries where we do not perform manufacturing, have very limited social exposure.

One of our corporate objectives is to phase out the use of the hazardous substances that are recorded on our list of "restricted" substances. Priorities for replacement are set by each business using criteria such as the environmental aspects of alternatives, the risk of the substance escaping into the environment, how hazardous the substance is, whether we can use the substance under strict control and whether there are any technically acceptable alternatives.

We have retained liability for environmental remediation costs at two sites in the United States that were operated by our former nuclear business, which we have sold to BNFL. The primary environmental liabilities associated with these sites relate to the costs of remediating radiological contamination upon decommissioning the facilities. See "Note 15 Commitments and contingencies" to our Consolidated Financial Statements.

REGULATION

Our operations are subject to numerous governmental laws and regulations including those governing antitrust and competition, corruption, the environment, securities transactions and disclosures, import and export of products, currency conversions and repatriation, taxation of foreign earnings and earnings of expatriate personnel and use of local employees and suppliers.

As a reporting company under Section 12 of the U.S. Securities Exchange Act of 1934, we are subject to the FCPA's antibribery provisions with respect to our conduct around the world.

Our operations are also subject to the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, as implemented by the 34 signatory countries. The convention obliges signatories to adopt national legislation that makes it a crime to bribe foreign public officials. As of December 31, 2009, those countries which have adopted implementing legislation and have ratified the convention include the United States and several European nations in which we have significant operations.

We conduct business in certain countries known to experience governmental corruption. While we are committed to conducting business in a legal and ethical manner, our employees or agents have taken, and in the future may take, actions that violate the U.S. FCPA, legislation promulgated pursuant to the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, antitrust laws or other laws or regulations. These actions have resulted and could result in monetary or other penalties against us and could damage our reputation and, therefore, our ability to do business. For more information, see "Item 8. Financial Information Legal Proceedings."

Table of Contents**SIGNIFICANT SUBSIDIARIES**

ABB Ltd, Switzerland, is the ultimate parent company of the ABB Group, which comprises 265 consolidated operating and holding subsidiaries worldwide as of February 28, 2010. ABB Ltd's shares are listed on the SIX Swiss Exchange, the NASDAQ OMX Stockholm Exchange and the NYSE (where its shares are traded in the form of ADSs each ADS representing one registered ABB share).

The only consolidated subsidiary in the ABB Group with listed shares is ABB Limited, Bangalore, India, which is listed on the Bombay Stock Exchange and the National Stock Exchange of India.

The following table sets forth, as of February 28, 2010, the name, country of incorporation, and ownership interest of ABB Ltd, in its significant subsidiaries:

| Company Name | Country | ABB Group Interest % |
|---|--------------------|----------------------|
| ABB S.A., Buenos Aires | ARGENTINA | 100.00 |
| ABB Australia Pty Limited, Sydney | AUSTRALIA | 100.00 |
| ABB AG, Vienna | AUSTRIA | 100.00 |
| ABB N.V., Zaventem | BELGIUM | 100.00 |
| ABB Ltda., Osasco | BRAZIL | 100.00 |
| ABB Bulgaria EOOD, Sofia | BULGARIA | 100.00 |
| ABB Inc., St. Laurent, Quebec | CANADA | 100.00 |
| ABB (China) Ltd., Beijing | CHINA | 100.00 |
| Asea Brown Boveri Ltda., Bogotá | COLOMBIA | 99.99 |
| ABB Ltd., Zagreb | CROATIA | 100.00 |
| ABB s.r.o., Prague | CZECH REPUBLIC | 100.00 |
| ABB A/S, Skovlunde | DENMARK | 100.00 |
| ABB Equador S.A., Quito | ECUADOR | 96.87 |
| Asea Brown Boveri S.A.E., Cairo | EGYPT | 100.00 |
| ABB AS, Tallinn | ESTONIA | 100.00 |
| ABB Oy, Helsinki | FINLAND | 100.00 |
| ABB S.A., Rueil-Malmaison | FRANCE | 100.00 |
| ABB AG, Mannheim | GERMANY | 100.00 |
| ABB Automation GmbH, Mannheim | GERMANY | 100.00 |
| ABB Automation Products GmbH, Ladenburg | GERMANY | 100.00 |
| ABB Beteiligungs- und Verwaltungsges. mbH, Mannheim | GERMANY | 100.00 |
| ABB Stotz-Kontakt GmbH, Heidelberg | GERMANY | 100.00 |
| Busch-Jaeger Elektro GmbH, Mannheim/Lüdenscheid | GERMANY | 100.00 |
| Asea Brown Boveri S.A., Metamorphosis Attica | GREECE | 100.00 |
| ABB (Hong Kong) Ltd., Hong Kong | HONG KONG | 100.00 |
| ABB Engineering Trading and Service Ltd., Budapest | HUNGARY | 100.00 |
| ABB Limited, Bangalore | INDIA | 52.11 |
| ABB Ltd, Dublin | IRELAND | 100.00 |
| ABB Technologies Ltd., Tirat Carmel | ISRAEL | 99.99 |
| ABB S.p.A., Milan | ITALY | 100.00 |
| ABB Technology SA, Abidjan | IVORY COAST | 99.00 |
| ABB K.K., Tokyo | JAPAN | 100.00 |
| ABB Ltd., Seoul | KOREA, REPUBLIC OF | 100.00 |
| ABB Holdings Sdn. Bhd., Subang Jaya | MALAYSIA | 100.00 |
| Asea Brown Boveri S.A. de C.V., Tlalnepantla | MEXICO | 100.00 |
| ABB BV, Rotterdam | NETHERLANDS | 100.00 |
| ABB Finance B.V., Amsterdam | NETHERLANDS | 100.00 |
| ABB Holdings B.V., Amsterdam | NETHERLANDS | 100.00 |
| ABB Investments B.V., Amsterdam | NETHERLANDS | 100.00 |
| ABB Limited, Auckland | NEW ZEALAND | 100.00 |
| ABB Holding AS, Billingstad | NORWAY | 100.00 |

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| Company Name | Country | ABB Group Interest % |
|--|--------------------|----------------------|
| ABB S.A., Lima | PERU | 80.60 |
| ABB Inc., Paranaque, Metro Manila | PHILIPPINES | 100.00 |
| ABB Sp. z o.o., Warsaw | POLAND | 99.88 |
| ABB (Asea Brown Boveri), S.A., Paco de Arcos | PORTUGAL | 100.00 |
| Asea Brown Boveri Ltd., Moscow | RUSSIAN FEDERATION | 100.00 |
| ABB Contracting Company Ltd., Riyadh | SAUDI ARABIA | 65.00 |
| ABB Holdings Pte. Ltd., Singapore | SINGAPORE | 100.00 |
| ABB Holdings (Pty) Ltd., Sunninghill | SOUTH AFRICA | 80.00 |
| Asea Brown Boveri S.A., Madrid | SPAIN | 100.00 |
| ABB AB, Västerås | SWEDEN | 100.00 |
| ABB Norden Holding AB, Västerås | SWEDEN | 100.00 |
| ABB Asea Brown Boveri Ltd, Zurich | SWITZERLAND | 100.00 |
| ABB Schweiz AG, Baden | SWITZERLAND | 100.00 |
| ABB LIMITED, Bangkok | THAILAND | 100.00 |
| ABB Holding A.S., Istanbul | TURKEY | 99.95 |
| ABB Ltd., Kiev | UKRAINE | 100.00 |
| ABB Industries (L.L.C.), Dubai | UAE | 49.00 |
| ABB Holdings Limited, Warrington | UNITED KINGDOM | 100.00 |
| ABB Limited, Warrington | UNITED KINGDOM | 100.00 |
| ABB Holdings Inc., Norwalk, CT | UNITED STATES | 100.00 |
| ABB Inc., Norwalk, CT | UNITED STATES | 100.00 |
| Kuhlman Electric Corporation, Crystal Springs MS | UNITED STATES | 100.00 |
| Asea Brown Boveri S.A., Caracas | VENEZUELA | 100.00 |

DESCRIPTION OF PROPERTY

As of December 31, 2009, we occupied real estate in approximately 100 countries throughout the world. The facilities consist mainly of manufacturing plants, office buildings, research centers and warehouses. A substantial portion of our production and development facilities are situated in Germany, Sweden, the United States, Switzerland, China, Finland, India and Italy. We also own or lease other properties, including office buildings, warehouses, research and development facilities and sales offices in many countries. We own essentially all of the machinery and equipment used in our manufacturing operations.

From time to time, we have a surplus of space arising from acquisitions, production efficiencies and/or restructuring of operations. Normally, we seek to sell such surplus space which may involve leasing property to third parties for an interim period.

The net book value of our property, plant and equipment at December 31, 2009, was \$4,072 million, of which machinery and equipment represented \$1,780 million, land and buildings represented \$1,728 million and construction in progress represented \$564 million. We believe that our current facilities are in good condition and are adequate to meet the requirements of our present and foreseeable future industrial operations.

Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

You should read the following discussion of our financial condition and results of operations in conjunction with our Consolidated Financial Statements and other financial information contained elsewhere in this Annual Report. This discussion contains forward-looking statements that involve risks

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and uncertainties, including those discussed in "Item 3. Key Information Risk Factors." See "Forward-looking statements" at the beginning of this Annual Report.

MANAGEMENT OVERVIEW

During 2009, we continued to focus on our core strengths: power and automation products, systems and services that increase grid reliability and industrial productivity and result in significant energy savings.

Despite uncertainties surrounding the economic situation, we continued to benefit from the broad scope of our business portfolio across key infrastructure sectors, such as power transmission and oil and gas. Our strong positions in emerging markets, our flexible global production base and our technological leadership, as well as the operational improvements we continue to make in our businesses also supported our business in 2009.

Foremost among these improvements was the successful reduction of costs to adapt to changing demand. Savings were achieved in four areas: making better use of global sourcing opportunities, reducing general and administrative expenses, eliminating operational and process inefficiencies, and optimizing our global footprint in order to match the geographic scope of our business with changing demand patterns, such as rapid growth in emerging markets. Our cost reduction program was key to maintaining profitability in a challenging environment.

Our efforts for 2009 continued to be aimed at three key areas: Strategy, Execution and People.

Strategy

Our strategy continued to focus on delivering reliable and energy-efficient solutions to customers in the global power and industrial automation sectors, using our broad global footprint especially in emerging markets to achieve both growth and a more competitive cost base, and ensuring excellence in business execution and cost and risk management. We believe this strategy remained sound in 2009 and enabled us to deliver on our profitability targets.

Execution

Execution continued to be our top priority. Despite challenging market conditions during 2009, we were able to maintain revenues and gross margins close to 2008 levels through our range of superior technologies and service, a strong order backlog as well as disciplined cost control, productivity improvements and risk control in all of our divisions. Our execution framework has centered around our business processes, regular business and project reviews, a flat organizational structure and a focus on compliance.

People

During 2009, we continued to build on our strong foundation as an attractive, dynamic global employer. We focused on retaining and recruiting quality people for our growth areas. Together with our zero tolerance policy, we continued to implement our Code of Conduct through employee education programs focusing on values, leadership and business ethics.

Outlook

We believe we have seen a bottoming of our short cycle businesses. However, given the longer-term nature of our portfolio, management's outlook for our businesses for 2010 and the overall economy remains uncertain.

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The drivers of our businesses, fueled mainly by the need to build and upgrade energy infrastructure, the need to address climate change and the increasing importance of emerging markets in the global economy, continue to offer attractive growth opportunities.

The need for more efficient and reliable power transmission and distribution and the integration of renewable energies into existing power grids remains in all regions. As energy and commodity prices increase, and as globalization promotes more competition, industrial customers in all parts of the world require automation solutions for new capacity and to lower costs, improve quality and increase the productivity of their existing assets.

The recent global economic downturn, however, has resulted in overcapacity in certain customer sectors and has reduced the amount of capital available for investment in others. It remains unclear at this time when and how quickly customer investments in these sectors will recover.

As a result of these factors, management will maintain a cautious outlook for 2010 until there is a clearer view of the overall direction of the global economy.

Therefore, in 2010 management will focus both on adjusting costs and taking advantage of its global footprint, strong balance sheet and leading technologies to tap further opportunities for profitable growth.

As of January 1, 2010, the automation divisions primarily the Automation Products and Robotics divisions were realigned to better meet market demands. For 2010, therefore, our business comprises the Power Products, Power Systems, Low Voltage Products, Discrete Automation and Motion and the Process Automation divisions. See "Item 4. Business Divisions Industry Background Automation Market" for additional information related to the realignment of certain business divisions. Except where the context otherwise requires or where otherwise indicated, the information in this Item 5 is presented to reflect our business prior to the realignment.

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APPLICATION OF CRITICAL ACCOUNTING POLICIES

General

We prepare our Consolidated Financial Statements in accordance with United States generally accepted accounting principles (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 expenses and accruals; provisions for restructuring; gross profit margins on long-term construction-type 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 our estimates and assumptions.

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

Revenues and cost of sales recognition

We generally recognize revenues for the sale of goods when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, and collectability is reasonably assured. Delivery is considered to occur upon transfer of title and risks and rewards of ownership.

Revenues under long-term construction-type contracts are recognized using the percentage-of-completion method of accounting. We principally use the cost-to-cost method to measure progress towards completion on contracts. Under this method progress of contracts is measured by actual costs incurred in relation to management's best estimate of total estimated costs, which are reviewed and updated routinely for contracts in progress. The cumulative effects of such adjustments are reported in the current period.

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

unanticipated technical problems with equipment supplied or developed by us which may require us to incur additional costs to remedy,

changes in the cost of components, materials or labor,

difficulties in obtaining required governmental permits or approvals,

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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 estimates are determined. By recognizing changes in estimates cumulatively, recorded revenue and costs to date reflect the current estimates of the stage of completion of each project. Additionally, losses on long-term contracts are recognized in the period when they are identified and are based upon the anticipated excess of contract costs over the related contract revenues.

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

Revenues from service transactions are recognized as services are performed. For long-term service contracts, revenues are recognized on a straight-line basis over the term of the contract or, if the performance pattern is other than straight-line, as the services are provided. Service revenues reflect revenues earned from our activities in providing services to customers primarily subsequent to the sale and delivery of a product or complete system. Such revenues consist principally of maintenance-type contracts.

We offer multiple solutions to meet our customers' needs. These solutions may involve the delivery of multiple products and/or performance of services and the delivery and/or performance may occur at different points in time or over different periods of time. In such circumstances, if certain criteria are met, we allocate revenues to each delivery of product or performance of service based on the individual elements' relative fair value. If there is no evidence for the fair value of the delivered item, the revenue is allocated based on the residual method, provided that the elements meet the criteria for treatment as a separate unit of accounting.

Unless the percentage-of-completion or completed contract method applies, revenues from contracts that contain customer acceptance provisions are deferred until customer acceptance occurs, or we have demonstrated the customer-specified objective criteria have been met, or the contractual acceptance period has lapsed.

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

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

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Contingencies

As more fully described in the section below entitled "Environmental liabilities", in "Item 8. Financial Information Legal Proceedings" and in "Note 15 Commitments and contingencies" to our Consolidated Financial Statements, we are subject to proceedings, litigation or threatened litigation and other claims and inquiries related to environmental, labor, product, regulatory and other matters. We are required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses. A determination of the provision required, if any, for these contingencies is made after analysis of each individual issue, often with assistance from both internal and external legal counsel and technical experts. The required amount of a provision for a contingency of any type may change in the future due to new developments in the particular matter, including changes in the approach to its resolution.

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

We provide for anticipated costs for warranties when we recognize revenues on the related products or contracts. Warranty costs include calculated costs arising from imperfections in design, material and workmanship in our products. 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.

We may have a legal obligation to perform environmental clean-up activities as a result of the normal operation of our business or have other asset retirement obligations. In some cases, the timing or the method of settlement, or both are conditional upon a future event that may or may not be within our control, but the underlying obligation itself is unconditional and certain. We recognize a provision for these and other asset retirement obligations when a liability for the retirement or clean-up activity has been incurred and a reasonable estimate of its fair value can be made. These provisions are initially recognized at fair value, and subsequently adjusted for accrued interest and changes in estimates.

Pension and postretirement benefits

As more fully described in "Note 17 Employee benefits" to our Consolidated Financial Statements, we operate pension plans that cover a large percentage 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, mortality rates and expected return on plan assets. Under U.S. GAAP, we are required to consider current market conditions in making these assumptions. In particular, the discount rates are reviewed annually based on changes in long-term, highly-rated corporate bond yields. Decreases in the discount rates result in an increase in the projected benefit obligation to employees (PBO) and in pension costs. Conversely, an increase in the discount rates results in a decrease in the PBO and in pension costs. The mortality assumptions are reviewed annually by management. Decreases in mortality rates result in an increase in the PBO and in pension costs. Conversely, an increase in mortality rates results in a decrease in the PBO and in pension costs.

Holding all other assumptions constant, a 0.25 percentage point decrease in the discount rate would have increased the PBO related to our pension plans by approximately \$271 million, while a

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0.25 percentage point increase in the discount rate would have decreased the PBO related to our pension plans by approximately \$259 million.

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 2009 by approximately \$35 million.

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 for pension and other postretirement benefit obligations in future periods.

The funded status, 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 funded status of a pension plan is the difference between the PBO and the fair value of the plan assets. At December 31, 2009, our pension plans were \$765 million underfunded compared to an underfunding of \$710 million at December 31, 2008. Our other postretirement plans were underfunded by \$219 million and \$207 million at December 31, 2009 and 2008, respectively.

We have multiple non-pension postretirement benefit plans. Our health care plans are generally contributory with participants' contributions adjusted annually. For purposes of estimating our health care costs, we have assumed health care cost increases to be 8.89 percent per annum for 2010, gradually declining to 5.00 percent per annum by 2017 and to remain at that level thereafter.

Income taxes

In preparing our Consolidated Financial Statements, we are required to estimate income taxes in each of the jurisdictions in which we operate. We account for deferred taxes by using the asset and liability method. Under this method, we determine deferred tax assets and liabilities based on temporary differences between the financial reporting and the tax bases of assets and liabilities. Deferred taxes are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. We recognize a deferred tax asset when it is more likely than not that the asset will be realized. We regularly review our deferred tax assets for recoverability and establish a valuation allowance based upon historical losses, projected future taxable income and the expected timing of the reversals of existing temporary differences. To the extent we increase or decrease this allowance in a period, we recognize the change in the allowance within "Provision for taxes" in the Consolidated Income Statements unless the change relates to discontinued operations, in which case the change is recorded in "Income (loss) from discontinued operations, net of tax". Unforeseen changes in tax rates and tax laws, as well as differences in the projected taxable income as compared to the actual taxable income, may affect these estimates.

We operate in numerous tax jurisdictions and, as a result, are regularly subject to audit by tax authorities. We provide for tax contingencies, including potential tax audits, on the basis of the technical merits of the contingency, including applicable tax law, Organisation for Economic Co-operation and Development (OECD) guidelines, as well as on items relating to potential audits by tax authorities based on our evaluations of facts and circumstances. Changes in the facts and circumstances could result in a material change to the tax accruals. We provide for tax contingencies whenever it is deemed more likely than not that a tax asset has been impaired or a tax liability has been incurred for events such as tax claims or changes in tax laws. 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.

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An estimated loss from a tax contingency must be accrued as a charge to income if it is more likely than not that a tax asset has been impaired or a tax liability has been incurred and the amount of the loss can be reasonably estimated. We apply a two-step approach to recognize and measure uncertainty in income taxes. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50 percent likely of being realized upon ultimate settlement. The required amount of provisions for contingencies of any type may change in the future due to new developments.

Goodwill and other intangible assets

We review goodwill for impairment annually as of October 1, or more frequently if events or circumstances indicate the carrying value may not be recoverable. We perform a two-step impairment test on a reporting unit level.

Our reporting units are the same as our divisions for Power Systems, Automation Products and Robotics. For Power Products and Process Automation, we determined that the reporting units are one level below the division, as the different products produced or services provided by these divisions do not share sufficiently similar economic characteristics to permit testing of goodwill on a total operating segment level. In the case of Power Products, there are separate reporting units based on the category of product produced High-Voltage Products, Medium-Voltage Products and Transformers. In the case of Process Automation, we have determined that there are two reporting units, the Turbocharger product business and the remainder of Process Automation.

In the first step of the impairment test, we compare the fair value of each reporting unit to its carrying value. The fair value of each reporting unit is calculated using an income approach, whereby the fair value is calculated based on the present value of future cash flows, applying a discount rate that represents our weighted-average cost of capital. 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. We assess the reasonableness of the fair value calculations of our reporting units by reconciling the sum of the fair values for all our reporting units to our total market capitalization. On October 1, 2009, the calculated fair values for each of our reporting units exceeded their respective carrying values. Consequently, the second step of the impairment test was not performed. The assumptions used in the fair value calculation are challenged each year (through the use of sensitivity analysis) to determine the impact on the resulting fair value of the reporting units. Our sensitivity analysis in 2009 showed no significant change in fair values if the assumptions change (a 1 percent increase in the discount rate would reduce the calculated fair values by approximately 12 percent).

However, if the carrying value of the net assets assigned to the reporting unit exceeds its fair value, then we would 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. Any goodwill impairment losses would be recorded as a separate line item in the income statement in continuing operations, unless related to a discontinued operation, in which case the losses would be recorded in "Income (loss) from discontinued operations, net of tax". There were no goodwill impairment charges in 2009, 2008 and 2007.

We review intangible assets for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable upon the occurrence of certain triggering events, such as a decision to divest a business or projected losses of an entity. We record impairment charges in "Other income (expense), net", in our Consolidated Income Statements, unless they relate to a

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discontinued operation, in which case the charges are recorded in "Income (loss) from discontinued operations, net of tax".

Cash flow models used in evaluating impairments are dependent on a number of factors including estimates of future cash flows and other variables and require 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. Further, discount rates used in discounted cash flow models to calculate fair values require the determination of variables such as the risk-free rates and equity market risk premiums. 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.

NEW ACCOUNTING PRONOUNCEMENTS

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

RESEARCH AND DEVELOPMENT

Each year, we invest significantly in research and development. Our research and development area focuses on developing and commercializing the core technologies of our businesses that are of strategic importance to our future growth. In 2009, 2008 and 2007, we invested \$1,037 million, \$1,027 million and \$871 million, respectively, or approximately 3.3 percent, 2.9 percent, and 3.0 percent of annual consolidated revenues, respectively, on research and development activities. We also had expenditures of \$265 million, \$214 million and \$302 million, respectively, or approximately 0.8 percent, 0.6 percent and 1.0 percent, respectively, of annual consolidated revenues in 2009, 2008 and 2007, on order-related development activities. These are customer- and project-specific development efforts that we undertake to develop or adapt equipment and systems to the unique needs of our customers in connection with specific orders or projects. Order-related development amounts are initially recorded in inventories as part of the work in process of a contract and then are reflected in cost of sales at the time revenue is recognized in accordance with our accounting policies.

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

Our research and development strategy focuses on three objectives:

to monitor and develop emerging technologies and create an innovative, sustainable technology base for ABB,

to develop technology platforms that enable efficient product design for our power and automation customers, and

to create the next generation of power and automation products and systems that we believe will be the engines of profitable growth.

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

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more than 50 university partnerships in the U.S., Europe and Asia, including long-term, strategic relationships with institutions such as Stanford University, the Massachusetts Institute of Technology, Carnegie Mellon University, Cambridge University, ETH Zurich or Imperial College London. Our collaborative projects include research on materials, sensors, micro-engineered mechanical systems, robotics, controls, manufacturing, distributed power and communication. Common platforms for power and automation technologies are developed around advanced materials, efficient manufacturing, information technology and data communication, as well as sensor and actuator technology.

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

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ACQUISITIONS, INVESTMENTS AND DIVESTITURES

Acquisitions and investments

During 2009, 2008 and 2007, ABB invested \$209 million, \$653 million and \$54 million in 8, 12 and 14 new businesses and joint ventures, respectively.

During 2009 and 2007, no individual acquisition was significant. In August 2008, we completed the acquisition of Kuhlman Electric Corporation (Kuhlman), a U.S. based transformer company. The acquisition was integrated into our Power Products division in North America and complements both our product range and geographical presence. Kuhlman manufactures a wide range of high-quality transformers for the industrial and electric utility sectors and has a strong reputation for innovative products and solid, long-term customer relationships. The final purchase price, including assumed debt, was \$513 million (including \$5 million cash acquired). The final purchase price allocation resulted in additions of \$114 million to intangible assets subject to amortization and additions of \$427 million to goodwill.

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

Divestitures of businesses, joint ventures and affiliated companies

In 2009, 2008 and 2007, we received cash, net of cash disposed, from sales of businesses, joint ventures and affiliated companies of \$16 million, \$46 million and \$1,142 million, respectively. In relation to transactions included in continuing operations, we recognized gains (losses) in 2009, 2008 and 2007, in "Other income (expense), net", of \$(1) million, \$24 million and \$11 million, respectively. We also recognized gains from dispositions, net of tax, in 2009, 2008 and 2007, in "Income (loss) from discontinued operations, net of tax", of \$18 million, \$9 million and \$530 million, respectively. The divestment of these businesses is discussed separately below under "Divestitures in 2008" and "Divestitures in 2007". Divestitures in 2009 were not significant. All revenues and income reported in the year of sale are through the date of divestment.

Divestitures in 2008

During 2008, we sold our 50 percent stake in the shares of ABB Powertech Transformers, located in South Africa, to Powertech, a wholly-owned subsidiary of the Altron Group at a gain of \$11 million. This business was part of our Power Products division prior to being reclassified to discontinued operations. This business had revenues of \$29 million and \$167 million in 2008 and 2007, respectively. Income in 2008 and 2007 was \$2 million and \$15 million, respectively, recorded in "Income (loss) from discontinued operations, net of tax".

Divestitures in 2007

In November 2007, we completed the sale of Lummus Global (Lummus) to Chicago Bridge & Iron Company and received net cash proceeds of approximately \$810 million. Lummus had revenues of \$870 million in 2007. Income for 2007 was \$9 million and we realized a gain on sale of \$530 million, all recorded in "Income (loss) from discontinued operations, net of tax". In 2008, we recorded certain adjustments that reduced the gain on sale by \$5 million. In 2009, certain provisions were released increasing the gain on sale by \$21 million.

In April 2007, we completed the sale of our Building Systems business in Germany, which was reported in discontinued operations. The business had revenues of \$47 million in 2007 and losses of \$2 million, recorded in "Income (loss) from discontinued operations, net of tax".

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In May 2007, we completed the sale of our stake in Jorf Lasfar Energy Company S.C.A. (Jorf Lasfar), a power plant based in Morocco and our stake in S.T.CMS Electric Company Private Limited (Neyveli), a power plant in India. Our share of the pre-tax earnings of Jorf Lasfar and Neyveli in 2007 was \$21 million and \$4 million, respectively. The sale of these investments resulted in a gain of approximately \$38 million which was included in continuing operations. In 2008, we recorded an additional gain of \$16 million related to the favorable outcome on an outstanding tax case.

In February 2007, we sold our Power Lines businesses in Brazil and Mexico for a sales price of \$20 million and at no gain or loss. These businesses had revenues of \$39 million and losses of \$3 million in 2007, recorded in "Income (loss) from discontinued operations, net of tax".

EXCHANGE RATES

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

our profitability,

the comparability of our results between periods, and

the carrying value of our assets and liabilities.

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

Increases and decreases in the value of the USD against other currencies will affect the reported results of operations in our Consolidated Income Statements and the value of certain of our assets and liabilities in our Consolidated Balance Sheets, even if our results of operations or the value of those assets and liabilities have not changed in their original currency. 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 2007 through 2009.

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

The exchange rates between the USD and the EUR and the USD and the CHF at December 31, 2009, 2008 and 2007, were as follows:

| Exchange rates into \$ | 2009 | 2008 | 2007 |
|------------------------|------|------|------|
| EUR 1.00 | 1.44 | 1.40 | 1.47 |
| CHF 1.00 | 0.97 | 0.94 | 0.89 |

The average exchange rates between the USD and the EUR and the USD and the CHF for the years ended December 31, 2009, 2008 and 2007, were as follows:

| Exchange rates into \$ | 2009 | 2008 | 2007 |
|------------------------|------|------|------|
| EUR 1.00 | 1.40 | 1.47 | 1.37 |
| CHF 1.00 | 0.93 | 0.93 | 0.84 |

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

In 2009, approximately 88 percent of our consolidated revenues were reported in currencies other than USD. Of that amount, the following percentages were reported in the following currencies:

Euro, approximately 28 percent,

Chinese renminbi, approximately 10 percent,

Swiss franc, approximately 6 percent,

Swedish krona, approximately 6 percent, and

Indian rupee, approximately 4 percent.

In 2009, also approximately 88 percent of our cost of sales and selling, general and administrative expenses were reported in currencies other than USD. Of that amount, the following percentages were reported in the following currencies:

Euro, approximately 28 percent,

Chinese renminbi, approximately 9 percent,

Swedish krona, approximately 5 percent,

Swiss franc, approximately 4 percent, and

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

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

While we consider our results of operations as measured in local currencies to be a significant indicator of business performance, local currency information should not be relied upon to the exclusion of U.S. GAAP financial measures. Instead, local currencies reflect an additional measure of comparability and provide a means of viewing aspects of our operations that, when viewed together with the U.S. GAAP results 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 title. We encourage investors to review our financial statements and publicly-filed reports in their entirety and not to rely on any single financial measure.

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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 and cancellations of orders.

The undiscounted value of revenues we expect to generate from our orders at any point in time is represented by our order backlog. Approximately 21 percent of the value of total orders we recorded in 2009 were "large orders," which we define as orders from third parties involving a value of at least \$15 million for products or services. Approximately 63 percent of the large orders in 2009 were recorded by our Power Systems division and 20 percent in our Process Automation division. The Power Products and Automation Products divisions accounted for the remainder of the total large orders recorded during 2009. The remaining portion of total orders recorded in 2009 was "base orders," which we define as orders from third parties with a value of less than \$15 million for products or services.

The level of orders fluctuates from year to year. 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.

The near-term outlook is highly uncertain due to the volatility of key drivers such as economic growth and costs of raw materials. The impact of the slow or declining global economy has caused a decrease in the demand for orders. It is still uncertain how the global economy will develop throughout 2010; however, we believe our portfolio of products and services is well-balanced both geographically and in terms of product diversity. Beyond the near-term market uncertainties, we anticipate the need for more energy-efficient products to remain stable in the course of a continued economic downturn as industrial customers address their need for productivity improvements in the face of low-cost competition.

PERFORMANCE MEASURES

We evaluate the performance of our divisions primarily based on orders received, revenues, earnings before interest and taxes (EBIT) and EBIT as a percentage of revenues (EBIT margin). 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.

Table of Contents**ANALYSIS OF RESULTS OF OPERATIONS**

Our consolidated results from operations were as follows:

| | 2009 | 2008 | 2007 |
|--|--|---------------|--------------|
| | (\$ in millions, except per share data in \$) | | |
| Orders | 30,969 | 38,282 | 34,348 |
| Order backlog at December 31, | 24,771 | 23,837 | 22,715 |
| Revenues | 31,795 | 34,912 | 29,183 |
| Cost of sales | (22,470) | (23,972) | (20,215) |
| Gross profit | 9,325 | 10,940 | 8,968 |
| Selling, general and administrative expenses | (5,528) | (5,822) | (4,975) |
| Other income (expense), net | 329 | (566) | 30 |
| Earnings before interest and taxes | 4,126 | 4,552 | 4,023 |
| Net interest and other finance expense | (6) | (34) | (110) |
| Provision for taxes | (1,001) | (1,119) | (595) |
| Income from continuing operations before cumulative effect of accounting change, net of tax | 3,119 | 3,399 | 3,318 |
| Income (loss) from discontinued operations, net of tax | 17 | (21) | 586 |
| Cumulative effect of accounting change, net of tax | | | (49) |
| Net income | 3,136 | 3,378 | 3,855 |
| Net income attributable to noncontrolling interests | (235) | (260) | (244) |
| Net income attributable to ABB | 2,901 | 3,118 | 3,611 |
| <i>Basic earnings (loss) per share attributable to ABB shareholders:</i> | | | |
| Income from continuing operations before cumulative effect of accounting change, net of tax | 1.26 | 1.37 | 1.37 |
| Income (loss) from discontinued operations, net of tax | 0.01 | (0.01) | 0.25 |
| Cumulative effect of accounting change, net of tax | | | (0.02) |
| Net income | 1.27 | 1.36 | 1.60 |
| <i>Diluted earnings (loss) per share attributable to ABB shareholders:</i> | | | |
| Income from continuing operations before cumulative effect of accounting change, net of tax | 1.26 | 1.37 | 1.34 |
| Income (loss) from discontinued operations, net of tax | 0.01 | (0.01) | 0.25 |
| Cumulative effect of accounting change, net of tax | | | (0.02) |
| Net income | 1.27 | 1.36 | 1.57 |

A more detailed discussion of the orders, revenues and EBIT for our individual divisions and other businesses follows in the sections below entitled "Power Products," "Power Systems," "Automation Products," "Process Automation," "Robotics" and "Corporate and Other." Orders and revenues of our divisions include interdivisional transactions which are eliminated in the "Corporate and Other" line in the tables below.

Table of Contents**Orders**

| | 2009 | 2008 | 2007 | % Change | |
|------------------------------------|------------------|---------------|---------------|--------------|------------|
| | | | | 2009 | 2008 |
| | (\$ in millions) | | | | |
| Power Products | 10,940 | 13,627 | 11,320 | (20)% | 20% |
| Power Systems | 7,830 | 7,408 | 7,744 | 6% | (4)% |
| Automation Products | 8,453 | 10,872 | 9,314 | (22)% | 17% |
| Process Automation | 6,200 | 8,657 | 7,935 | (28)% | 9% |
| Robotics | 758 | 1,658 | 1,488 | (54)% | 11% |
| Core divisions | 34,181 | 42,222 | 37,801 | (19)% | 12% |
| Corporate and Other ⁽¹⁾ | (3,212) | (3,940) | (3,453) | n.a. | n.a. |
| Total | 30,969 | 38,282 | 34,348 | (19)% | 11% |

(1) Includes interdivisional eliminations

Total orders in 2009 decreased 19 percent (13 percent in local currencies) compared to 2008 due to (i) the global economic downturn which has significantly weakened demand particularly in the industrial and construction related markets and (ii) price erosion in both utilities and industrial sectors in many geographical markets.

Orders in our Power Products division declined 20 percent (14 percent in local currencies) as most customers held back their investment plans as a response to market uncertainties amid the global financial crisis. The government-funded stimulus programs for funding electric power investments have not yet had a significant impact on orders in this division. Orders declined across all product lines in the Medium-Voltage Products, High-Voltage Products and Transformers businesses. Orders in our Power Systems division increased 6 percent (17 percent in local currencies), benefiting from strong demand in the power generation and transmission sectors where infrastructure projects, addressing the integration of renewals, energy efficiency improvement and environmental concerns, were realized. Orders in our Automation Products division declined 22 percent (18 percent in local currencies), primarily the result of contraction in industrial markets particularly the building, residential and commercial construction markets. In our Process Automation division, orders declined 28 percent (22 percent in local currencies) as investments in the process automation sector have mostly been delayed due to limited access to capital and increased uncertainty of future demand. Weak demand in the automotive sector resulted in orders decreasing 54 percent (51 percent in local currencies) in the Robotics division.

In spite of the weakened economic conditions in many countries around the world, large orders increased as power utilities continued to realize their high-priority project commitments particularly in the grid systems and substations sectors. Large orders in the industrial sectors however remained weak, as large scale investments in this area were mostly delayed due to unstable global demand.

Driven by higher investments in large scale utilities projects, large orders in 2009 increased 10 percent (25 percent in local currencies) to \$6,603 million, compared to the 5 percent increase (flat in local currencies) reported in 2008. The share of large orders compared to total orders increased from 16 percent in 2008 to 21 percent in 2009. The increase in the share of large orders in 2009 was driven not only by growth in large orders volume, but also by a decline in base orders whose volume during the year decreased by 25 percent (20 percent in local currencies).

In 2008, total orders increased 11 percent (7 percent in local currencies) as demand for power transmission and distribution products and energy-efficient industrial equipment was strong in most markets during the first half of 2008 but weakened in the last few months of the year due to the global economic crisis. Orders in our Power Products division grew 20 percent (15 percent in local currencies),

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as demand for Transformers, High-Voltage Products and Medium-Voltage Products was strong, particularly in the first half of 2008. Orders in our Power Systems division decreased 4 percent (8 percent in local currencies), primarily the result of a lower volume of large orders in the utilities sector compared to the prior year due to the timing of project awards. Orders in our Automation Products division rose 17 percent (11 percent in local currencies), benefiting from higher investments in the industrial sector as customers in this market looked for energy-efficient technologies to improve productivity. Our Process Automation division recorded an increase in orders of 9 percent (4 percent in local currencies), backed by higher demand in the marine, metal and turbocharging sectors. Orders in our Robotics division increased 11 percent (5 percent in local currencies) reflecting higher demand particularly in the Robot Automation and Systems businesses. In our Power Products and Automation Products divisions, order growth was also driven by sale price increases to offset higher raw material costs.

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

| | 2009 | 2008 | 2007 | % Change | |
|------------------------|------------------|---------------|---------------|--------------|------------|
| | | | | 2009 | 2008 |
| | (\$ in millions) | | | | |
| Europe | 11,983 | 16,633 | 15,655 | (28)% | 6% |
| The Americas | 5,996 | 7,235 | 6,013 | (17)% | 20% |
| Asia | 8,197 | 10,242 | 9,186 | (20)% | 11% |
| Middle East and Africa | 4,793 | 4,172 | 3,494 | 15% | 19% |
| Total | 30,969 | 38,282 | 34,348 | (19)% | 11% |

Orders from Europe in 2009 were down 28 percent (20 percent in local currencies) as growth in the Power Systems division, driven mainly by power grid upgrades in Western Europe, was more than offset by broad declines in all other divisions, reflecting the generally weak economic environment. Orders in the Americas decreased 17 percent (11 percent in local currencies) driven by a 33 percent decline in the United States on account of weak demand in the utilities and industrial sectors. Orders however grew significantly in South America due to strong demand in the utilities sector particularly in Brazil. Orders in Asia were down 20 percent (16 percent in local currencies), mainly due to lower demand in all sectors in countries across the region especially for the Process Automation business. Orders in MEA increased 15 percent (22 percent in local currencies) resulting from higher investment in the utility and oil and gas sectors. In this region, orders grew strongly in Algeria driven primarily by a very large Process Automation project. Orders also increased significantly in Kuwait and Saudi Arabia as these countries benefited from higher investment in power infrastructure.

In 2008, orders from the Americas increased 20 percent (19 percent in local currencies) backed by strong demand in the U.S., Canada, Mexico, Brazil and Argentina. Orders in this region grew in all divisions except Robotics. Higher investments to install new power infrastructure and increased spending by industrial customers to improve production capacity in growing economies, particularly Korea, China and Singapore, contributed to the increase in orders in the Asian market which reported 11 percent (7 percent in local currencies) growth. Orders in this region increased strongly in all divisions except Power Systems in which orders decreased due to a lower volume of large orders. Orders in Europe increased 6 percent (decreased 1 percent in local currencies). Orders from Finland, Spain, Turkey, Iceland and Sweden were up significantly compared to 2007, but were offset by substantially lower orders in Germany and the United Kingdom, as no orders similar in size to the offshore windfarm project in Germany (approximately \$400 million) and the cable order to connect the United Kingdom with the Netherlands (approximately \$350 million), were received in 2008. Orders in MEA markets increased 19 percent (17 percent in local currencies) driven by higher investments for

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new infrastructures in the utility and industrial sectors and higher demand in Saudi Arabia, United Arab Emirates (UAE), South Africa and the Republic of Congo.

Order backlog

| | December 31, | | | % Change | |
|------------------------------------|------------------|---------------|---------------|-----------|-----------|
| | 2009 | 2008 | 2007 | 2009 | 2008 |
| | (\$ in millions) | | | | |
| Power Products | 8,226 | 7,977 | 6,932 | 3% | 15% |
| Power Systems | 9,675 | 7,704 | 8,209 | 26% | (6)% |
| Automation Products | 3,557 | 3,863 | 3,490 | (8)% | 11% |
| Process Automation | 5,412 | 6,111 | 5,951 | (11)% | 3% |
| Robotics | 331 | 545 | 529 | (39)% | 3% |
| Core divisions | 27,201 | 26,200 | 25,111 | 4% | 4% |
| Corporate and Other ⁽¹⁾ | (2,430) | (2,363) | (2,396) | n.a. | n.a. |
| Total | 24,771 | 23,837 | 22,715 | 4% | 5% |

(1) Includes interdivisional eliminations

Changes in the order backlog balance at the end 2009 as compared to the end of 2008 were mainly due to foreign currency exchange fluctuations. The order backlog in the Power Systems division, however, increased due to the high volume of large orders booked throughout 2009.

Order backlog at the end of 2008 increased 5 percent (14 percent in local currencies), from the end of 2007, despite strong revenue growth of 20 percent (16 percent in local currencies), as the amount of orders received during 2008 was 10 percent higher than the amount of revenues. Order backlog increased in all divisions except Power Systems which saw a decline due to a lower volume of large orders received in 2008, compared to 2007.

Revenues

| | | | | % Change | |
|------------------------------------|------------------|---------------|---------------|-------------|------------|
| | 2009 | 2008 | 2007 | 2009 | 2008 |
| | (\$ in millions) | | | | |
| Power Products | 11,239 | 11,890 | 9,777 | (5)% | 22% |
| Power Systems | 6,549 | 6,912 | 5,832 | (5)% | 19% |
| Automation Products | 8,930 | 10,250 | 8,644 | (13)% | 19% |
| Process Automation | 7,347 | 7,815 | 6,420 | (6)% | 22% |
| Robotics | 970 | 1,642 | 1,407 | (41)% | 17% |
| Core divisions | 35,035 | 38,509 | 32,080 | (9)% | 20% |
| Corporate and Other ⁽¹⁾ | (3,240) | (3,597) | (2,897) | n.a. | n.a. |
| Total | 31,795 | 34,912 | 29,183 | (9)% | 20% |

(1) Includes interdivisional eliminations

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Revenues in 2009 declined 9 percent (4 percent in local currencies), primarily driven by lower orders received in the shorter-cycle product business, price erosion, and to a lesser extent, delivery delays triggered by customer schedule changes.

Revenues in the Power Products division decreased 5 percent (1 percent in local currencies) despite a double-digit decline in orders as the division benefited from high initial backlog, particularly in Transformers and High-Voltage Products. The Power Systems division reported a decline in revenues

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of 5 percent (1 percent increase in local currencies) where a significant increase of revenues from project implementation in Grid Systems mostly offset the decline of revenues in Substations projects. Revenues in the Automation Products division decreased 13 percent (9 percent in local currencies) driven primarily by lower orders received, as the division generated a significant portion of its revenues from the book-and-bill orders of standard products. Revenues in the Process Automation division declined 6 percent (1 percent in local currencies) as a result of declining backlog in Pulp and Paper, Process Industries Products and Turbocharging. Revenues, however, increased in the Oil and Gas and in the Minerals businesses upon execution of large projects. Revenues in the Robotics division declined 41 percent (38 percent in local currencies) due to declining orders and a weak backlog.

In 2008, revenues increased 20 percent (16 percent in local currencies) supported by all divisions, benefiting from the high order backlog available at the beginning of the year and high volume of book-and-bill orders received in the first two quarters of the year. Further, revenue growth was supported by efficiency improvements in the production and order execution processes. Revenues in the Power Products and Automation Products divisions grew 22 percent (18 percent in local currencies) and 19 percent (13 percent in local currencies), respectively, as these divisions continued operating at high capacity levels. The increase in revenues in the product divisions was also driven partly by increases in sales prices to compensate the increase of commodity costs. Power Systems and Process Automation divisions reported revenue growth of 19 percent (16 percent in local currencies) and 22 percent (18 percent in local currencies), respectively. The growth of revenues in our Power Systems and Process Automation divisions was primarily driven by progress made in the execution of large orders. High order backlog at the beginning of 2008 was also the main factor contributing to the growth of revenues in the Robotics division, which increased 17 percent (11 percent in local currencies).

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

| | 2009 | 2008 | 2007 | % Change | |
|------------------------|------------------|---------------|---------------|-------------|------------|
| | | | | 2009 | 2008 |
| | (\$ in millions) | | | | |
| Europe | 13,093 | 15,815 | 13,322 | (17)% | 19% |
| The Americas | 6,049 | 6,428 | 5,247 | (6)% | 23% |
| Asia | 8,684 | 8,967 | 7,480 | (3)% | 20% |
| Middle East and Africa | 3,969 | 3,702 | 3,134 | 7% | 18% |
| Total | 31,795 | 34,912 | 29,183 | (9)% | 20% |

In 2009, revenues in Europe decreased 17 percent (10 percent in local currencies). Revenues were lower in all major countries within the region including Germany and Switzerland due to weak orders and declining backlog especially in the industrial sector. Revenues from the Americas were down 6 percent (2 percent in local currencies) driven by lower orders in the U.S. market. Revenues however increased in Brazil and Canada on the execution of large projects in the power utilities sector. Revenues from Asia decreased 3 percent (flat in local currencies) with growth in China and South Korea offset by declines in India, Australia and Japan. Revenues from MEA increased 7 percent (10 percent in local currencies) backed by strong orders and high initial backlog of large projects in the Power Products, Power Systems and Process Automation divisions.

In 2008, revenues in Europe increased 19 percent (13 percent in local currencies). In particular, we experienced significant revenue increases in Germany, the United Kingdom, Spain, Finland and Turkey. Revenues from Asia, which increased 20 percent (16 percent in local currencies), were driven mainly by increases in China, India, Korea and Singapore. Revenues from the Americas increased 23 percent (22 percent in local currencies), with strong increases in the U.S., Canada and Brazil. Strong growth in revenues was reported in Qatar, UAE, South Africa and Saudi Arabia. High revenues in these countries led to the 18 percent (16 percent in local currencies) growth in the MEA region. The increase in revenues in all regions was the result of high production efficiency and sound execution of projects from the initial backlog and book-and-bill orders received during 2008.

Table of Contents**Cost of sales**

Cost of sales consists primarily of labor, raw materials and components but also includes expenses for warranty, contract losses and project penalties, as well as order-related development expenses incurred in connection with projects for which corresponding revenues were recognized.

Cost of sales decreased 6 percent (1 percent in local currencies), to \$22,470 million in 2009, mainly due to lower revenues. However, as a percentage of revenues, cost of sales increased to 70.7 percent from 68.7 percent in 2008. This increase was primarily attributable to higher under-absorption costs arising from lower business volumes, the impact of price erosion, higher restructuring-related charges, and changes in business and product mix (the proportion of revenues from high margin businesses is relatively lower in 2009). The impact of these factors was partly offset by savings realized from measures taken in the areas of supply management, global footprint and operational excellence.

In 2008, cost of sales increased 19 percent (15 percent in local currencies) to \$23,972 million. Cost of sales as a percentage of revenues decreased to 68.7 percent from 69.3 percent in 2007 reflecting a continuing trend from earlier years as the operations benefited from increased business volume, higher capacity utilization, better project execution and process improvement programs in the areas of risk management and project cost control. Furthermore, the progress made in the implementation of our cost migration strategy delivered financial benefits through cost savings in 2008.

Selling, general and administrative expenses

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

| | 2009 | 2008 | 2007 |
|--|------------------|----------------|----------------|
| | (\$ in millions) | | |
| Selling expenses | (2,868) | (2,943) | (2,531) |
| <i>Selling expenses as a percentage of orders received</i> | 9.3% | 7.7% | 7.4% |
| General and administrative expenses | (2,660) | (2,879) | (2,444) |
| <i>General and administrative expenses as a percentage of revenues</i> | 8.4% | 8.2% | 8.4% |
| Total selling, general and administrative expenses | (5,528) | (5,822) | (4,975) |
| <i>Total selling, general and administrative expenses as a percentage of revenues</i> | 17.4% | 16.7% | 17.0% |
| <i>Total selling, general and administrative expenses as a percentage of the average of orders received and revenues</i> | 17.6% | 15.9% | 15.7% |

In 2009, selling, general and administrative expenses decreased 5 percent (increased 1 percent in local currencies), after increasing 17 percent (12 percent in local currencies), in 2008. Total selling, general and administrative expenses, which are related to both orders received and revenues, expressed as a percentage of the average of orders received and revenues, increased in 2009 by 1.7 percentage-points to 17.6 percent from 15.9 percent in 2008, after increasing 0.2 percentage-points from 2007.

Selling expenses in 2009 decreased 3 percent (but increased 3 percent in local currencies), from 2008. The local currency increase is the result of an increase in doubtful debt allowance, higher expenses associated with longer tender phases in our systems business, offset in part by strict cost controls leading to a reduction of expenses and lower volume-related expenses such as sales commissions. Expressed as a percentage of orders received, selling expenses increased 1.6 percentage-points in 2009, mainly the result of lower orders received.

Selling expenses in 2008 increased 16 percent (11 percent in local currencies), from 2007, primarily due to increased activities in sales and marketing and the growth of our sales personnel.

In 2009, general and administrative expenses decreased 8 percent (2 percent in local currencies), reflecting savings achieved from our cost takeout program. General and administrative expenses include

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non-order related research and development expenses of \$1,037 million, a \$10 million increase from 2008. Total general and administrative expenses, as a percentage of revenues, remained at the same level as 2008, reflecting a decrease in revenues.

In 2008, general and administrative expenses increased 18 percent (13 percent in local currencies), primarily related to the growth of business. General and administrative expenses include non-order related research and development, which increased 18 percent (12 percent in local currencies) to \$1,027 million in 2008, compared to 2007, reflecting the continued spending on product development activities, particularly in the Power Products, Automation Products and Process Automation divisions. Total general and administrative expenses, as a percentage of revenues, remained at the same level as 2007, despite increased growth during the period. This was partly due to increased focus on the monitoring and controlling of administrative costs both at the corporate and operating unit levels.

Other income (expense), net

| | 2009 | 2008 | 2007 |
|---|------------------|--------------|-----------|
| | (\$ in millions) | | |
| Restructuring-related expenses ⁽¹⁾ | (111) | (5) | (8) |
| Capital gains, net | 14 | 73 | 95 |
| Asset write-downs | (50) | (11) | (66) |
| Income from licenses, equity accounted companies and other income (expense) | 476 | (623) | 9 |
| Total | 329 | (566) | 30 |

(1) Excluding asset write-downs

"Other income (expense), net", typically consists of restructuring-related 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 and license income.

Restructuring-related costs are recorded in various lines within the Consolidated Income Statements depending on the nature of the charges. In 2009, restructuring-related costs reported in "Other income (expense), net" amounted to \$111 million, and were incurred for restructuring projects in all of our divisions with the highest expenses recorded in the Robotics, Process Automation and Automation Products divisions.

In 2008, restructuring-related costs reported in "Other income (expense), net" amounted to \$5 million, incurred for restructuring projects mainly in the Power Products, Automation Products and Process Automation divisions. In 2007, restructuring-related costs reported in "Other income (expense), net" amounted to \$8 million that primarily consisted of \$3 million costs incurred to streamline the operations in the Power Products division, \$2 million restructuring-related costs for capacity expansion in the Power Systems division and \$2 million restructuring-related costs in real estate operations.

In 2009, "Capital gains, net" consisted primarily of gains from the sale of real estate properties, mainly in Norway, France, Switzerland and the Netherlands.

In 2008, "Capital gains, net" consisted mainly of \$14 million in gains from the sale of shares and participations, \$10 million income from the release of a provision from a legal claim settlement related to the sold Air Handling business and \$47 million capital gains from the sale of real estate properties, mainly in Switzerland, Brazil, Italy, Norway, the United Kingdom, Mexico, and Poland. Additionally, in 2008, we recorded adjustments to the gain on sale of Jorf Lasfar and Neyveli of \$16 million related to the favorable outcome on an outstanding tax case.

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In 2007, "Capital gains, net" consisted of \$49 million in gains from the sale of equity investments, including a \$38 million gain from the divestment of our equity investments in Jorf Lasfar and Neyveli, a \$41 million gain from the sale of real estate properties mainly in Switzerland, Italy and to a lesser extent in Brazil, Norway and France and a \$5 million gain on sale of various machinery and equipment in Europe.

Asset write-downs in 2009 included the impairment of the certain fixed assets in the United States (\$10 million) and other impairments and write-downs of tangible and intangible assets primarily relating to ongoing restructuring programs in various countries. Asset write-downs in 2008 mainly related to the Distributed Energy business in Great Britain and other minor impairments. Asset write-downs during 2007 included an impairment charge of \$42 million in respect of one of our equity investments, which we intend to divest, as the anticipated market value was less than our book value.

In 2009, "Income from licenses, equity accounted companies and other income (expense)" primarily consisted of the partial release of provisions related to the investigations in the Power Transformers business after the European Commission imposed a fine of 33.75 million euros (equivalent to \$49 million on date of payment) in October 2009. Additionally, license income of approximately \$5 million mainly from Switzerland and Germany was included in this line item.

In 2008, "Income from licenses, equity accounted companies and other income (expense)" primarily consisted of provisions for the ongoing investigations in the Power Transformer business by the European Commission, the German Federal Cartel Office, as well as the investigations by the U.S. Securities and Exchange Commission (SEC) and the U.S. Department of Justice (DoJ) which were recorded in Corporate and Other (see "Note 15 Commitments and contingencies" to our Consolidated Financial Statements.) Income from equity accounted companies in 2008 was generated from our equity ventures investment in Colombia and other investments in Italy, Finland and Germany and license income was generated mainly from Japan. Income from equity accounted companies in 2007 included \$36 million, which was primarily related to Jorf Lasfar prior to its sale in the second quarter of 2007. During 2007, this income was also offset by charges towards several businesses that were sold or closed in earlier years.

Earnings before interest and taxes

| | 2009 | 2008 | 2007 | % Change | |
|-----------------------|------------------|--------------|--------------|--------------|------------|
| | | | | 2009 | 2008 |
| | (\$ in millions) | | | | |
| Power Products | 1,969 | 2,100 | 1,596 | (6)% | 32% |
| Power Systems | 388 | 592 | 489 | (34)% | 21% |
| Automation Products | 1,330 | 1,908 | 1,477 | (30)% | 29% |
| Process Automation | 685 | 926 | 683 | (26)% | 36% |
| Robotics | (296) | 9 | 79 | n.a. | n.a. |
| Core divisions | 4,076 | 5,535 | 4,324 | (26)% | 28% |
| Corporate and Other | 50 | (983) | (301) | n.a. | n.a. |
| Total | 4,126 | 4,552 | 4,023 | (9)% | 13% |

In 2009 and 2008, EBIT decreased 9 percent (8 percent in local currencies) and increased 13 percent (6 percent in local currencies), as a result of the factors discussed above.

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EBIT margins were as follows:

| | 2009 | 2008 | 2007 |
|-----------------------|-------------|-------------|-------------|
| | (in %) | | |
| Power Products | 17.5 | 17.7 | 16.3 |
| Power Systems | 5.9 | 8.6 | 8.4 |
| Automation Products | 14.9 | 18.6 | 17.1 |
| Process Automation | 9.3 | 11.8 | 10.6 |
| Robotics | (30.5) | 0.5 | 5.6 |
| Core divisions | 11.6 | 14.4 | 13.5 |
| Total | 13.0 | 13.0 | 13.8 |

In 2009, EBIT margins in the divisions were negatively impacted by restructuring-related costs, price pressures mainly in our short-cycle businesses, lower volume and decreased capacity utilization, and lower revenues from higher-margin product businesses. These impacts were partly offset by cost savings in sourcing, general and administrative expenses as well as footprint adjustments and operational excellence initiatives. The release of compliance provisions recorded in "Corporate and Other" positively impacted the consolidated margin in 2009 compared to 2008.

Net interest and other finance expense

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

"Interest and other finance expense" includes interest expense on our debt, the amortization of upfront costs associated with our credit facility and our debt securities, commitment fees on our bank facility and exchange losses on financial items, offset by gains on marketable securities and exchange gains on financial items.

| | 2009 | 2008 | 2007 |
|---|------------------|-------------|--------------|
| | (\$ in millions) | | |
| Interest and dividend income | 121 | 315 | 273 |
| Interest and other finance expense ⁽¹⁾ | (127) | (349) | (383) |
| Net interest and other finance expense | (6) | (34) | (110) |

(1)

"Interest and other finance expense" in 2007 includes an additional charge of \$97 million to reflect the adoption in 2009 of a new accounting standard for convertible bonds (see "Note 2 Significant accounting policies New accounting pronouncements" to our Consolidated Financial Statements). The amount comprises \$90 million loss on conversion of the bonds and \$7 million amortization of discount during 2007.

Interest and dividend income decreased in 2009 compared to 2008 due to the continued fall in market interest rates and despite the increase of \$1,829 million in our net cash (defined as "Cash and equivalents" and "Marketable securities and short-term investments" less the sum of "Short-term debt and current maturities of long-term debt" and "Long-term debt" see "Liquidity and Capital Resources" for further discussion.)

"Interest and dividend income" increased in 2008 compared to 2007, reflecting (i) the improvement in our liquidity during the first half of 2008 through cash generated from operations and (ii) the change in investment strategy compared to 2007 with more cash placed in time deposits. In the first three quarters of 2007, we invested a significant amount of our excess liquidity in accumulating net asset value money-market funds, where the income is not distributed but is reflected by an increase in value of the funds' shares and is realized upon the sale of such investments. Gains on sales of securities are netted against "Interest and other finance expense" while interest on deposits is recorded in

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"Interest and dividend income". Consequently, this change in investment strategy explains part of the increase in interest and dividend income in 2008 compared to 2007. During the second half of 2008, however, our interest income was impacted by falling interest rates, our acceptance of lower yields in favor of security in an increasingly difficult market and, despite positive cash flow from operations, a lower excess cash balance as cash was expended for, amongst other, the dividends paid in the form of nominal value reduction, acquisitions and the share buyback program. (See "Liquidity and Capital Resources" for discussion of our investment strategy.)

Both "Interest and dividend income" and "Interest and other finance expense" in 2007 include a gross-up in the amount of \$44 million, related to interest income and expense on certain balance sheet items that were economically related but did not meet the criteria for presentation on a net basis. This should be considered when comparing 2008 figures with 2007.

"Interest and other finance expense" decreased in 2009 compared to 2008 primarily due to the non-recurrence of the one-off items described below and the overall fall in market interest rates over the period.

Excluding the effect of the adoption of the new accounting standard for convertible debt that resulted in an additional charge of \$97 million in 2007, "Interest and other finance expense" increased in 2008 compared to 2007, despite a reduction in overall debt levels. This increase was primarily due to two items in 2008. Firstly, we recorded a \$20 million other-than-temporary impairment on available-for-sale equity fund securities held by our Captive Insurance business, as we did not expect the market values of these securities to recover to their cost basis in the near term, given the market conditions at that time. Secondly, at December 31, 2008, we recorded \$102 million in foreign exchange losses on the remeasurement into U.S. dollars of funding (in euros) of our euro-denominated investment in government bonds, designated as available-for-sale securities. The corresponding foreign exchange gains on these securities were part of their change in market values recorded in "Accumulated other comprehensive loss" in equity and were released to the income statement in the first quarter of 2009, when these securities matured. The unrealized losses at December 31, 2008, were the result of the significant move in the EUR/USD exchange rate in the month of December 2008 and the amount of the EUR-denominated funding of these securities (1.06 billion euros).

Provision for taxes

| | 2009 | 2008 | 2007 |
|---|------------------|---------|-------|
| | (\$ in millions) | | |
| Income from continuing operations, before taxes | 4,120 | 4,518 | 3,913 |
| Provision for taxes | (1,001) | (1,119) | (595) |
| Effective tax rate for the year | 24.3% | 24.8% | 15.2% |

Certain provisions recorded as an expense in 2008 and the release of certain of these provisions in 2009, primarily related to alleged anti-competitive practices, originated in jurisdictions with a tax rate other than the weighted-average tax rate.

The provision for taxes in 2009 represented an effective tax rate of 24.3 percent and included:

the change in valuation allowance of approximately \$46 million on deferred taxes, as we determined it was more likely than not that such deferred tax assets would be realized. This change in valuation allowance included a benefit of \$60 million related to our operations in Central Europe.

a benefit of approximately \$74 million related to the release of provisions for previously disclosed investigations by European authorities into suspect payments and alleged anti-competitive practices that were recognized as income for financial accounting purposes, but were not taxable.

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The provision for taxes in 2008 represented an effective tax rate of 24.8 percent and included:

the change in valuation allowance of approximately \$414 million on deferred taxes, as we determined it was more likely than not that such deferred tax assets would be realized. The change in valuation allowance was predominantly related to our operations in North America (of approximately \$330 million).

an expense of approximately \$140 million relating to a pending tax dispute in Northern Europe.

approximately \$100 million related to costs of previously disclosed investigations by the U.S. and European authorities into suspect payments and alleged anti-competitive practices that were deducted for financial accounting purposes, but were not tax deductible.

The provision for taxes in 2007 represented an effective tax rate of 15.2 percent and included:

the change in valuation allowance of approximately \$698 million on deferred taxes, as we determined it was more likely than not that such deferred tax assets would be realized. The change in valuation allowance was predominantly related to our operations in certain countries such as the United States with approximately \$490 million, but also including countries such as Canada and the United Kingdom.

an expense of approximately \$35 million relating to the interpretation of tax law and double tax treaty agreements by competent tax authorities in the Mediterranean region, and

an expense of approximately \$45 million relating to a net increase in tax accruals.

Income from continuing operations before cumulative effect of accounting change, net of tax

The reduction of \$280 million in 2009 compared to 2008 was primarily the result of the decrease in EBIT as discussed above. The improvement of \$81 million in 2008 compared to 2007 was the result of higher EBIT and lower net interest and other finance expense, largely offset by an increase in provision for taxes.

Income (loss) from discontinued operations, net of tax

For a detailed discussion of income (loss) from discontinued operations, net of tax, as well as a detailed discussion of the results of our discontinued operations, see "Discontinued operations," and "Note 3 Acquisitions, divestments and discontinued operations" to our Consolidated Financial Statements.

Cumulative effect of accounting change, net of tax

In 2009, we adopted a new accounting standard that changed the accounting for convertible debt instruments that contained cash settlement features. Although we did not have any convertible debt instruments outstanding at December 31, 2009, 2008 and 2007, we adopted the provisions of this new standard on a retroactive basis to January 1, 2007, as they related to our 1 billion Swiss francs 3.5% convertible bonds (issued 2003) fully converted by bondholders in 2007. The impact on our Consolidated Income Statement in 2007 was (i) a loss of \$49 million reported as "Cumulative effect of accounting change, net of tax" and (ii) a loss of \$97 million from the conversion of bonds and amortization of discount, recorded in "Interest and other finance expense". See "Note 2 Significant accounting policies New accounting pronouncements" to our Consolidated Financial Statements for additional information.

Table of Contents**Net income attributable to ABB**

As a result of the factors discussed above, net income attributable to ABB decreased by \$217 million to \$2,901 million in 2009 as compared to 2008 and decreased by \$493 million to \$3,118 million in 2008 as compared to 2007.

Earnings (loss) per share attributable to ABB shareholders

| | 2009 | 2008 | 2007 |
|--|---------|--------|--------|
| | (in \$) | | |
| Income from continuing operations before cumulative effect of accounting change, net of tax: | | | |
| Basic | 1.26 | 1.37 | 1.37 |
| Diluted | 1.26 | 1.37 | 1.34 |
| Income (loss) from discontinued operations, net of tax: | | | |
| Basic | 0.01 | (0.01) | 0.25 |
| Diluted | 0.01 | (0.01) | 0.25 |
| Cumulative effect of accounting change, net of tax: | | | |
| Basic | | | (0.02) |
| Diluted | | | (0.02) |
| Net income attributable to ABB: | | | |
| Basic | 1.27 | 1.36 | 1.60 |
| Diluted | 1.27 | 1.36 | 1.57 |

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 and shares granted subject to certain conditions under our share-based payment arrangements and, prior to September 2007, shares issuable in relation to our outstanding convertible bonds. (See "Note 20 Earnings per share" to our Consolidated Financial Statements.)

Divisional analysis**Power Products**

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

| | 2009 | 2008 | 2007 | % Change | |
|-------------------------------|------------------------|--------|--------|----------|------|
| | | | | 2009 | 2008 |
| | (\$ in millions except | | | | |
| | EBIT Margin %) | | | | |
| Orders | 10,940 | 13,627 | 11,320 | (20)% | 20% |
| Order backlog at December 31, | 8,226 | 7,977 | 6,932 | 3% | 15% |
| Revenues | 11,239 | 11,890 | 9,777 | (5)% | 22% |
| EBIT | 1,969 | 2,100 | 1,596 | (6)% | 32% |
| EBIT Margin % ⁽¹⁾ | 17.5% | 17.7% | 16.3% | n.a. | n.a. |

(1) EBIT Margin % is calculated as EBIT divided by revenues

Table of Contents**Orders**

Orders were down 20 percent (14 percent in local currencies) in 2009 primarily due to lower demand from industrial and construction-related markets as well as from the distribution sector. Order intake was further impacted by lower price levels due to weaker market conditions and pass-through of reduced commodity costs. In 2008, improvements were primarily due to growth in demand for electricity, particularly in emerging markets, and the expansion and improvement of power grid infrastructure, with a focus on environmental sustainability.

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

| | 2009 | 2008 | 2007 |
|------------------------|------------|------------|------------|
| | (in %) | | |
| Europe | 34 | 38 | 39 |
| The Americas | 23 | 24 | 24 |
| Asia | 33 | 30 | 30 |
| Middle East and Africa | 10 | 8 | 7 |
| Total | 100 | 100 | 100 |

In 2009, the share of orders from Europe and the Americas decreased due to unfavorable macro-economic conditions. However, these regions continue to generate over 50 percent of our order volume. Meanwhile, emerging markets in Asia and MEA showed relatively greater resilience and continued to invest in infrastructure projects, leading to an increase in their share of the total order volume.

In 2008, the share of orders from Europe, the largest region, decreased marginally, even though they grew in absolute terms. This growth was driven by the need to replace aging infrastructure and the increased demand for power grid interconnections and renewable energies. The share of orders from the Americas remained flat and was considerably influenced by orders from the United States, driven by the need to replace aging infrastructure and to meet capacity and reliability requirements. The share of orders from Asia remained stable compared to 2007. Demand was driven by the growth in energy needs, particularly in China and India, resulting from increasing levels of industrialization and urbanization. The share of orders from MEA improved in 2008, reflecting increased investment in infrastructure, supported by high oil prices.

Order backlog

Order backlog in 2009 increased 3 percent (decreased 2 percent in local currencies), after increasing 15 percent (24 percent in local currencies) in 2008. In 2009, the slight decrease in local currency order backlog was due to reduced order intake across all businesses. In 2008, the increase was due to higher order intake, led by the Transformers business which typically has longer delivery schedules.

Revenues

Revenues decreased 5 percent (1 percent in local currencies) in 2009 due to the lower contribution of shorter-cycle businesses mainly related to the industrial and construction sectors, as reflected in the order intake. This includes businesses such as medium-voltage equipment and distribution transformers.

Revenues increased 22 percent (18 percent in local currencies) in 2008 as a result of continued order growth and strong opening order backlog in almost all market segments, particularly in transformers.

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

| | 2009 | 2008 | 2007 |
|------------------------|------------|------------|------------|
| | (in %) | | |
| Europe | 35 | 38 | 39 |
| The Americas | 25 | 24 | 24 |
| Asia | 31 | 30 | 30 |
| Middle East and Africa | 9 | 8 | 7 |
| Total | 100 | 100 | 100 |

In 2009, the geographical distribution of revenues followed similar trends as orders but Europe's share declined slightly due to lower revenues in Russia and an overall challenging market environment. The Americas reported marginal positive growth in local currencies mainly due to increased revenues from transmission products which compensated for the decline in sales of distribution products. In Asia revenues dipped marginally due to delays in customer acceptance of deliveries resulting from a slowdown in execution of infrastructure projects due to a weaker market environment. MEA recorded positive growth in revenue as several large projects were executed in the current year.

The relative share of revenues among geographic regions in 2008 and 2007 remained similar to the distribution of orders, while all regions recorded growth in revenues as compared to the previous year. In Europe, the growth in revenues was led by Spain, Switzerland and the United Kingdom. Revenue growth in Asia in 2008 was led by China and India, while revenue growth in the Americas was particularly strong in the United States. In MEA, the share of revenues remained similar to 2007 with the increase in revenues driven by Saudi Arabia.

Earnings before interest and taxes

EBIT decreased 6 percent (2 percent in local currencies), in 2009, after increasing 32 percent (24 percent in local currencies), in 2008. The EBIT margin for the division was 17.5 percent in 2009, as compared to 17.7 percent in 2008 and 16.3 percent in 2007. EBIT and EBIT margin in 2009 were lower mainly due to reduced revenues and also reflected the lower share of higher-margin short-cycle product revenues compared to 2008. Total restructuring-related charges in 2009 amounted to \$77 million. In 2008 and 2007, total costs related to the transformer consolidation program amounted to \$46 million and \$34 million, respectively. EBIT and EBIT margin in 2008 benefited from increased revenues, improved capacity utilization across businesses, operational and productivity improvements, supply chain savings and a positive impact of the transformer consolidation program.

Fiscal year 2010 outlook

Continued uncertainty in the market environment could contribute to project delays. Moreover, the time lag in the recovery of investment in the industrial, construction-related and power distribution sectors may stifle demand in the near term. However, the medium and long-term growth drivers for this business remain intact. This includes growth in emerging markets, the need for power availability and efficiency, climate change concerns, integration of renewables, development of smarter, more reliable and flexible grids as well as economic stimulus packages targeted at grid investments.

Table of Contents**Power Systems**

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

| | 2009 | 2008 | 2007 | % Change | |
|-------------------------------|------------------------|-------|-------|----------|------|
| | | | | 2009 | 2008 |
| | (\$ in millions except | | | | |
| | EBIT Margin %) | | | | |
| Orders | 7,830 | 7,408 | 7,744 | 6% | (4)% |
| Order backlog at December 31, | 9,675 | 7,704 | 8,209 | 26% | (6)% |
| Revenues | 6,549 | 6,912 | 5,832 | (5)% | 19% |
| EBIT | 388 | 592 | 489 | (34)% | 21% |
| EBIT Margin % ⁽¹⁾ | 5.9% | 8.6% | 8.4% | n.a. | n.a. |

(1) EBIT Margin % is calculated as EBIT divided by revenues

Orders

Order intake in 2009 increased 6 percent (17 percent in local currencies), as a strong increase in power transmission orders from utility customers compensated for lower demand in the industrial and power distribution sectors. A slow-down in base orders was more than offset by a strong growth in large orders. The growth in large orders partly reflects a general trend towards larger projects, sometimes resulting from a bundling of smaller projects. Large orders secured in 2009 included the \$550 million EirGrid power link project where our HVDC Light™ technology will connect and enhance capacity and stability of both the Irish and the U.K. transmission grids, as well as facilitate the integration of renewable energy. A \$540 million HVDC contract was received for the world's longest power transmission link to be constructed in Brazil, bringing remote hydro power to urban centers around São Paulo. Orders in 2009 also included a \$400 million substation project in Kuwait to further enhance the country's electrical transmission grid.

Order intake in 2008 decreased 4 percent (8 percent in local currencies) when compared to 2007, due to a lower volume of large orders, while the base order volume was maintained at the previous year's level. Large projects secured in 2008 included a \$233 million order from Hyundai Engineering and Construction of Korea to supply power systems and grid connections for a natural gas and steam turbine (combined-cycle) power plant to be built in Qatar. A \$170 million order was received from Svenska Kraftnät and Fingrid Oyj, the transmission system operators in Sweden and Finland, for two HVDC converter stations for the Fenno-Skan 2 power link. A \$150 million order was received from Dutch utility Nuon to provide power systems and grid connections for a new power plant to be built in the Netherlands.

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

| | 2009 | 2008 | 2007 |
|------------------------|------------|------------|------------|
| | (in %) | | |
| Europe | 33 | 39 | 46 |
| The Americas | 22 | 16 | 11 |
| Asia | 16 | 20 | 21 |
| Middle East and Africa | 29 | 25 | 22 |
| Total | 100 | 100 | 100 |

Europe remained the largest region in terms of order intake in 2009. There is a strong political commitment in Europe to increase the share of renewables and adapt the grids to make them smarter

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and more reliable. During 2009 there was a growing tendency to translate these commitments into actions, in some cases as part of governments' economic stimulus plans. Significant growth in the Americas was led by an order increase in Brazil. Orders also grew in Mexico as further investments were made to meet the rising demand for energy and to enhance the reliability and efficiency of the power grid. MEA continued to grow, as growing demand in several countries in the Middle East, led by Kuwait and Saudi Arabia, more than offset a slower order intake in Southern Africa. The order share from Asia decreased as lower volumes in China and Australia could not be fully compensated by an increased order intake in India.

The order decrease in Europe in 2008 mainly reflected the high volume of large projects received in this region in 2007, which could not be matched in 2008. MEA continued to show significant market growth for the division, as high fuel prices triggered investments in large infrastructure projects. Orders were also strong in the Americas, particularly in the United States, Canada and Brazil, resulting in a higher percentage share for the Americas region as compared to the previous year. The order share from Asia decreased marginally, mainly due to a relatively lower volume of large orders from China. Orders also decreased in India, primarily as the Power Systems division decided to discontinue its involvement in the rural electrification business due to safety concerns.

Order backlog

Order backlog at December 31, 2009, increased 26 percent (20 percent in local currencies), due mainly to the strong growth in large order intake. Large projects stay longer than base orders in the order backlog, as the project execution time is considerably longer. The order backlog decreased by \$505 million, or 6 percent (increased 4 percent in local currencies), at December 31, 2008, compared with December 31, 2007, mainly due to a lower volume of large order intake.

Revenues

Revenues decreased 5 percent (increased 1 percent in local currencies), in 2009 as compared with an increase of 19 percent (16 percent in local currencies), in 2008. The revenue development in 2009, as in 2008, mainly reflected the scheduled project execution of the order backlog. The lower share of base orders led to a lower book and bill ratio in 2009 than in 2008 and 2007, i.e. a lower share of orders with a shorter execution cycle, which could be converted to revenues within the same calendar year.

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

| | 2009 | 2008 | 2007 |
|------------------------|------------|------------|------------|
| | (in %) | | |
| Europe | 39 | 42 | 40 |
| The Americas | 15 | 14 | 15 |
| Asia | 18 | 18 | 20 |
| Middle East and Africa | 28 | 26 | 25 |
| Total | 100 | 100 | 100 |

In Europe, revenues were lower in both Western and Eastern Europe, reflecting scheduled project execution, as well as lower book and bill volumes. There was a small revenue increase in the Americas, led by growth in Mexico and Brazil. In the MEA region, revenues increased on project progress particularly in Namibia, Saudi Arabia and Kuwait, which more than compensated for the postponements of a few projects in the United Arab Emirates.

In 2008, all regions recorded growth in revenues over the previous year with Europe and MEA taking the lead. The higher revenues from Europe in 2008 compared to 2007 were mainly attributable to strong revenue growth in Germany, the United Kingdom and Italy, driven by the execution of large projects booked in 2007 and 2006. Similarly the revenue growth from MEA was also largely due to the execution of large orders booked in the region in prior years.

Table of Contents**Earnings before interest and taxes**

EBIT of the Power Systems division decreased 34 percent (29 percent in local currencies) in 2009, compared with growth of 21 percent (19 percent in local currencies) in 2008. The EBIT margin for the division decreased to 5.9 percent in 2009 compared with 8.6 percent and 8.4 percent in 2008 and 2007, respectively.

The lower EBIT and EBIT margin in 2009 was primarily the result of restructuring-related charges, lower revenues, higher research and development spending, as well as increased sales cost from higher tendering activity. The increase in EBIT and EBIT margin in 2008 was mainly attributed to higher revenues and capacity utilization, bidding selectivity, project execution and the cost benefit from expanding engineering resources in emerging markets.

Fiscal year 2010 outlook

Key market drivers for the Power Systems division continue to be economic growth and infrastructure spending on new capacities in emerging markets, upgrades of aging infrastructure, power reliability and quality improvements, increased focus on energy efficiency, the integration of renewable energy sources and the development of more flexible and smarter grids. Looking ahead, we believe that governments are likely to focus on infrastructure investments in the energy sector. Political commitments in Europe, U.S., and Asia to increase the share of energy from renewable sources, is expected to spur activity in the power sector.

Automation Products

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

| | 2009 | 2008 | 2007 | % Change | |
|-------------------------------|------------------------|--------|-------|----------|------|
| | | | | 2009 | 2008 |
| | (\$ in millions except | | | | |
| | EBIT Margin %) | | | | |
| Orders | 8,453 | 10,872 | 9,314 | (22)% | 17% |
| Order backlog at December 31, | 3,557 | 3,863 | 3,490 | (8)% | 11% |
| Revenues | 8,930 | 10,250 | 8,644 | (13)% | 19% |
| EBIT | 1,330 | 1,908 | 1,477 | (30)% | 29% |
| EBIT Margin % ⁽¹⁾ | 14.9% | 18.6% | 17.1% | n.a. | n.a. |

(1) EBIT Margin % is calculated as EBIT divided by revenues

Orders

Orders decreased 22 percent (18 percent in local currencies) in 2009 and increased 17 percent (11 percent in local currencies) in 2008.

In 2009, the demand in industrial and construction markets deteriorated leading to a decline in orders received. Both base orders and large orders were lower than 2008. However, the order trend improved at the end of 2009 for some standard products such as wiring accessories as the construction markets started recovering from a low level.

The increase in 2008 as compared to 2007 was the result of high demand during the first three quarters of the year for all business units except wiring accessories which experienced a weakening construction market. In the fourth quarter of 2008, demand for standard industrial and building products declined, reflecting the general global economic downturn. Orders for low-voltage (LV) drives, machines and LV systems increased in the last quarter of 2008, due to orders for energy conservation and renewable energy (mainly wind).

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The geographic distribution of orders as a percentage of total orders for our Automation Products division was as follows:

| | 2009 | 2008 | 2007 |
|------------------------|------------|------------|------------|
| | (in %) | | |
| Europe | 54 | 60 | 63 |
| The Americas | 10 | 11 | 11 |
| Asia | 29 | 23 | 21 |
| Middle East and Africa | 7 | 6 | 5 |
| Total | 100 | 100 | 100 |

In 2009, the share of orders from Europe and the Americas declined as the recession affected these regions more than the emerging markets in Asia. Orders from U.S. were 32 percent lower than 2008 and many West European countries reported similar reductions. The share from Asia increased to 29 percent as the orders from China grew 10 percent compared to 2008. Orders from MEA increased mainly due to Saudi Arabia.

The share of orders from Europe in 2008 decreased as total orders only grew 13 percent (5 percent in local currencies). The lower growth rate in orders reflected the weak construction market particularly in Germany and Spain. Furthermore, in 2007, we secured a \$110 million order for traction converters in Germany which was not repeated. The share of orders in the Americas was stable as high order growth in South America compensated for the weakening construction sector in the United States. The share of orders from Asia increased as a result of industrial infrastructure investments in China and India.

Order backlog

Order backlog in 2009 decreased 8 percent (12 percent in local currencies) as revenues were higher than orders for several business units, especially in power electronics and medium-voltage (MV) drives, machines, LV drives and LV motors.

Order backlog in 2008, when compared to 2007, increased 11 percent (18 percent in local currencies), as orders were higher than revenues for most business units, especially in power electronics and MV drives which booked several larger MV drive projects during the second half of the year.

Revenues

Revenues in 2009 decreased 13 percent (9 percent in local currencies). Revenues declined more slowly than orders as execution of the strong backlog in business units such as machines and power electronics and MV drives partly offset lower revenues in shorter-cycle businesses such as low-voltage products. Revenues were also impacted by lower prices resulting from a decrease in material costs as well as reduced demand.

Revenues in 2008 increased 19 percent (13 percent in local currencies). This increase was a result of higher order intake and execution of a strong order backlog. The revenue growth came from higher volumes as only minor price increases were made in 2008.

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

| | 2009 | 2008 | 2007 |
|------------------------|------------|------------|------------|
| | (in %) | | |
| Europe | 56 | 62 | 61 |
| The Americas | 11 | 11 | 12 |
| Asia | 27 | 22 | 22 |
| Middle East and Africa | 6 | 5 | 5 |
| Total | 100 | 100 | 100 |

Europe's share of revenues in 2009 was reduced, as the orders from this region were strongly influenced by the recession. The increased share of revenues from Asia was the result of order growth and the build-up of local resources in sales, service and production in this region.

In 2008, the regional split was basically the same as in 2007, as all regions achieved double-digit growth in revenues. The weakening construction markets in Western Europe and North America led to lower growth rates for standard products in these regions. High growth was achieved in Asia mainly as a result of good order intake and a high backlog in China and India.

Earnings before interest and taxes

In 2009, the decline in EBIT was due to lower revenues, reduced capacity utilization and restructuring-related costs to adapt to weaker demand. Machines and power electronics and MV drives improved EBIT, supported by their strong backlog while all other business units were lower. Although the EBIT margin decreased from 18.6 percent in 2008 to 14.9 percent in 2009, high EBIT margins were achieved in LV drives, breakers and switches and wiring accessories although the levels were lower than 2008. Furthermore, cost reductions offset the negative impact from price erosion.

In 2008, EBIT increased 29 percent (21 percent in local currencies) as a result of increased revenues and continued operational improvements. All businesses improved their EBIT except wiring accessories which suffered from lower revenues due to the weakening construction market. The largest margin improvements were made in power electronics and MV drives, machines, LV drives and enclosures and DIN-rail products due to increased capacity utilization and operational improvements.

Fiscal year 2010 outlook

We believe the general global economic slowdown will flatten out and stabilize at a low level during 2010. However, in renewable energy and energy efficiency applications we expect continued investments. Continued growth is expected in China and India.

Process Automation

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

| | 2009 | 2008 | 2007 | % Change | |
|-------------------------------|------------------------|-------|-------|----------|------|
| | (\$ in millions except | | | 2009 | 2008 |
| | EBIT Margin %) | | | | |
| Orders | 6,200 | 8,657 | 7,935 | (28)% | 9% |
| Order backlog at December 31, | 5,412 | 6,111 | 5,951 | (11)% | 3% |
| Revenues | 7,347 | 7,815 | 6,420 | (6)% | 22% |
| EBIT | 685 | 926 | 683 | (26)% | 36% |
| EBIT Margin % ⁽¹⁾ | 9.3% | 11.8% | 10.6% | n.a. | n.a. |

(1) EBIT Margin % is calculated as EBIT divided by revenues

Table of Contents**Orders**

In 2009, orders decreased 28 percent (22 percent in local currencies) to \$6,200 million. Both large orders and base orders were down during 2009 compared with the strong performance in 2008. The market slowdown noted in the fourth quarter of 2008 continued during 2009 with some stabilization of orders at the end of the year. The market was still driven by cost savings and energy and production efficiency requirements.

Lower investments in the marine, minerals, metals, and pulp and paper markets, as a result of the financial crisis and customers reducing investments due to uncertainty of future demand and limited access to project financing, was the main reason for lower orders recorded during 2009. Orders from the oil and gas sector remained strong in 2009 and grew 16 percent (29 percent in local currencies) due to several large orders from the MEA region. The performance services business grew 1 percent (10 percent in local currencies) due to the joint venture formed with Stora Enso to provide maintenance operations and improve efficiency at six pulp, paper and board mills in Finland. Service orders remained stable in 2009, while both systems and products orders were significantly reduced compared with 2008.

In 2008, orders increased 9 percent (4 percent in local currencies), with growth in large orders of 9 percent (1 percent in local currencies), compared to 2007. Our Process Automation division also reported an increase in base orders of 9 percent (5 percent in local currencies), in 2008, compared to 2007. Strong orders during the first quarter together with continued high activity in the market during the second quarter contributed to the growth, while in the second half of 2008 the growth in products and services was more than offset by lower large orders in the systems business. The oil, gas and petrochemical, metals, marine and turbocharging sectors recorded the strongest growth, while the pulp and paper and minerals sectors recorded lower order intake.

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

| | 2009 | 2008 | 2007 |
|------------------------|------------|------------|------------|
| | (in %) | | |
| Europe | 40 | 40 | 42 |
| The Americas | 19 | 19 | 19 |
| Asia | 21 | 29 | 30 |
| Middle East and Africa | 20 | 12 | 9 |
| Total | 100 | 100 | 100 |

In 2009, European orders were down due to lower investments in the marine and minerals markets, however the region continued to represent the largest share of orders for Process Automation. In the Americas, the higher demand in Peru and Colombia was not enough to offset the lower order intake from the United States, Brazil, Canada and Mexico. The strong growth in Asia during 2007 and 2008 could not be repeated during 2009 due to lack of large orders from the marine, metals and pulp and paper market sectors. MEA recorded significant order growth during 2009 led by strong oil and gas investments in Algeria.

In 2008, investments in the marine sector, mainly from the cruise ship builders, contributed to the orders in Europe as well as several orders from the minerals and metals sectors. The Americas experienced strong growth driven by our minerals business in Canada and Brazil, our oil and gas business in the United States and Mexico and our service business in the United States. Orders in Asia were also at a high level coming mainly from our marine and metals businesses in China, Singapore and Korea. MEA experienced significant growth during 2008 supported by high commodity prices at the beginning of the year which drove industrial investments especially in the oil and gas and minerals sectors.

Table of Contents**Order backlog**

Order backlog at December 31, 2009 decreased 11 percent (17 percent in local currencies) to \$5,412 million, compared to a year earlier. This reduction was the result of lower order intake combined with strong execution of projects in our opening backlog principally in the marine, minerals and metals business sectors. Order cancellations of approximately \$300 million were received from customers in 2009, reducing our orders received and order backlog correspondingly.

Order backlog at December 31, 2008 increased 3 percent (12 percent in local currencies), compared to December 31, 2007. The growth in the order backlog was driven by large system orders received in the oil and gas, minerals and marine sectors with delivery schedules extending into 2010 and beyond.

Revenues

Revenues in 2009 from our systems business decreased 6 percent (increased 4 percent in local currencies). The local currency increase was led by minerals and oil and gas due to the strong backlog built up in the systems business during 2008. Revenues in pulp and paper were down due to the low activity levels in the market already prior to the financial crisis with several customers shutting down mills in America and Europe. Service revenues were at the same level as a year earlier in local currencies, due to the strong installed base and the contribution from the newly formed joint venture with Stora Enso. The products business was lower across all product lines during 2009 due to the short revenue conversion cycle (from orders received into revenues). Higher operational expenditure in the maintenance areas supported revenue growth in marine and metals services.

In 2008, revenues increased strongly as a result of the execution of the large order backlog in our systems business as well as strong revenues in both our service and products businesses. All regions and sectors recorded strong revenues but the highest growth was in our marine, metals, minerals, oil and gas and turbocharging businesses. Overall revenues were up across the systems business with 19 percent, the products business with 18 percent and the service business with 14 percent growth.

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

| | 2009 | 2008 | 2007 |
|------------------------|------------|------------|------------|
| | (in %) | | |
| Europe | 41 | 44 | 46 |
| The Americas | 19 | 19 | 17 |
| Asia | 27 | 27 | 26 |
| Middle East and Africa | 13 | 10 | 11 |
| Total | 100 | 100 | 100 |

Higher revenues in 2009 from Finland and Norway were insufficient to maintain the same high level of revenues recorded in 2008 in Europe, as revenues were lower in the United Kingdom, Germany and Russia. Revenues in the Americas were slightly lower when compared with a strong performance a year earlier; Canada and Chile recorded significant growth while revenues from the U.S. and Brazil were lower. In Asia revenues were down mainly from Japan, Australia and Vietnam while Singapore experienced double-digit growth. Revenues in 2009 from MEA recorded significant growth due to the execution of several large projects in Congo, Qatar and Pakistan.

In 2008, revenues increased in all regions with the Americas, Asia and Europe showing strong growth. Europe experienced an increase in revenues driven by projects executed in Germany, Finland, Norway, the United Kingdom and Italy. The increase in revenues in the Americas was driven by the U.S., Brazil, Canada and Mexico. Revenues in Asia were driven by Korea, China, Japan and Singapore.

Table of Contents**Earnings before interest and taxes**

EBIT for our Process Automation division decreased 26 percent (23 percent in local currencies) in 2009, compared with an increase of 36 percent in 2008. The EBIT margin decreased to 9.3 percent from 11.8 percent in 2008 after improving from 10.6 percent in 2007. EBIT in 2009 includes restructuring-related charges of \$81 million, compared with \$26 million recorded during 2008.

Fiscal year 2010 outlook

We expect the oil and gas industry to continue to invest in 2010 while most other process industries will only gradually recover during next year depending on the development of commodity prices and access to capital. Energy efficiency will continue to drive investments during next year as cost reduction initiatives will continue to be high on our customers' agenda. Some of the emerging economies have entered transition from recession to recovery and this will also benefit the Process Automation division in 2010.

Robotics

The financial results of our Robotics division were as follows:

| | 2009 | 2008 | 2007 | % Change | |
|-------------------------------|------------------------|-------|-------|----------|-------|
| | | | | 2009 | 2008 |
| | (\$ in millions except | | | | |
| | EBIT Margin %) | | | | |
| Orders | 758 | 1,658 | 1,488 | (54)% | 11% |
| Order backlog at December 31, | 331 | 545 | 529 | (39)% | 3% |
| Revenues | 970 | 1,642 | 1,407 | (41)% | 17% |
| EBIT | (296) | 9 | 79 | n.a. | (89)% |
| EBIT Margin % ⁽¹⁾ | (30.5)% | 0.5% | 5.6% | n.a. | n.a. |

(1) EBIT Margin % is calculated as EBIT divided by revenues

Orders

Orders in 2009 decreased 54 percent (52 percent in local currencies) compared to 2008. The automotive industry (including related industries and the entire supplier base) was affected by the economic downturn, resulting in orders being postponed. The weakening market also impacted the previously strong general industries segment, such as packaging, electronics and food processing, resulting in declining order intake. In 2008, orders increased 11 percent (5 percent in local currencies) as overall growth in general industries offset the accelerated downturn in the automotive industry in the second half of the year.

The geographic distribution of orders as a percentage of total orders for our Robotics division was as follows:

| | 2009 | 2008 | 2007 |
|------------------------|------------|------------|------------|
| | (in %) | | |
| Europe | 52 | 58 | 56 |
| The Americas | 19 | 20 | 24 |
| Asia | 28 | 21 | 20 |
| Middle East and Africa | 1 | 1 | |
| Total | 100 | 100 | 100 |

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In 2009, orders decreased across all regions as the downturn in the North American market reached the European and the Asian markets. Europe remained the largest region in terms of order intake, however, its share of total division orders decreased as the demand from the general industries segment declined in conjunction with continued weak demand from the automotive industry. The share of orders from Asia increased as the decline in order intake was less sharp than in Europe and the Americas.

In 2008, orders in Europe increased as a proportion of total division orders due to continuous order growth in both Western and Eastern Europe. Orders in the Americas decreased, driven mainly by the downturn in the North American automotive industry, which could not be offset by the order increase in South America. Orders in Asia continued to increase especially in markets such as India, Malaysia, Thailand and Singapore. The domestic market in China showed a stable development.

Order backlog

Order backlog in 2009 decreased 39 percent (42 percent in local currencies), due to lower base order intake across all businesses and regions and a high volume of large orders in 2008.

Order backlog in 2008 increased 3 percent (6 percent in local currencies), mainly reflecting an increase in orders in the systems business.

Revenues

In 2009, revenues decreased 41 percent (38 percent in local currencies). Revenues decreased across all business units and market segments, due to weak order backlog and low order intake.

In 2008, revenues increased 17 percent (11 percent in local currencies), mainly driven by a strong order backlog and strong order growth in general industries especially during the first nine months of 2008.

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

| | 2009 | 2008 | 2007 |
|------------------------|------------|------------|------------|
| | (in %) | | |
| Europe | 53 | 58 | 58 |
| The Americas | 21 | 21 | 23 |
| Asia | 26 | 20 | 18 |
| Middle East and Africa | | 1 | 1 |
| Total | 100 | 100 | 100 |

In 2009, revenues decreased across all regions reflecting the downward trend in orders. Europe and MEA saw a decrease in the share of total revenues as Asia gained a higher share. Strong order backlog from 2008 and relatively lower decline in orders were the main reasons for the higher share of Asian revenues. The Americas' share of total revenues remained stable compared to 2008 mainly due to the weak automotive business having already impacted the second half of 2008.

In 2008, revenues increased in Europe mainly due to a strong order backlog as well as sales to general industries both in Western and Eastern Europe. The Americas recorded lower revenues as a result of the weakening automotive sector in North America, which is reflected in the lower share of revenues in the Americas. The share of revenues in Asia continued to grow due to increased local presence, adapted products and solutions as well as favorable market conditions, gaining more importance for the division.

Table of Contents**Earnings before interest and taxes**

In 2009, EBIT for the Robotics division decreased \$305 million after decreasing \$70 million in 2008. The EBIT margin for the division was negative in 2009, compared with a positive margin of 0.5 percent and 5.6 percent in 2008 and 2007, respectively.

The EBIT decrease in 2009 was mainly a result of low factory loading, declining service revenues and further capacity adjustments and footprint changes. The decrease in 2008 EBIT was mostly a result of restructuring-related charges for moving manufacturing and engineering capacity to low cost countries.

Fiscal year 2010 outlook

Across all regions the automotive industry and general industries have been affected by the economic downturn. We believe that the general willingness to commit for investments in the robotics market will remain modest during 2010.

Corporate and Other

Corporate and Other comprises corporate headquarters and stewardship, corporate research and development, corporate real estate, equity investments primarily in Colombia and the Ivory Coast that are being considered for sale as well as other activities. EBIT for Corporate and Other was as follows:

| | 2009 | 2008 | 2007 |
|--|------------------|--------------|--------------|
| | (\$ in millions) | | |
| Corporate headquarters and stewardship | (296) | (277) | (202) |
| Corporate research and development | (115) | (118) | (98) |
| Corporate real estate | 30 | 49 | 43 |
| Equity ventures | (8) | (1) | 10 |
| Other | 439 | (636) | (54) |
| Total Corporate and Other | 50 | (983) | (301) |

Corporate headquarters and stewardship costs in 2009 increased mainly due to higher pension funding costs related to divested business. This increase was partly offset by lower expenses for our executive committee, lower corporate costs in the countries and an improved result in our captive insurance company. Corporate headquarters and stewardship costs in 2008 were higher than 2007 due mainly to higher pension and insurance costs and specific costs incurred related to programs such as brand promotion.

Corporate research and development costs in 2009 remained at a similar level as last year. In 2008, Corporate research and development costs increased due to higher research and development activities.

Corporate real estate EBIT consists primarily of rental income. In addition, in 2009, gains of \$12 million from the sale of facilities mainly in Switzerland, the Netherlands and Norway were offset by a \$10 million asset impairment charge in the United States. EBIT of real estate operations in 2008 included a \$33 million gain from the sale of properties mainly in Switzerland, Brazil, Italy, Mexico and Poland, while in 2007 it mainly resulted from the gain on the sale of real estate properties in Switzerland, Norway, Brazil and Australia.

In 2009, EBIT from equity investments was an \$8 million loss, primarily representing an operating loss of our equity investment in a power plant in Colombia. EBIT from equity investments decreased in 2008 as most investments were sold in previous years. In 2007, EBIT from equity investments was generated mainly from equity investments in Jorf Lasfar and Neyveli which were sold mid 2007. The

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gain on sale of these equity investments of \$38 million was more than offset by a \$42 million impairment charge in respect of another equity investment which we intend to divest.

In 2009, EBIT from "Other" in the table above was positive primarily due to the partial release of provisions (related to the investigations into our Power Transformers business) following the European Commission's decision to impose a fine in October 2009. It also included the costs of our Group Treasury Operations. The negative EBIT from "Other" in 2008 was the result of provisions related to the investigations into our Power Transformers business and the voluntary disclosures to the SEC and DoJ regarding suspect payments (see "Note 15 Commitments and contingencies" to our Consolidated Financial Statements). Also included are the costs of our Group Treasury Operations, which are part of our corporate finance function, of \$10 million in 2008 and 2007. Further, "Other" in 2008 included \$7 million in losses mainly related to the write-down of assets of our Distributed Energy business in Great Britain, and in 2007, losses related to projects in Building Systems and other businesses.

Discontinued operations

"Income (loss) from discontinued operations, net of tax" was as follows:

| | 2009 | 2008 | 2007 |
|--------------------------------------|------------------|-------------|------------|
| | (\$ in millions) | | |
| Downstream Oil and Gas business | 21 | (5) | 539 |
| Building Systems business Germany | | | (2) |
| Transformer business South Africa | | 13 | 15 |
| Cable business Ireland | | | (1) |
| Upstream Oil, Gas and Petrochemicals | | | 21 |
| Asbestos | | (31) | |
| Others | (4) | 2 | 14 |
| Total | 17 | (21) | 586 |

For further discussion on the discontinued operations, see "Acquisitions, divestments and discontinued operations", "Note 3 Acquisitions, divestments and discontinued operations", and "Note 15 Commitments and contingencies" to our Consolidated Financial Statements.

Restructuring programs*Cost take-out program*

In December 2008, we announced a cost take-out program to adjust our cost base to rapidly changing market conditions and protect our profitability. The program's original target was to reduce our costs comprising both cost of sales and general and administrative expenses from 2008 levels by a total of \$1.3 billion by the end of 2010. As a result of the ongoing deterioration of ABB's markets over most of 2009, the cost take-out goal has been expanded to \$3 billion. The savings are focused on low-cost sourcing, reduced general and administrative expenses, internal process improvements and adjustments to our global manufacturing and engineering footprint.

Cost reductions for 2009 were significantly ahead of plan and exceeded \$1.5 billion. Approximately 50 percent of these savings were achieved by optimizing global sourcing (excluding changes in commodity prices). The remainder was achieved through reductions to general and administrative expenses, as well as global footprint and operational excellence measures.

We expect to complete the cost take-out program by the end of 2010 with total charges approaching \$1 billion.

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The following table outlines the total amount of costs expected to be incurred as well as the costs incurred in 2009 and the cumulative amount of costs incurred to date under the program.

| | Costs incurred in 2009 | Cumulative costs incurred to December 31, 2009 | Total expected costs |
|---------------------|------------------------------|--|----------------------------|
| | (\$ in millions) | | |
| Power Products | 77 | 78 | 210 |
| Power Systems | 90 | 91 | 150 |
| Automation Products | 130 | 142 | 260 |
| Process Automation | 81 | 105 | 160 |
| Robotics | 124 | 191 | 200 |
| Corporate and Other | 14 | 16 | 20 |
| Total | 516 | 623 | 1,000 |

During 2009, we recorded an expense of \$516 million under this program of which \$293 million was recorded in "Total cost of sales", \$75 million in "Selling, general and administrative expenses" and \$148 million in "Other income (expense), net". This expense consisted of \$342 million related to employee severance costs, \$129 million of estimated contract settlement, loss order and other costs and \$45 million related to inventory and long-lived asset impairments.

During 2008, we recorded an expense of \$107 million under this program of which \$72 million was recorded in "Total cost of sales", \$32 million in "Selling, general and administrative expenses" and \$3 million in "Other income (expense), net". This expense consisted of \$99 million related to employee severance costs, \$3 million of estimated contract settlement, loss order and other costs and \$5 million related to inventory and long-lived asset impairments.

The majority of the related cash outlays, primarily for employee severance benefits, are expected to occur in 2010 as the employees leave ABB. We expect to finance these restructuring activities from our cash flow from operations.

In the course of this program, we have implemented and will continue to execute various restructuring initiatives across all divisions and regions. The most significant individual exit plans within this program relate to the Robotics reorganization, the downsizing of the Automation Products business in France and Germany as well as the Power Systems business in Germany.

Robotics reorganization

In 2008, we initiated our plan to adjust our engineering, manufacturing and service capacities in the Robotics division, primarily in Western Europe and the U.S. as a result of the economic downturn in some of the division's key markets and to increase the presence in emerging markets. This plan includes closing certain production lines as well as employment reductions.

Downsizing the Automation Products business in France and Germany

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

In addition, we are executing numerous, individually insignificant restructuring initiatives in our Automation Products business across many countries.

Table of Contents*Downsizing the Power Systems business in Germany*

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

In addition, we are executing numerous, individually insignificant restructuring initiatives in our Power Systems business across many countries.

For further information regarding these exit plans see "Note 21 Restructuring and related expenses" to our Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES**Principal sources of funding**

In 2009, 2008 and 2007, we met our liquidity needs principally using cash from operations and bank borrowings.

During 2009, 2008 and 2007, our financial position was strengthened by the positive cash flow from operating activities of \$4,027 million, \$3,958 million and \$3,054 million, respectively. The cash generated in 2009 and 2008, and our overall cash position, allowed us to pay dividends in the form of a nominal value reduction, invest in property, plant and equipment and acquire businesses (see "Note 3 Acquisitions, divestments and discontinued operations" to our Consolidated Financial Statements). The cash generated in 2007 enabled us to pay an increased dividend to shareholders.

Our financial position is shown in the table below:

| | December 31, | |
|--|---------------------|--------------|
| | 2009 | 2008 |
| | (\$ in millions) | |
| Cash and equivalents | 7,119 | 6,399 |
| Marketable securities and short-term investments | 2,433 | 1,354 |
| Short-term debt and current maturities of long-term debt | (161) | (354) |
| Long-term debt | (2,172) | (2,009) |
| Net cash (defined as the sum of the above lines) | 7,219 | 5,390 |

Net cash at December 31, 2009, increased compared to the balance at December 31, 2008, primarily due to the cash generated by operations during 2009 of \$4,027 million. See "Financial Position", "Net cash provided by (used in) investing activities" and "Net cash used in financing activities" for further details.

Our Group Treasury Operations is responsible for providing a range of treasury management services to our group companies and is also responsible for investing cash in excess of current business requirements. At December 31, 2009 and 2008, the proportion of our aggregate "Cash and equivalents" and "Marketable securities and short-term investments" managed by our Group Treasury Operations amounted to 78 percent and 73 percent, respectively.

In 2009, we followed the same overall investment strategy of maintaining diversification (and flexibility) in our investment portfolio with a mix of government securities, highly-rated corporate short-dated paper and time deposits of short duration with banks. In the first half of 2009, the market in general rebounded and with investors' risk appetites returning, equities improved and credit spreads tightened. Consequently, we increased our investments in corporate papers (and removed maximum investment tenor of 90 days for such investments) and extended the duration on our time deposits with

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banks to enhance the return on our investments. Towards the end of 2009, we again invested in government securities as better returns could be made than with some banks who were offering low rates due to the amount of liquidity in the market.

At the beginning of 2009, we continued, as in 2008, to invest funds in their currency of origination. However, as of mid-2009, in view of Swiss franc interest rates being close to zero, wide bid-offer rates on deposits, and there being more favorable interest rates for euro-denominated deposits, we have swapped Swiss francs into euros at little or no cost, thereby significantly increasing the weighting of euros and reducing the proportion of Swiss francs in our total short-term investments. Consequently, by the end of 2009, the currency profile of the excess cash invested by our Group Treasury Operations, has changed compared to the prior year. At December 31, 2009, approximately 78 percent of such cash has been placed in euros, 9 percent in U.S. dollars and the remainder in other currencies. This compares to 47 percent in euros, 32 percent in Swiss francs, 10 percent in Swedish krona, with Norwegian krona, U.S. dollars and other currencies making up the balance at December 31, 2008.

We actively monitor credit risk in our investment portfolio and hedging activities. Credit risk exposures are controlled in accordance with policies approved by our senior management to identify, measure, monitor and control credit risks. We continue to closely monitor ongoing developments in the credit markets and will make appropriate changes to our investment policy as deemed necessary. The rating criteria we require for our counterparts have remained unchanged during 2009 as follows: a minimum of A rating for our banking counterparts, while the minimum required rating for investments in short-term corporate paper is A-1/P-1. In addition to rating criteria, we continue to have specific investment criteria and restrictions on the sectors we invest in. These parameters are closely monitored on an ongoing basis and amended as we consider necessary.

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

Debt and interest rates

Total outstanding debt was as follows:

| | December 31, | |
|--|-------------------------|--------------|
| | 2009 | 2008 |
| | (\$ in millions) | |
| Short-term debt including current maturities of long-term debt (including bonds) | 161 | 354 |
| Long-term debt | | |
| bonds | 1,961 | 1,856 |
| other long-term debt | 211 | 153 |
| Total debt | 2,333 | 2,363 |

The small overall decrease in debt in 2009 was primarily due to a decrease in debt from bond maturities being largely offset by net adverse exchange rate movements and a small net increase in other debt.

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Our debt has been obtained in a range of currencies and maturities and on various interest rate terms. We use derivatives to reduce the interest rate and/or foreign currency exposures arising on our debt. For example, we use interest rate swaps to effectively convert fixed rate debt into floating rate liabilities.

After considering the effects of interest rate swaps, the effective average interest rate on our floating rate long-term debt (including current maturities) of \$2,072 million and our fixed rate long-term debt (including current maturities) of \$133 million was 3.0 percent and 5.0 percent, respectively. This compares with an effective rate of 5.8 percent for floating rate long-term debt of \$2,124 million and 4.8 percent for fixed-rate long-term debt of \$80 million at December 31, 2008.

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

Credit facilities

During 2009, we replaced our \$2 billion multicurrency revolving credit facility, maturing 2010, with a new 3-year, \$2 billion multicurrency facility maturing 2012. For further details of this credit facility, see "Note 12 Debt" to our Consolidated Financial Statements.

No amount was drawn under either facility at December 31, 2009 and 2008. The facility is for general corporate purposes and will serve as a back-stop facility to our commercial paper programs in the event that we issue commercial paper under the programs described below. 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.

Commercial paper

We have in place 3 commercial paper programs:

a \$1 billion commercial paper program for the private placement of USD denominated commercial paper in the United States,

a \$1 billion Euro-commercial paper program for the issuance of commercial paper in a variety of currencies, and

a 5 billion Swedish krona program (equivalent to approximately \$702 million, using December 31, 2009, exchange rates), allowing us to issue short-term commercial paper in either Swedish krona or euro.

At December 31, 2009 and 2008, no amounts had been issued or were outstanding under these commercial paper programs.

Medium Term Note Program (MTN)

At December 31, 2009 and 2008, \$1,961 million and \$1,918 million, respectively, of our total debt outstanding, were debt issuances under the MTN Program that allows the issuance of up to (the equivalent of) \$5,250 million in certain debt instruments. The terms of the MTN Program do not obligate any third party to extend credit to us and the terms and possibility of issuing any debt under the MTN Program are determined with respect to, and as of the date of issuance of, each debt instrument. At December 31, 2009, it was more than 12 months since the Program was last updated. New bonds could be issued under the Program but could not be listed without us formally updating the Program.

Table of Contents**Credit ratings**

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

At December 31, 2009 and 2008, our long-term company ratings were A3 and A- from Moody's and Standard & Poor's, respectively.

Limitations on transfers of funds

Currency and other local regulatory limitations related to the transfer of funds exist in a number of countries where we operate, including Algeria, China, Egypt, India, Korea, Kuwait, Malaysia, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and Venezuela. Funds, other than regular dividends, fees or loan repayments, cannot be readily transferred offshore from these countries and are therefore deposited and used for working capital needs locally. In addition, there are certain countries where, for tax reasons, it is not considered optimal to transfer the cash offshore. As a consequence, these funds are not available within our Group Treasury Operations to meet short-term cash obligations outside the relevant country. The above described funds are reported as cash in our Consolidated Balance Sheets, but we do not consider these funds immediately available for the repayment of debt outside the respective countries where the cash is situated, including those described above. At December 31, 2009 and 2008, the balance of "Cash and equivalents" and "Marketable securities and other short-term investments" under such limitations (either regulatory or sub-optimal from a tax perspective) totaled approximately \$1,460 million and \$1,490 million, respectively.

During 2009, we continued to direct our subsidiaries in countries with restrictions to place such cash with our core banks or investment grade banks, in order to minimize credit risk on such cash positions. Consequently, cash placed with non-rated or sub-investment grade banks has been reduced to less than 5 percent (at December 31, 2008, less than 10 percent) of cash outside of our Group Treasury Operations. We continue to closely monitor the situation to ensure bank counterparty risks are minimized.

FINANCIAL POSITION**Balance sheet**

| Current assets | December 31, | |
|--|------------------|---------------|
| | 2009 | 2008 |
| | (\$ in millions) | |
| Cash and equivalents | 7,119 | 6,399 |
| Marketable securities and short-term investments | 2,433 | 1,354 |
| Receivables, net | 9,451 | 9,245 |
| Inventories, net | 4,550 | 5,306 |
| Prepaid expenses | 236 | 237 |
| Deferred taxes | 900 | 920 |
| Other current assets | 540 | 776 |
| Total current assets | 25,229 | 24,237 |

For a discussion on cash and equivalents and marketable securities and short-term investments, see "Liquidity and capital resources Principal sources of funding" for further details.

Receivables, net, at the end of 2009, increased from the end of 2008 by approximately 2 percent, but decreased by approximately 2 percent in local currencies. The decrease in local currencies reflects

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the declining business volume, the impact from lower sales prices and better cash collection from customers.

Inventories, net, decreased 14 percent compared to the level at the end of 2008. Excluding the effect of the fluctuation of local currencies relative to the U.S. dollar, the change was a decrease of approximately 18 percent. The decrease in inventories was recorded in all our divisions, but was particularly high in our Power Products and Automation Products divisions reflecting lower business volume and inventory optimization initiatives.

For a discussion on deferred taxes see "Note 16 Taxes" to our Consolidated Financial Statements.

Other current assets include derivative and embedded derivative assets and income tax receivables. The decrease primarily reflects lower derivative assets due to changes in the market value of outstanding derivatives.

| Current liabilities | December 31, | |
|--|------------------|---------------|
| | 2009 | 2008 |
| | (\$ in millions) | |
| Accounts payable, trade | 3,853 | 4,451 |
| Billings in excess of sales | 1,623 | 1,224 |
| Accounts payable, other | 1,326 | 1,292 |
| Short-term debt and current maturities of long-term debt | 161 | 354 |
| Advances from customers | 1,806 | 2,014 |
| Deferred taxes | 327 | 428 |
| Provisions for warranties | 1,280 | 1,105 |
| Provisions and other current liabilities | 2,603 | 3,467 |
| Accrued expenses | 1,600 | 1,569 |
| Total current liabilities | 14,579 | 15,904 |

Total current liabilities at December 31, 2009, decreased 8 percent (12 percent in local currencies) compared to December 31, 2008 due to decreases in business volume, the release of compliance-related provisions, lower derivative liabilities and the repayment of bonds.

Accounts payable, trade, at December 31, 2009, decreased 13 percent compared to December 31, 2008, due primarily to a decrease in business volume in all of the core divisions.

Short-term debt and current maturities of long-term debt were lower than at the end of 2008, as several debt obligations were paid back at maturity.

The major drivers behind the decrease in provisions and other current liabilities were the release of part of the provisions recorded in 2008 for potential costs primarily related to investigations into alleged anti-competitive practices in our Power Transformers business and lower derivative liabilities due to changes in the market value of outstanding derivatives. The decrease was partly offset by

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increases in provisions for restructuring-related activities, the reclassification of certain asbestos obligations from non-current to current liabilities and higher provisions for loss orders.

| Non-current assets | December 31, | |
|---|------------------|--------------|
| | 2009 | 2008 |
| | (\$ in millions) | |
| Financing receivables, net | 452 | 445 |
| Property, plant and equipment, net | 4,072 | 3,562 |
| Goodwill | 3,026 | 2,817 |
| Other intangible assets, net | 443 | 411 |
| Prepaid pension and other employee benefits | 112 | 73 |
| Investments in equity method companies | 49 | 68 |
| Deferred taxes | 1,052 | 1,120 |
| Other non-current assets | 293 | 278 |
| Total non-current assets | 9,499 | 8,774 |

Property, plant and equipment, net, increased 14 percent (9 percent in local currencies) between December 31, 2008 and December 31, 2009. The major capital expenditures during 2009 were investments in machinery and equipment in China, Switzerland, Germany, Sweden and India.

The increase in goodwill and other intangible assets, net was mainly due to the acquisition in Power Products of Comem, in several countries, the acquisition in Automation Products of Ensto Busch-Jaeger in Finland, and subsequent changes to the purchase accounting of Kuhlman, an acquisition made in 2008. (See "Note 3 Acquisitions, divestments and discontinued operations" and "Note 10 Goodwill and other intangible assets" to our Consolidated Financial Statements.) The increase in prepaid pension and other employee benefits reflects the change in the funded status of our overfunded pension plans. (See "Note 17 Employee benefits" to our Consolidated Financial Statements.)

Other non-current assets mainly include derivative and embedded derivative assets.

| Non-current liabilities | December 31, | |
|--------------------------------------|------------------|--------------|
| | 2009 | 2008 |
| | (\$ in millions) | |
| Long-term debt | 2,172 | 2,009 |
| Pension and other employee benefits | 1,179 | 1,071 |
| Deferred taxes | 328 | 355 |
| Other non-current liabilities | 1,997 | 1,902 |
| Total non-current liabilities | 5,676 | 5,337 |

The increase in our long-term debt was driven by (i) foreign exchange movements on outstanding debt (a large part being bonds denominated in euros), (ii) fair value hedge adjustments on our outstanding bonds and (iii) increases in bank debt in certain countries. (See "Liquidity and Capital Resources Debt and interest rates".)

The increase in pension and other employee benefits substantially reflects the remeasurement of benefit obligations for updated assumptions and plan assets to fair value of our defined benefit pension plans, partly offset by regular employer contributions, see "Note 17 Employee benefits" to our Consolidated Financial Statements.

Other non-current liabilities in the table above increased slightly, as the increase in income tax related liabilities from \$701 million to \$854 million and the increase in other liabilities from \$384 million to \$428 million was partly offset by decreases in derivative liabilities from \$180 million to

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\$67 million at December 31, 2009 and 2008, respectively. (See "Note 13 Provisions and other and non-current other liabilities" to our Consolidated Financial Statements.)

Cash flows

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

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

| | 2009 | 2008 | 2007 |
|--|------------------|--------------|------------|
| | (\$ in millions) | | |
| Net cash provided by operating activities | 4,027 | 3,958 | 3,054 |
| Net cash provided by (used in) investing activities | (2,220) | 114 | (2,291) |
| Net cash used in financing activities | (1,301) | (2,119) | (625) |
| Effects of exchange rate changes on cash and equivalents | 214 | (230) | 275 |
| Adjustment for the net change in cash and equivalents in assets held for sale and in discontinued operations | | 26 | 39 |
| Net change in cash and equivalents continuing operations | 720 | 1,749 | 452 |

Net cash provided by operating activities

Operating activities in 2009 provided net cash of \$4,027 million. Net cash provided by operating activities included a \$135 million cash outflow related to our ongoing restructuring-related activities. Net cash provided by operating activities was particularly high in our Automation Products and Power Products divisions, mainly due to lower inventories and improved cash collection. This was partially offset by lower advance payments from customers in the wake of decreasing orders, exceeding cash releases from project completion.

In 2008, operating activities provided net cash of \$3,958 million despite cash outflows of \$1,266 million from an increase in trade receivables, net, and \$800 million from an increase in inventories, net, resulting from increased business volumes. The increase in inventories, net, was a result of high factory loading and material procurements to support the execution of the high order backlog. Net cash provided by operating activities was particularly high in our Power Products and Automation Products divisions.

Net cash provided by operating activities in 2008 included \$100 million of asbestos payments (see "Note 15 Commitments and contingencies" to our Consolidated Financial Statements). In 2007, \$382 million of asbestos payments were made, of which \$204 million was paid upon the sale of Lummus.

In 2007, operating activities provided net cash of \$3,054 million. Net cash provided by operating activities increased in all of our core divisions. Higher cash outflow requirements for working capital, as a result of the significant increase in the volume of operations, were more than offset by the significant increase in cash-effective earnings. In the Power Systems division, high advances from customers on major projects and closer management of trade payables contributed to net cash provided by operating activities. In the Power Products division, working capital improvements were driven by improved inventory management. Due to our improved liquidity we terminated the securitization activities in the United States during the third quarter of 2007. This termination had a negative impact on the 2007 full year cash flows from operations of \$178 million. Approximately 50 percent of this impact was in our Power Products division.

Table of Contents**Net cash provided by (used in) investing activities**

| | 2009 | 2008 | 2007 |
|---|------------------|------------|----------------|
| | (\$ in millions) | | |
| Changes in financing receivables, net | (7) | 7 | 56 |
| Purchases of marketable securities (available-for-sale) | (243) | (1,081) | (6,428) |
| Purchases of marketable securities (held-to-maturity) | (918) | | |
| Purchases of short-term investments | (3,824) | (2,512) | (3,679) |
| Purchases of property, plant and equipment and intangible assets | (967) | (1,171) | (756) |
| Acquisitions of businesses (net of cash acquired) | (209) | (653) | (54) |
| Proceeds from sales of marketable securities (available-for-sale) | 79 | 110 | 6,492 |
| Proceeds from maturity of marketable securities (available-for-sale) | 855 | | |
| Proceeds from maturity of marketable securities (held-to-maturity) | 730 | | |
| Proceeds from short-term investments | 2,253 | 5,305 | 868 |
| Proceeds from sales of property, plant and equipment | 36 | 94 | 75 |
| Proceeds from sales of businesses and equity accounted companies (net of cash disposed) | 16 | 46 | 1,142 |
| Other | (21) | (31) | (7) |
| Net cash provided by (used in) investing activities | (2,220) | 114 | (2,291) |

Investing activities include (i) accounts receivable from leases and third party loans (financing receivables), (ii) net investments in marketable securities that are not held for trading purposes, (iii) asset purchases, net of disposals and iv) acquisitions of, investments in, and divestitures of businesses.

Net cash flow used in investing activities during 2009 was \$2,220 million. Aggregate purchases of marketable securities and short-term investments amounted to \$4,985 million in 2009. During the first quarter of 2009, the government papers that were held at year-end 2008 matured and in 2009, we placed additional cash in time deposits with banks and in short-term commercial paper compared to year-end 2008. During the second and third quarter of 2009, we started to extend the maturity of our investments by investing in time deposits and corporate paper with original maturities longer than 3 months, not classified as cash and equivalents.

Total cash disbursements for the purchase of property, plant and equipment and intangibles amounted to \$967 million reflecting capital expenditures to expand our manufacturing footprint in emerging markets and selective expenditures to refocus our facilities in mature markets. Capital expenditures in 2009 included \$258 million for the purchase of machinery and equipment, \$48 million for the purchase of land and buildings, \$77 million for the purchase of intangible assets and \$584 million capital expenditures for construction in progress.

Acquisitions of businesses (net of cash acquired), in 2009, mainly included the acquisition of Comem, the acquisition of an additional stake in ABB Xinhui Low Voltage Switchgear Company and the purchase of the remaining shares in Ensto Busch-Jaeger in Finland, a company in which ABB previously had a noncontrolling ownership stake.

Aggregate proceeds from the sales of marketable securities and short-term investments during 2009 amounted to \$3,917 million as compared with \$5,415 million for 2008. The decrease reflects the change in investment strategy discussed under "Liquidity and Capital Resources".

Cash received from the sale of property, plant and equipment during 2009 included \$23 million of proceeds from the sale of real estate properties, mainly in Norway, France, Brazil and Switzerland, and \$13 million from the sale of machinery and equipment in various locations.

In 2009, net cash inflows from the sale of businesses and equity accounted companies amounted to \$16 million, which included approximately \$8 million net proceeds from the sale of the mechanical marine thruster business in Poland.

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Net cash flow provided by investing activities during 2008 was \$114 million. Aggregate purchases of marketable securities and short-term investments amounted to \$3,593 million in 2008. During the first half of 2008, we invested a lower amount of our excess liquidity in time deposits with a maturity of more than three months (given the prevailing volatility in financial markets) and instead invested in time deposits with maturities of three months or less, classified as cash and equivalents. In the second half of 2008, we invested part of our excess cash in AAA-rated Government bonds of which the majority had an original maturity of more than 3 months.

Total cash disbursements for the purchase of property, plant and equipment and intangibles amounted to \$1,171 million, reflecting high capital expenditures due to new growth projects and increasing capacity requirements. Capital expenditures in 2008 included \$308 million for the purchase of machinery and equipment, \$78 million for the purchase of land and buildings, \$134 million for the purchase of intangible assets, mainly software, and \$651 million capital expenditures for construction in progress.

Acquisitions and divestments, net, in 2008, mainly included the acquisition of Kuhlman in the United States. The preliminary purchase price for Kuhlman was \$520 million including assumed debt, which was subsequently adjusted in 2009.

Aggregate proceeds from sales of marketable securities and short-term investments during 2008 amounted to \$5,415 million as compared with \$7,360 million for 2007. The decrease reflects the change in investment strategy discussed under "Liquidity and Capital Resources".

Cash received from the sale of property, plant and equipment during 2008 included \$78 million proceeds from the sale of real estate properties, mainly in Switzerland, Italy, Mexico and Poland and \$15 million from the sale of machinery and equipment in various locations.

Net cash inflows from the sale of businesses and equity accounted companies amounted to \$46 million in 2008. This net inflow included approximately \$14 million net proceeds from the sale of the distributed energy business in Germany, \$16 million net proceeds from the sale of the ABB Powertech Transformer business in South Africa, as well as \$11 million net proceeds from two businesses in Norway, \$10 million net proceeds from the sale of the Lighting business in the United Kingdom, and approximately \$15 million net proceeds from the sale of other minor businesses during 2008. These inflows were partly offset by a claim settlement payment of approximately \$20 million related to the former Air-Handling business that was sold in 2002.

Net cash provided by (used in) investing activities during 2007 was \$2,291 million. Net cash inflows from the sale of businesses and equity accounted companies amounted to \$1,142 million in 2007. This net inflow included approximately \$810 million net proceeds from the sale of Lummus, as well as \$483 million net proceeds from the sale of our interests in Jorf Lasfar and Neyveli. These inflows were offset by a cash outflow of \$173 million related to the sale of Building Systems in Germany. Net cash outflows for acquisitions amounted to \$54 million in 2007, including \$26 million for the acquisition of Raman Boards Ltd in India.

Total cash disbursements for the purchase of property, plant and equipment and intangibles, net of disposals, in 2007 increased approximately \$270 million, reflecting higher capital expenditures due to new growth projects and increasing capacity requirements. Capital expenditure payments during the year amounted to \$756 million, which included \$457 million towards the purchase of machinery and equipment, \$128 million for land and buildings, \$84 million for the purchase of intangible assets, mainly software and \$87 million for projects which are under construction. Cash received from the sale of property, plant and equipment during 2007 included \$58 million proceeds from the sale of real estate properties, mainly in Italy and France and \$16 million from the sale of machinery and equipment in various locations.

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Outflows of marketable securities and short-term investments in 2007 included \$49 million in purchases of marketable securities to contribute to the pension funds in Germany and \$30 million in additional net cash invested by our captive insurance company.

Net cash used in financing activities

| | 2009 | 2008 | 2007 |
|--|------------------|----------------|--------------|
| | (\$ in millions) | | |
| Net changes in debt with maturities of 90 days or less | (59) | (10) | (19) |
| Increase in debt | 586 | 458 | 210 |
| Repayment of debt | (705) | (786) | (247) |
| Issuance of shares | 89 | 49 | 241 |
| Purchase of treasury shares | | (621) | (199) |
| Dividends paid in the form of nominal value reduction/dividends paid | (1,027) | (1,060) | (449) |
| Dividends paid to noncontrolling shareholders | (193) | (152) | (117) |
| Other | 8 | 3 | (45) |
| Net cash used in financing activities | (1,301) | (2,119) | (625) |

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

The cash inflows from increases in debt of \$586 million, \$458 million and \$210 million in 2009, 2008 and 2007, respectively, primarily relate to short-term borrowings.

During 2009, \$705 million of bonds and other debt was repaid at maturity, including the 108 million Swiss francs of 3.75% CHF bonds, due 2009, (equivalent to \$105 million at date of repayment) and 20 million pounds sterling 10% GBP Instruments, due 2009, (equivalent to \$33 million at date of repayment, excluding the effect of cross-currency swaps).

During 2008, \$786 million of bonds and other debt was repaid at maturity. This amount included the repayment of the remaining (77 million euros) 9.5% EUR Instruments, due 2008, as well as the repayment of several private placements and short-term debt upon maturity. In 2007, the repayment of debt primarily related to movements in short-term debt as there were no bond repayments in that year.

The cash inflow of \$89 million in 2009 from the issuance of shares represented the issuance of shares to employees in connection with our Employee Share Acquisition Plan (ESAP), as well as the exercise of call options by a bank. The exercise by employees of the options they held under the ESAP (with a strike price of CHF 15.30) resulted in the issuance of 5.5 million shares and net proceeds of \$83 million. The call options, related to our management incentive plan launches, and with strike prices of CHF 7.00 and CHF 7.50, had been issued by us at fair value during 2003 and 2004. As a result of the exercise, approximately 1 million shares were issued.

In 2008, the cash inflow of \$49 million from the issuance of shares also represented the exercise of such call options by a bank and resulted in the issuance of approximately 6.8 million shares.

In 2007, the cash inflow of \$241 million from the issuance of shares represented the exercise of call options by a bank, as well as the issuance of shares to employees in connection with our ESAP. The call options held by the bank (and related to our management incentive plan launches in 2001, 2003 and 2004) had been issued at fair value with strike prices ranging from CHF 7.00 to CHF 13.49. The exercise by the bank resulted in the issuance of approximately 19.6 million shares and net proceeds of \$181 million. The exercise by employees of the options they held under the ESAP resulted in the issuance of 3.7 million shares and net proceeds of \$60 million.

Dividends paid in the form of a nominal value reduction in 2009 and 2008 of \$1,027 million and \$1,060 million, respectively, represented a reduction in nominal value of CHF 0.48 per share in each year, approved at our Annual General Meetings in May 2009 and 2008. Consequently, the nominal

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value of each of our shares was reduced from CHF 2.02 to CHF 1.48 in 2009 and from CHF 2.50 to CHF 2.02 in 2008. In 2007, dividends paid of \$449 million represented a dividend of CHF 0.24 per share.

Dividends paid to noncontrolling shareholders amounted to \$193 million, \$152 million and \$117 million in 2009, 2008 and 2007, respectively.

During 2008, we purchased 22.675 million ABB shares at a cost of \$621 million in connection with the share buyback program launched in 2008 to repurchase shares up to a maximum value of 2.2 billion Swiss francs (equivalent to \$2.1 billion at December 31, 2009 exchange rates). In February 2009, we announced that given the market uncertainty, we were not actively pursuing new purchases under the program and consequently no purchases took place during 2009. In February 2010, we announced that we intend to propose the cancellation of the shares repurchased under the program at our 2010 Annual General Meeting.

During 2007, we purchased, on the open market, 10 million of our own shares for use in connection with our employee share-based payment programs, resulting in a cash outflow of \$199 million and a corresponding increase in treasury stock.

Disclosures about contractual obligations and commitments

The contractual obligations presented in the table below represent our estimates of future payments under fixed contractual obligations and commitments. The amounts in the table may differ from those reported in our Consolidated Balance Sheet at December 31, 2009. Changes in our business needs, cancellation provisions and changes in interest rates, as well as actions by third parties and other factors, may cause these estimates to change. Therefore, our actual payments in future periods may vary from those presented in the table. The following table summarizes certain of our contractual obligations and principal and interest payments under our debt instruments, leases and purchase obligations at December 31, 2009:

| Payments due by period | Total | Less | 1 3 | 3 5 | More |
|---|---------------|--------------|--------------|--------------|------------|
| | | than 1 | years | years | than 5 |
| (\$ in millions) | | | | | |
| Long-term debt obligations | 2,205 | 33 | 1,051 | 1,014 | 107 |
| Interest payments related to long-term debt obligations | 475 | 124 | 183 | 69 | 99 |
| Operating lease obligations | 2,131 | 461 | 718 | 492 | 460 |
| Capital lease obligations ⁽¹⁾ | 302 | 42 | 73 | 39 | 148 |
| Purchase obligations | 5,015 | 4,421 | 445 | 94 | 55 |
| Total | 10,128 | 5,081 | 2,470 | 1,708 | 869 |

(1) Capital lease obligations represent the total cash payments to be made in the future and include interest expense of \$126 million and executory cost of \$6 million.

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

Of the total of \$866 million unrecognized tax benefits (net of deferred tax assets) at December 31, 2009, it is expected that \$12 million will be paid within less than a year. However, we cannot make a reasonably reliable estimate as to the related future payments for the remaining amount. See "Note 16 Taxes" to our Consolidated Financial Statements.

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Commercial commitments**

For certain guarantees issued or modified after December 31, 2002, a liability equal to the fair value of the guarantee is recorded.

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

Guarantees

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

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

| | December 31, | | | |
|----------------------------|----------------------------|--------------------------------|----------------------------|--------------------------------|
| | 2009 | | 2008 | |
| | Maximum potential payments | Carrying amount of liabilities | Maximum potential payments | Carrying amount of liabilities |
| | (\$ in millions) | | (\$ in millions) | |
| Performance guarantees | 237 | 1 | 413 | 1 |
| Financial guarantees | 91 | | 95 | |
| Indemnification guarantees | 282 | 1 | 277 | 6 |
| Total | 610 | 2 | 785 | 7 |

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

ENVIRONMENTAL LIABILITIES

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

Contingencies related to former Nuclear Technology business

We retain liabilities for certain specific environmental remediation costs at two sites in the United States that were operated by our former subsidiary, ABB CE-Nuclear Power Inc., which we sold to British Nuclear Fuels PLC (BNFL) in 2000.

We established a provision of \$300 million in "Income (loss) from discontinued operations, net of tax" in 2000 for our estimated share of the remediation costs for these sites. At December 31, 2009 and

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2008, we have recorded in current and non-current other liabilities provisions of \$230 million and \$241 million, respectively, net of payments from inception of \$65 million and \$54 million, respectively. Expenditures charged against the provision were \$11 million, \$4 million and \$3 million during 2009, 2008 and 2007, respectively. We have estimated that during 2010 we will charge expenditures of approximately \$18 million to the provision.

For a detailed description of these and other contingencies see "Note 15 Commitments and contingencies" to our Consolidated Financial Statements.

Item 6. Directors, Senior Management and Employees

Principles of Corporate Governance

General principles

ABB is committed to the highest international standards of corporate governance, and supports the general principles as set forth in the Swiss Code of Best Practice for Corporate Governance, as well as those of the capital markets where its shares are listed and traded.

In addition to the provisions of the Swiss Code of Obligations, ABB's key principles and rules on corporate governance are laid down in ABB's Articles of Incorporation, the ABB Ltd Board Regulations and Corporate Governance Guidelines (which include the regulations of ABB's board committees and the ABB Ltd Related Party Transaction Policy), and the ABB Code of Conduct and the Addendum to the ABB Code of Conduct for Members of the Board of Directors and the Executive Committee. It is the duty of ABB's board of directors (the Board) to review and amend or propose amendments to those documents from time to time to reflect the most recent developments and practices, as well as to ensure compliance with applicable laws and regulations.

This section of the Annual Report is based on the Directive on Information Relating to Corporate Governance published by the SIX Swiss Exchange. Where an item listed in the directive is not addressed in this Annual Report, it is either inapplicable to or immaterial for ABB.

In accordance with the requirements of the New York Stock Exchange (NYSE), a comparison of how the corporate governance practices followed by ABB differ from those required under the NYSE listing standards can be found in the corporate governance section at: www.abb.com/investorrelations

Duties of directors and officers

The directors and officers of a Swiss corporation are bound, as specified in the Swiss Code of Obligations, to perform their duties with all due care, to safeguard the interests of the corporation in good faith and to extend equal treatment to shareholders in like circumstances.

The Swiss Code of Obligations does not specify what standard of due care is required of the directors of a corporate board. However, it is generally held by Swiss legal scholars and jurisprudence that the directors must have the requisite capability and skill to fulfill their function, and must devote the necessary time to the discharge of their duties. Moreover, the directors must exercise all due care that a prudent and diligent director would have taken in like circumstances. Finally, the directors are required to take actions in the best interests of the corporation and may not take any actions that may be harmful to the corporation.

Exercise of powers

Directors, as well as other persons authorized to act on behalf of a Swiss corporation, may perform all legal acts on behalf of the corporation which the business purpose, as set forth in the articles of incorporation of the corporation, may entail. Pursuant to court practice, such directors and officers can take any action that is not explicitly excluded by the business purpose of the corporation. In so doing, however, the directors and officers must still pursue the duty of due care and the duty of loyalty

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described above and must extend equal treatment to the corporation's shareholders in like circumstances. ABB's Articles of Incorporation do not contain provisions concerning a director's power, in the absence of an independent quorum, to vote on the compensation to themselves or any members of their body.

Conflicts of interest

Swiss law does not have a general provision on conflicts of interest and our Articles of Incorporation do not limit our directors' power to vote on a proposal, arrangement or contract in which the director or officer is materially interested. However, the Swiss Code of Obligations requires directors and officers to safeguard the interests of the corporation and, in this connection, imposes a duty of care and loyalty on directors and officers. This rule is generally understood and so recommended by the Swiss Code of Best Practice for Corporate Governance as disqualifying directors and officers from participating in decisions, other than in the shareholders' meeting, that directly affect them.

Confidentiality

Confidential information obtained by directors and officers of a Swiss corporation acting in such capacity must be kept confidential during and after their term of office.

Sanctions

If directors and officers transact business on behalf of the corporation with bona fide third parties in violation of their statutory duties, the transaction is nevertheless valid, as long as it is not explicitly excluded by the corporation's business purpose as set forth in its articles of incorporation. Directors and officers acting in violation of their statutory duties whether transacting business with bona fide third parties or performing any other acts on behalf of the company may, however, become liable to the corporation, its shareholders and its creditors for damages. The liability is joint and several, but the courts may apportion the liability among the directors and officers in accordance with their degree of culpability.

In addition, Swiss law contains a provision under which payments made to a shareholder or a director or any person(s) associated therewith, other than at arm's length, must be repaid to the company if the shareholder or director or any person associated therewith was acting in bad faith.

If the board of directors has lawfully delegated the power to carry out day-to-day management to a different corporate body, e.g., the executive committee, it is not liable for the acts of the members of that different corporate body. Instead, the directors can be held liable only for their failure to properly select, instruct and supervise the members of that different corporate body.

Board of Directors

Responsibilities and organization

The Board defines the ultimate direction of the business of ABB and issues the necessary instructions. It determines the organization of the ABB Group and appoints, removes and supervises the persons entrusted with the management and representation of ABB.

The internal organizational structure and the definition of the areas of responsibility of the Board, as well as the information and control instruments vis-à-vis the Group Executive Committee, are set forth in the ABB Ltd Board Regulations and Corporate Governance Guidelines, a copy of which can be found in the corporate governance section at: www.abb.com/investorrelations

The Board meets as frequently as needed but at least four times per annual Board term. Board meetings are convened by the chairman or upon request by a director or the chief executive officer (CEO). Written documentation covering the various items of the agenda for each Board meeting is sent out in advance to each Board member in order to allow each member time to study the covered matters prior to the meetings. Decisions made at the Board meetings are recorded in written minutes of the meetings.

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The CEO shall regularly, and whenever extraordinary circumstances so require, report to the Board about ABB's overall business and affairs. Further, Board members are entitled to information concerning ABB's business and affairs. Additional details are set forth in the ABB Ltd Board Regulations and Corporate Governance Guidelines.

Term and Members

The members of the Board are elected individually at the ordinary general meeting of the shareholders for a term of one year; re-election is possible. Our Articles of Incorporation, a copy of which can be found in the corporate governance section at www.abb.com/investorrelations, do not provide for the retirement of directors based on their age. However, an age limit for members of the Board is set forth in the ABB Ltd Board Regulations and Corporate Governance Guidelines (although deviations are possible and subject to Board decisions). A copy of the documents mentioned above can be found in the corporate governance section at: www.abb.com/investorrelations

As at December 31, 2009, the members of the Board (Board term May 2009 to April 2010) were:

Hubertus von Grünberg has been a member and chairman of ABB's board of directors since May 3, 2007. He is a member of the supervisory boards of Allianz Versicherungs AG and Deutsche Telekom AG (both Germany). He is a member of the board of directors of Schindler Holding AG (Switzerland). Mr. von Grünberg was born in 1942 and is a German citizen.

Roger Agnelli has been a member of ABB's board of directors since March 12, 2002. He is the president and chief executive officer of Vale S.A. (Brazil). Mr. Agnelli was born in 1959 and is a Brazilian citizen.

Louis R. Hughes has been a member of ABB's board of directors since May 16, 2003. Mr. Hughes is the chairman and chief executive officer of GBS Laboratories LLC (U.S.). He is also a member of the boards of directors of Akzo Nobel (The Netherlands) and Alcatel Lucent (France). Mr. Hughes was born in 1949 and is an American citizen.

Hans Ulrich Märki has been a member of ABB's board of directors since March 12, 2002. He is the retired chairman of IBM Europe, Middle East and Africa (France), and a member of the board of directors of Mettler-Toledo International (U.S.) and Swiss Re and Menuhin Festival Gstaad AG (both Switzerland). He is also a member of the foundation board of Schulthess Klinik, Zurich (Switzerland) and the board of trustees of the Hermitage Museum, St. Petersburg (Russia). Mr. Märki was born in 1946 and is a Swiss citizen.

Michel de Rosen has been a member of ABB's board of directors since March 12, 2002. He is the chief executive officer of and member of the board of directors of Eutelsat Communications (France). Mr. de Rosen was born in 1951 and is a French citizen.

Michael Treschow has been a member of ABB's board of directors since May 16, 2003. He is the chairman of the boards of directors of Ericsson (Sweden), Unilever NV (The Netherlands), and Unilever PLC (U.K.). He is also a member of the board of directors of the Knut and Alice Wallenberg Foundation (Sweden). Mr. Treschow was born in 1943 and is a Swedish citizen.

Bernd W. Voss has been a member of ABB's board of directors since March 12, 2002. He is a member of the supervisory boards of Continental AG and Wacker Chemie (both Germany). Mr. Voss was born in 1939 and is a German citizen.

Jacob Wallenberg has been a member of ABB's board of directors since June 26, 1999. From March 1999 to June 1999, he served as a member of the board of directors of ABB Asea Brown Boveri Ltd, the former parent company of the ABB Group. He is the chairman of the board of directors of Investor AB (Sweden). He is vice chairman of SEB Skandinaviska Enskilda Banken, Atlas Copco AB and SAS AB (all Sweden). He is also a member of the boards of directors of the Knut and Alice

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Wallenberg Foundation and the Stockholm School of Economics (both Sweden), and The Coca-Cola Company (U.S.). Mr. Wallenberg was born in 1956 and is a Swedish citizen.

As of December 31, 2009, all Board members were non-executive and independent directors, and none of ABB's Board members held any official functions or political posts. Further information on ABB's Board members can be found in the corporate governance section at: www.abb.com/investorrelations

Board committees

From among its members, the Board has appointed two Board committees: the Governance, Nomination and Compensation Committee (GNCC) and the Finance, Audit and Compliance Committee (FACC). The duties and objectives of the Board committees are set forth in the ABB Ltd Board Regulations and Corporate Governance Guidelines, a copy of which can be found in the corporate governance section at www.abb.com/investorrelations. These committees assist the Board in its tasks and report regularly to the Board. The members of the Board committees are required to be independent.

Governance, Nomination and Compensation Committee

The GNCC is responsible for (1) overseeing corporate governance practices within ABB, (2) nominating candidates for the Board, the role of CEO and other positions on the Group Executive Committee, and (3) succession planning, employment and compensation matters relating to the Board and the Group Executive Committee. The GNCC is also responsible for maintaining an orientation program for new Board members and an ongoing education program for existing Board members.

The GNCC must comprise three or more independent directors. The chairman of the Board and, upon invitation by the committee's chairman, the CEO or other members of the Group Executive Committee may participate in the committee meetings, provided that any potential conflict of interest is avoided and confidentiality of the discussions is maintained.

As at December 31, 2009, the members of the GNCC were:

Hans Ulrich Märki (chairman)
Michel de Rosen
Roger Agnelli

Finance, Audit and Compliance Committee

The FACC is responsible for overseeing (1) the integrity of ABB's financial statements, (2) ABB's compliance with legal, tax and regulatory requirements, (3) the independent auditors' qualifications and independence, (4) the performance of ABB's internal audit function and external auditors and (5) ABB's capital structure, funding requirements and financial risk policies.

The FACC must comprise three or more independent directors who have a thorough understanding of finance and accounting. The chairman of the Board and, upon invitation by the committee's chairman, the CEO or other members of the Group Executive Committee may participate in the committee meetings, provided that any potential conflict of interest is avoided and confidentiality of the discussions is maintained. In addition, the Chief Compliance Officer, the Head of Internal Audit and the external auditors participate in the meetings as appropriate. As required by the U.S. Securities and Exchange Commission (SEC), the Board has determined that Bernd W. Voss is an audit committee financial expert.

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As at December 31, 2009, the members of the FACC were:

Bernd W. Voss (chairman)
Jacob Wallenberg
Louis R. Hughes

Meetings and Attendance

The table below shows the number of meetings held during 2009 by the Board and its committees, their average duration, as well as the attendance of the individual Board members. In addition, members of the Board and the Group Executive Committee participated in a two-day strategic retreat.

| | Board of Directors | GNCC | FACC |
|--------------------------|-------------------------------|-------------|-------------|
| Average duration (hours) | 7.6 | 3.5 | 3.7 |
| Number of meetings | 5 | 7 | 7 |
| Meetings attended: | | | |
| Hubertus von Grünberg | 5 | | |
| Roger Agnelli | 4 | 5 | |
| Louis R. Hughes | 5 | | 7 |
| Hans Ulrich Märki | 5 | 7 | |
| Michel de Rosen | 3 | 7 | |
| Michael Treschow | 5 | | |
| Bernd W. Voss | 5 | | 7 |
| Jacob Wallenberg | 5 | | 7 |

Secretary to the Board

Diane de Saint Victor is the secretary to the Board.

Group Executive Committee*Responsibilities and Organization*

The Board has delegated the executive management of ABB to the CEO and the other members of the Group Executive Committee. The CEO and under his direction the other members of the Group Executive Committee are responsible for ABB's overall business and affairs and day-to-day management. The CEO reports to the Board regularly, and whenever extraordinary circumstances so require, on the course of ABB's business and financial performance and on all organizational and personnel matters, transactions and other issues relevant to the Group.

Each member of the Group Executive Committee is appointed and discharged by the Board.

Members of the Group Executive Committee

As at December 31, 2009, the members of the Group Executive Committee were:

Joe Hogan joined ABB's Group Executive Committee as Chief Executive Officer in September 2008. Before joining ABB, Mr. Hogan was the CEO and President of General Electric's GE Healthcare unit from 2000 to 2008. From 1985 to 2000, Mr. Hogan held various positions at General Electric. Mr. Hogan was born in 1957 and is an American citizen.

Michel Demaré joined ABB's Group Executive Committee as Chief Financial Officer in January 2005, and he assumed responsibilities as Head of Global Markets in October 2008. From February 2008 to August 2008 he was appointed interim CEO in addition to his duties as CFO. He is also a member of the board of directors of UBS AG and IMD Foundation (all Switzerland). From 2002 until 2004

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Mr. Demaré was vice president and chief financial officer of Baxter Europe. From 1984 until 2002, he held various positions within Dow Chemical (U.S.). Mr. Demaré was born in 1956 and is a Belgian citizen.

Ulrich Spiesshofer joined ABB's Group Executive Committee as Head of Corporate Development in November 2005 until January 1, 2010 when he was appointed head of the new Discrete Automation and Motion division. From 2002 until he joined ABB, he was senior partner, global head of operations practice at Roland Berger AG. Prior to 2002, he held various positions with A.T. Kearney Pty. Ltd. and its affiliates. Mr. Spiesshofer was born in 1964 and is a German citizen.

Gary Steel joined ABB's Group Executive Committee as Head of Human Resources in January 2003. Mr. Steel is a member of the board of directors of Harman International Industries Inc. (U.S.). In 2002, he was the human resources director, group finance at Royal Dutch Shell (Netherlands). Between 1976 and 2002, he held several human resources and employee relations positions at Royal Dutch Shell. Mr. Steel was born in 1952 and is a British citizen.

Diane de Saint Victor joined ABB's Group Executive Committee as General Counsel in January 2007. From 2004 to 2006, she was general counsel of European Aeronautic Defence and Space, EADS (France/Germany). From 2003 to 2004, she was general counsel of SCA Hygiene Products (Germany). From 1993 to 2003, she held various legal positions with Honeywell International (France/Belgium). From 1988 to 1993, she held various legal positions with General Electric (U.S.). Ms. de Saint Victor was born in 1955 and is a French citizen.

Bernhard Jucker was appointed Executive Committee member responsible for the Power Products division in January 2006. From 2003 to 2005, he was ABB's country manager for Germany. From 1980 to 2003 he held various positions in ABB. Mr. Jucker was born in 1954 and is a Swiss citizen.

Peter Leupp was appointed Executive Committee member responsible for the Power Systems division in January 2007. From 2005 to 2006, he was ABB's regional manager for North Asia and from 2001 to 2006 he was ABB's country manager for China. From 1989 to 2001, he held various positions in ABB. Mr. Leupp was born in 1951 and is a Swiss citizen.

Tom Sjökvist was appointed Executive Committee member responsible for the Automation Products division in January 2006 until January 1, 2010 when he was appointed head of the new Low Voltage Products division. From 2003 to 2005, he was the head of the Automation Products business area. From 1972 to 2003, he held several positions with ABB. Mr. Sjökvist was born in 1947 and is a Swedish citizen.

Veli-Matti Reinikkala was appointed Executive Committee member responsible for the Process Automation division in January 2006. He is a member of the board of directors of UPM-Kymmene (Finland). In 2005, he was the head of the Process Automation business area. From 1993 to 2005, he held several positions with ABB. Mr. Reinikkala was born in 1957 and is a Finnish citizen.

Anders Jonsson was appointed Executive Committee member responsible for the Robotics division in January 2006 until January 1, 2010 when he was appointed head of the Global Footprint and Cost program. In 2005, he was the head of the former Automation Technologies division in China. From 1976 to 2004, he held various positions with ABB. Mr. Jonsson was born in 1950 and is a Swedish citizen.

In addition, as of January 1, 2010, *Brice Koch* was appointed Executive Committee member responsible for Marketing and Customer Solutions. From 2007 to 2009 he was ABB's country manager for China and ABB's region manager for North Asia. Between 1994 and 2006 he held several management positions with ABB. Mr. Koch was born in 1964 and is a French citizen.

Further information about the members of the Group Executive Committee can be found in the corporate governance section at: www.abb.com/investorrelations

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Management contracts

There are no management contracts between ABB and companies or natural persons not belonging to the ABB Group.

Employee Participation Programs

Incentive plans linked to ABB shares

In order to align its employees' interests with the business goals and financial results of the company, ABB operates a number of incentive plans, linked to ABB's shares, which are summarized below (for a more detailed description of each incentive plan, please refer to "Note 18 Share-based payment arrangements" to our Consolidated Financial Statements.

Employee Share Acquisition Plan

The ESAP is an employee stock-option plan with a savings feature. Employees save over a 12-month 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 CHF 750. At the end of the savings period, employees choose whether to exercise their stock options to buy ABB shares (ADSs in the case of employees in the U.S.) 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 12-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 they may fully exercise their stock options.

If an employee ceases to be employed by ABB, 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 at any time during the savings period and will be entitled to a refund of their accumulated savings.

The exercise price per share and ADS of CHF 19.36 and USD 18.75, respectively, for the 2009 grant, was determined using the closing price of the ABB share on the SIX Swiss Exchange and ADS on the New York Stock Exchange on the grant date.

Management Incentive Plan

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

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

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

Long-Term Incentive Plan

ABB has a long-term incentive plan (LTIP) for members of its Group Executive Committee and certain other executives. In 2009, the LTIP involved conditional grants of ABB's stock and contained a co-investment component. The plan is described in the "Remuneration Components of executive compensation" section below.

Remuneration

Remuneration principles and governance

ABB's success depends on its ability to attract and retain people who will drive the business to outperform competitors over the long-term. This is an important consideration in the development of its remuneration policy, which is presented in this Annual Report together with details of compensation in 2009 for members of the board of directors and the Executive Committee. The Board of Directors and its GNCC have direct oversight of compensation policy at ABB. The GNCC has primary responsibility for elaborating the general remuneration principles and practice of the ABB Group, while the full Board of Directors takes the final decisions.

General remuneration principles

The Board and GNCC are actively involved in the development of ABB's executive remuneration system, which has been evolving since 2004 to reflect a remuneration philosophy that is based on the three principles of market orientation, performance and shareholder value.

(i) Market orientation

All senior positions in ABB have been evaluated using a consistent methodology developed by the Hay Group, whose job evaluation system is used by more than 10,000 companies around the world. The Hay methodology goes beyond job titles and company size in assessing positions. It considers the know-how required to do the job, the problem solving complexities involved, as well as the accountability for results and the freedom to act to achieve results.

This approach provides a meaningful, transparent and consistent basis for comparing remuneration levels at ABB with those of equivalent jobs at other companies that have been evaluated using the same criteria. The Board of Directors uses data from the European market for positions based in Switzerland and from the North American market for jobs based in the United States. Compensation for Executive Committee members at ABB is around or slightly above the median values for the market in each region, reflecting ABB's success in outperforming its peers in recent years.

(ii) Performance

The various components of executive compensation are structured to include appropriate performance criteria to reward both individual behavior and the achievement of ABB objectives over the short and long term.

(iii) Shareholder value

Another important principle of executive compensation at ABB is that it should encourage the creation of value for ABB's shareholders and enable employees to participate in ABB's success.

Table of Contents*Remuneration governance*

The GNCC acts on behalf of the Board in regularly reviewing the remuneration philosophy and structure, and in reviewing and approving specific proposals on executive compensation to ensure that they are consistent with ABB's compensation principles.

The Board reviews the performance and compensation of the CEO annually, while the CEO reviews the other members of the Executive Committee and makes recommendations to the GNCC on the individual remuneration of the EC members. The CEO also recommends the ABB performance targets that determine short-term incentive payments to managers throughout the company.

The GNCC reviews the CEO's recommendations and may make or request amendments before it submits a proposal to the Board, which is responsible for taking the final decision.

The GNCC also plays a role in setting compensation for members of the Board through recommendations that it makes to the full Board of Directors.

Components of compensation to Board of Directors

The principles of market orientation and shareholder value guide the compensation policy for members of the Board of Directors.

In order to attract directors with the necessary experience and competence, ABB targets a level of compensation for Board members that is comparable to that of their counterparts in similar European companies.

Members of the Board of Directors are paid for their service over a 12-month period that starts with their election at the Annual General Meeting. Payment to members of the Board is made in two installments, one following the first six months of their term and one at the end. Board members do not receive pension benefits and are not eligible to participate in any of ABB's employee incentive programs.

Board members can choose to receive either half or all of their compensation in the form of ABB shares. The number of shares awarded is calculated prior to each semi-annual payment by dividing the sum to which they are entitled by the average closing price of the shares over a predefined 30-day period.

The shares are kept in a blocked account for three years, to help align the interests of Board members with those of ABB's shareholders. Departing Board members are entitled to the shares when they leave the company unless agreed otherwise.

Board of Directors compensation in 2009

Compensation for Board members is unchanged in the 2009/2010 period from the previous 12-month period, and is outlined in the table below. No loans or guarantees were granted to Board members in 2009.

| | Board term | |
|--|------------|-----------|
| | 2009/2010 | 2008/2009 |
| | CHF | CHF |
| Chairman of the Board | 1,200,000 | 1,200,000 |
| Member of the Board and Committee chairman | 400,000 | 400,000 |
| Member of the Board | 300,000 | 300,000 |

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The compensation amounts per individual are listed in the table below:

| Name | Function | November Board term 2009/2010 | | Paid in 2009 May Board term 2008/2009 | | Total compensation paid 2009 ⁽³⁾⁽⁴⁾ |
|---------------------------------|--|-----------------------------------|---|---|---|---|
| | | Settled in cash ⁽¹⁾ | Settled in shares- number of shares received ⁽²⁾ | Settled in cash ⁽¹⁾ | Settled in shares- number of shares received ⁽²⁾ | |
| | | CHF | | CHF | | CHF |
| Hubertus von Grünberg | Chairman of the Board | 300,000 | 9,985 | 300,000 | 12,948 | 1,200,000 |
| Roger Agnelli ⁽⁵⁾ | Member of the Board | 75,000 | 2,475 | 75,000 | 3,218 | 300,000 |
| Louis R. Hughes ⁽⁶⁾ | Member of the Board | 75,000 | 2,475 | 75,000 | 3,218 | 300,000 |
| Hans Ulrich Märki | Member of the Board and Chairman of the Governance, Nomination and Compensation Committee | | 9,064 | | 11,770 | 400,000 |
| Michel de Rosen ⁽⁵⁾ | Member of the Board | | 4,951 | 75,000 | 3,218 | 300,000 |
| Michael Treschow | Member of the Board | 75,000 | 2,505 | 75,000 | 3,245 | 300,000 |
| Bernd W. Voss | Member of the Board and Chairman of the Finance, Audit and Compliance Committee | 100,000 | 3,336 | 100,000 | 4,323 | 400,000 |
| Jacob Wallenberg ⁽⁶⁾ | Member of the Board | 75,000 | 2,475 | 75,000 | 3,218 | 300,000 |
| Total | | 700,000 | 37,266 | 775,000 | 45,158 | 3,500,000 |

(1) Represents gross amounts paid, prior to deductions for social security, withholding tax etc.

(2) Number of shares per Board member is calculated based on net amount due after deductions for social security, withholding tax etc.

(3) In addition to the board remuneration stated in the above table ABB paid in 2009 CHF 219,102 in employee social security payments. For the 2009-2010 Board term, all members elected to receive 50% of their gross compensation in the form of ABB shares, except for Hans Ulrich Märki and Michel de Rosen who elected to receive 100%.

(4) For the 2008-2009 Board term, all members elected to receive 50% of their gross compensation in the form of ABB shares, except for Hans Ulrich Märki who elected to receive 100%.

(5) Member of the Governance, Nomination and Compensation Committee.

(6) Member of the Finance, Audit and Compliance Committee.

Components of executive compensation

The compensation of Executive Committee members is designed to support the principles of market orientation, performance and shareholder value. It currently consists of three elements that reflect these principles: a base salary and customary benefits, short-term incentives, and long-term incentives. Payment of short- and long-term incentives is performance driven and depends on the achievement of predefined goals.

The main components are summarized in the following chart and explained in more detail below:

| | | |
|-----------------------|------|---|
| Base salary | Cash | Paid monthly |
| Short-term incentives | Cash | Competitive in respective labor markets Conditional annual payment |

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| | | | |
|-----------------------------|--|--|---|
| Long-term incentives (LTIP) | Shares (30 percent may be drawn in cash principally to help meet tax obligations) | Payout depends on performance in previous year against predefined targets Conditional grant made annually Optional annual co-investment | Payout requires shares set aside to be held for full three-year period |
|-----------------------------|--|--|---|

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Annual base salary and benefits

The base salary for members of the Executive Committee is set with reference to similar positions outside ABB that have been evaluated using the Hay methodology, and is reviewed annually on the basis of current market and economic conditions, and of the executive's performance during the preceding year.

Members of the Executive Committee receive pension benefits, payable into the Swiss ABB Pension Fund and ABB Supplementary Insurance Plan (the regulations are available at www.abbvorsorge.ch), except for Veli-Matti Reinikkala who is insured under comparable plans in the U.S., where he is based.

Executive Committee members receive customary additional benefits such as a company car, health insurance and social security contributions. Some members of the Executive Committee also receive contributions to their children's education.

Short-term incentives

Payment of short-term incentives is conditional on the fulfillment of predefined annual targets that are specific, quantifiable and challenging. The short-term incentive payment received by members of the Executive Committee in any given year therefore reflects ABB's performance against targets for the preceding year.

In 2009, the targets were Group-wide objectives that were aligned with financial measures communicated to shareholders, such as orders received, revenues, earnings before interest and taxes, operating cash flow, and cost savings.

The short-term incentive payment for fully achieving the targets is equivalent to 150 percent of the base salary for the CEO and 100 percent of the base salary for other members of the Executive Committee. Underachieving the targets results in a lower payout, or none at all if performance is below a certain threshold. The Board may approve a higher payout if the targets are exceeded.

Long-term incentives

ABB's LTIPs are designed to reward members of the Executive Committee and certain other executives for growth in the value of the company that is superior to that of a group of reference companies in related businesses. The peer group is selected by the GNCC on recommendations from an independent third party (a global investment bank), and is reviewed annually. The group currently consists of Alfa Laval, Alstom, Aspen, Atlas Copco, Cooper, Emerson, GE, Honeywell, Invensys, Legrand, MAN, Rockwell, Sandvik, Schneider, SKF, Siemens, Smiths Group, Yaskawa and Yokogawa.

Performance is measured in terms of total shareholder return, which is the percentage change in the value of the shares plus dividends over the assessment period.

Whereas the base salary and short-term incentives are paid in cash, long-term incentives are principally settled in ABB shares. Under each three-year plan, members of the Executive Committee are conditionally granted a number of shares which, at the start of the plan, are equal to a certain percentage of their base salary. In 2009, the percentages were 200 percent for the CEO, 150 percent for the CFO and head of Global Markets, and 125 percent for the other members of the EC.

The shares will be awarded after three years if ABB's total shareholder return meets certain criteria. For example, no payout will be made if ABB's performance is weaker than half of its peers. The payout is 33 percent if ABB's performance over the evaluation period is positive and equal to the median of the peer group, and rises on a sliding scale to 100 percent if ABB's performance is at least equal to three-quarters of its peers.

If ABB's performance is negative but better than half of its peers, the number of shares awarded under the LTIP launched in 2009 will be reduced.

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In addition, as of the 2009 plan, there is no payout if ABB is unprofitable in the calendar year preceding the end of a three-year LTIP. The measure of profitability used for this purpose is operating net income, which is ABB's net income adjusted for the financial impact of items considered by the Board to be exceptional (such as divestments, acquisitions etc.).

The assessment of ABB's performance against its peers for each three-year period is carried out by an independent third party.

The LTIP also includes a co-investment component to encourage executives to build up their personal holding of ABB shares and align their interests even more closely with those of ABB. At the beginning of each three-year cycle, each participant can set aside shares from their personal holding equivalent in value to 33 percent of the short-term incentive payment received that year. If the shares are held for the entire three-year period, ABB will award the participant the same number of shares.

LTIP payouts are settled in shares, although executives can choose to receive 30 percent of any payout in cash, principally to help them meet their tax obligations.

Severance provisions

Employment contracts for Executive Committee members contain notice periods of up to 12 months, during which they are entitled to salaries and bonuses. In addition, if ABB terminates the employment of a member of the Executive Committee and that member does not find alternative employment within the notice period that pays at least 70 percent of the member's annual compensation, then ABB will continue to pay compensation for up to 12 additional months.

Executive Committee compensation in 2009

ABB discloses the compensation elements for each member of the Executive Committee, going beyond the requirements of the Swiss Code of Obligations.

Prior to 2009, ABB valued the LTIPs in its accounts on the assumption that 100 percent of the shares would be awarded, and used the share price on the date of grant to calculate the total value awarded. Since 100 percent of the shares are awarded only if ABB outperforms three-quarters of its peers and as share prices may rise or fall, this value will almost certainly not reflect the value that the LTIP participants receive at the end of the period. For example, none of the performance-based share grants made under the LTIP of 2006 were awarded when the plan ended in March 2009.

As of the launch of the 2009 LTIP, the Board has decided to adopt the widely used Monte Carlo modeling technique for valuing share grants under plans of this nature. This method is an accepted simulation technique under U.S. GAAP and, by assessing the probability of various levels of payout, it provides a more realistic estimate of their value. Although the actual payouts of LTIP awards are expected to continue to vary from the initially disclosed values in any given year, the Board expects them to be more in line with the values disclosed in the Annual Report when the figures are averaged over a period of years.

The following table provides an overview of the total compensation of members of the Executive Committee in 2009, comprising cash compensation and an estimate of the value of shares conditionally awarded under a three-year incentive plan that runs until 2012. Cash compensation includes the base salary, the short-term incentive payment for 2008, pension benefits, as well as other benefits comprising

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mainly social security and health insurance contributions. The compensation is shown gross (i.e. before deduction of employee's social insurance and pension contributions).

| Name | Base salary | Short-term incentive ⁽¹⁾ | Pension benefits | Other benefits ⁽²⁾ | Estimated value of share-based awards granted in | 2009 Total |
|--|------------------|-------------------------------------|------------------|-------------------------------|--|-------------------|
| | | | | | 2009 ⁽³⁾ | |
| | CHF | CHF | CHF | CHF | CHF | CHF |
| Joe Hogan ⁽⁴⁾ | 1,900,004 | 905,350 | 265,924 | 273,112 | 2,642,394 | 5,986,784 |
| Michel Demaré | 1,200,006 | 1,461,206 | 252,901 | 267,141 | 1,516,616 | 4,697,870 |
| Gary Steel | 770,005 | 725,956 | 267,786 | 396,000 | 784,133 | 2,943,880 |
| Ulrich Spiesshofer | 730,004 | 692,843 | 214,134 | 373,189 | 745,622 | 2,755,792 |
| Diane de Saint Victor | 730,004 | 697,771 | 251,297 | 344,501 | 748,014 | 2,771,587 |
| Bernhard Jucker | 919,999 | 797,640 | 261,653 | 471,235 | 903,084 | 3,353,611 |
| Peter Leupp | 770,005 | 597,135 | 272,136 | 377,905 | 721,692 | 2,738,873 |
| Tom Sjökvist ⁽⁵⁾ | 770,005 | 696,080 | 282,498 | 518,149 | 769,656 | 3,036,388 |
| Veli-Matti Reinikkala ⁽⁶⁾ | 648,995 | 627,902 | 219,994 | 444,715 | 739,043 | 2,680,649 |
| Anders Jonsson | 619,998 | 394,320 | 259,415 | 301,956 | 539,167 | 2,114,856 |
| Total current executive committee members | 9,059,025 | 7,596,203 | 2,547,738 | 3,767,903 | 10,109,421 | 33,080,290 |
| Fred Kindle ⁽⁷⁾ | | | | 5,814 | | 5,814 |
| Total former executive committee members | | | | 5,814 | | 5,814 |
| Total | 9,059,025 | 7,596,203 | 2,547,738 | 3,773,717 | 10,109,421 | 33,086,104 |

(1) The table above shows short-term incentives relating to 2008, paid in 2009. Short-term incentives are linked to the Group scorecard and defined target points therein. Upon full achievement of the defined targets, the short-term incentive of the CEO corresponds to 150 percent of his base salary and for all other executive committee members to 100 percent of their respective base salary. The Board has the discretion to approve a higher payout than 100 percent, if the targets are exceeded. The expected short-term incentive outcome for the year 2009 amounts to CHF 12,010,793. Short-term incentive payments will be made in March 2010, after the financial results are published.

(2) Other benefits comprise payments related to social security, health insurance, children's education, transportation, tax advice and one-off items, such as a one-time cash award which was granted in April 2008 and paid in 2009.

(3) The estimated value of the share-based awards is subject to performance and other parameters (e.g. the share price development) and may therefore vary in value from the above numbers at the day of vesting, March 15, 2012. The above amounts have been calculated using the market value of the ABB share on the day of grant adjusted, in the case of the performance component, according to the parameters considered in the Monte Carlo Simulation Model.

(4) Joe Hogan's 2008 short-term incentive payout was pro-rated for the period of service, September to December 2008.

(5) Tom Sjökvist received CHF 93,024 cash compensation for foregone pension benefits as a result of him continuing to work for the Company after the age of 60, included in other benefits above.

(6) Veli-Matti Reinikkala received 50 percent of his base salary in USD and 50 percent in EUR at a fixed exchange rate. All USD payments were converted into Swiss francs using a rate of 1.03 per U.S. dollar. The other benefits figure includes CHF 124,603 exchange rate compensation for the EUR base salary for a period of 15 months.

(7) In February 2008, Fred Kindle left ABB. Payment of car leasing was contractually guaranteed up to February 28, 2009.

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Details of the share-based compensation granted to members of the Executive Committee during 2009 is provided in the table of their shareholdings in the section "Group Executive Committee ownership of ABB shares and options" below. No loans or guarantees were granted to members of the Executive Committee in 2009.

Members of the Executive Committee are eligible to participate in the Employee Share Acquisition Plan (ESAP), an employee stock-option plan with annual launches, which is open to employees around the world. In addition to the above awards, eight members of the Executive Committee, plus one spouse who is an employee of ABB, participated in the sixth launch of the plan. ESAP is described in the "Employee participation programs" section above.

Members of the Executive Committee cannot participate in the MIP, as described in the "Employee participation programs" section above. Any warrants, options or warrant appreciation rights held by Executive Committee members (as disclosed in the table in the section "Group Executive Committee ownership of ABB shares and options" below) were awarded to them as part of the

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compensation they received in earlier roles that they held in ABB or, in the case of Anders Jonsson, to his spouse in her role as an ABB employee.

Additional fees and remuneration

In 2009, ABB did not pay any fees or remuneration to the members of the Board or the Executive Committee for services rendered to ABB other than those disclosed above. Also, in 2009 ABB did not pay any additional fees or remuneration, other than on market terms, to persons closely linked⁽¹⁾ to a member of the Board or the Executive Committee for services rendered to ABB.

Compensation to former members of the Board and the Executive Committee

Except as disclosed above, ABB did not make any payments to a former member of the Board or the Executive Committee in 2009.

Change of control provisions

Following the spirit of ABB's remuneration philosophy, none of ABB's Board members, Executive Committee members or members of senior management receive "golden parachutes" or other special benefits in the event of a change of control.

ABB shareholdings of members of the Board and the Executive Committee*Board ownership of ABB shares and options*

The table below shows the number of ABB shares held by each Board member:

| Name | Total number of shares held | |
|---------------------------------|----------------------------------|----------------------------------|
| | December 31, 2009 ⁽¹⁾ | December 31, 2008 ⁽¹⁾ |
| Hubertus von Grünberg | 52,970 | 30,037 |
| Roger Agnelli | 144,657 | 138,964 |
| Louis R. Hughes | 69,926 | 64,233 |
| Hans Ulrich Märki | 351,288 | 330,454 |
| Michel de Rosen | 104,317 | 96,148 |
| Michael Treschow | 81,271 | 75,521 |
| Bernd W. Voss | 151,497 | 143,838 |
| Jacob Wallenberg ⁽²⁾ | 158,867 | 153,174 |
| Total | 1,114,793 | 1,032,369 |

(1) Includes as of December 31, 2009 and 2008, respectively, a total of 961,983 and 879,559 shares paid as compensation to board members in current and prior years and currently blocked in accordance with the terms of the board compensation

(2) Share amounts provided in this section do not include the shares beneficially owned by Investor AB, of which Mr. Wallenberg is chairman.

Except as described in this section, no member of the Board and no person closely linked to a member of the Board held any shares of ABB or options in ABB shares.

(1) "Persons closely linked" is understood to mean: (1) an individual's spouse, (2) an individual's children below the age of 18, (3) any persons living in the same household as an individual for at least 12 months, (4) any legal entities that are under the control of an individual or any of the persons mentioned under (1) to (3) above, and (5) any legal or natural person acting as an individual's fiduciary or the fiduciary of any of the persons mentioned under (1) to (4) above.

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Group Executive Committee ownership of ABB shares and options

As of December 31, 2009, the members of the Executive Committee held the following numbers of shares (or ADSs representing such shares), the conditional rights to receive ABB shares under the LTIP, warrants or options either vested or unvested as indicated) under the MIP and unvested shares in respect of short-term incentive and/or pension arrangements. As of 2009, executives can choose at the time of payout of each share grant except those related to MIP and ESAP to receive 30 percent in cash principally to help them meet their tax obligations.

Unvested at December 31, 2009

| Name | Total number of shares held ⁽¹⁾⁽⁴⁾ | Number of conditionally granted shares under the 2007 launch of | Number of matching shares deliverable under the 2007 co-investment launch of | Number of conditionally granted shares under the 2008 launch of | Number of matching shares deliverable under the 2008 co-investment launch of | Number of conditionally granted shares under the 2009 launch of | Number of matching shares deliverable under the 2009 co-investment launch of | Number of warrants held under the MIP ⁽²⁾ | | Shares in respect of special bonus ⁽⁴⁾ | Shares in lieu of pension arrangements ⁽⁴⁾ | Number of shares granted in respect of sign-on bonus ⁽³⁾⁽⁴⁾ (Vesting 2011 and 2013) |
|-------------------------------|---|---|--|---|--|---|--|--|---------------------------|---|---|--|
| | | the LTIP ⁽⁴⁾ (vesting 2010) | the portion of LTIP ⁽⁴⁾ (vesting 2010) | the LTIP ⁽⁴⁾ (vesting 2011) | the portion of LTIP ⁽⁴⁾ (vesting 2011) | the LTIP ⁽⁴⁾ (vesting 2012) | the portion of LTIP ⁽⁴⁾ (vesting 2012) | 2007 Grant (vesting 2010) | 2008 Grant (vesting 2011) | (vesting 2010) | (vesting 2010) | |
| Joe Hogan | 71,923 | | | 145,039 | 26,923 | 268,362 | 45,000 | | | | | 379,364 |
| Michel Demaré ⁽⁵⁾ | 239,968 | 41,746 | 11,843 | 71,880 | 10,490 | 127,119 | 34,054 | | | 44,643 | 80,840 | |
| Gary Steel | 111,390 | 35,105 | 10,243 | 29,390 | 8,634 | 67,974 | 16,919 | | | 29,570 | 55,703 | |
| Ulrich Spiesshofer | 96,657 | 32,733 | 9,650 | 27,863 | 8,309 | 64,443 | 16,147 | | | 28,034 | | |
| Diane de Saint Victor | 91,739 | 33,207 | 8,219 | 27,863 | 8,178 | 64,443 | 16,262 | | | 28,034 | | |
| Bernhard Jucker | 40,620 | 39,374 | 11,295 | 35,115 | 9,739 | 81,215 | 18,590 | | | 35,331 | | |
| Peter Leupp | 49,377 | 33,207 | 8,219 | 29,390 | 8,597 | 67,974 | 13,917 | | | 29,570 | | |
| Tom Sjökvist ⁽⁶⁾ | 67,897 | 34,156 | 10,789 | 29,390 | 8,842 | 67,974 | 16,223 | | | 14,785 | | |
| Veli-Matti Reinikkala | 46,618 | 33,022 | 9,414 | 23,902 | 6,866 | 63,320 | 16,174 | | | 26,792 | | |
| Anders Jonsson ⁽⁷⁾ | 78,408 | 26,092 | 5,007 | 23,665 | 6,214 | 54,732 | 9,190 | 96,300 | 138,000 | 23,810 | | |
| Total | 894,597 | 308,642 | 84,679 | 443,497 | 102,792 | 927,556 | 202,476 | 96,300 | 138,000 | 260,569 | 136,543 | 379,364 |

- (1) Includes shares deposited as match for the co-investment portion of the LTIP. These shares may be sold/transferred but then the corresponding number of co-investment shares would be forfeited.
- (2) Warrants/options may be sold or exercised/converted into shares at the ratio of 5 warrants/options for 1 share.
- (3) 189,682 shares vest in each of 2011 and 2013.
- (4) The participants have the possibility to opt to receive 30% of the value of the vested shares in cash.
- (5) Total number of shares held includes 4,500 shares held jointly with spouse.
- (6) Total number of shares held includes 7,560 shares held by spouse or child.
- (7) Total number of shares held includes 54,195 shares held by or jointly with spouse. The warrants vesting in 2010 and 2011 were received by Anders Jonsson's spouse in connection with her role as an ABB employee.

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Furthermore, as of December 31, 2009, the following members of the Executive Committee held WARs that, when exercised, entitle the holder to receive in cash the market value of the equivalent listed warrant at the time of exercise.

| | Number of fully vested WARs held under the MIP | Number of unvested WARs held under the MIP 2009 grant |
|-------------------------------|--|--|
| Bernhard Jucker | 185,000 | |
| Peter Leupp | 375,000 | |
| Tom Sjökvist | 375,000 | |
| Veli-Matti Reinikkala | 575,000 | |
| Anders Jonsson ⁽¹⁾ | 375,000 | 138,000 |
| Total | 1,885,000 | 138,000 |

(1) The spouse of Anders Jonsson received, related to her role as ABB employee, 138,000 WARs which will vest in 2012.

Except as described in this section, as at December 31, 2009, no member of the Executive Committee and no person closely linked to a member of the Executive Committee held any shares of ABB or options in ABB shares.

Total shareholdings of ABB shares and options

As of December 31, 2009, the members of our Board and Executive Committee owned less than 1 percent of ABB's total shares outstanding.

Table of Contents**EMPLOYEES**

A breakdown of our employees by geographic region is as follows:

| | December 31, | | |
|------------------------|----------------|----------------|----------------|
| | 2009 | 2008 | 2007 |
| Europe | 60,600 | 62,100 | 59,500 |
| The Americas | 17,100 | 20,000 | 18,900 |
| Asia | 29,900 | 29,100 | 25,200 |
| Middle East and Africa | 8,500 | 8,200 | 8,400 |
| Total | 116,100 | 119,400 | 112,000 |

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

Item 7. Major Shareholders and Related Party Transactions**MAJOR SHAREHOLDERS**

Investor AB, Sweden, held 166,330,142 ABB shares as of December 31, 2009. This holding remained unchanged during 2009 and represents approximately 7.1 percent of ABB's total share capital and voting rights as registered in the Commercial Register on that date. The number of shares held by Investor AB does not include shares held by Mr. Jacob Wallenberg, the chairman of Investor AB, in his individual capacity.

BlackRock, Inc, U.S., announced that as per February 25, 2010, it, together with its direct and indirect subsidiaries, held 70,418,405 ABB shares corresponding to 3.0 percent of ABB's total share capital and voting rights as registered in the Commercial Register on that date.

To the best of ABB's knowledge, no other shareholder held 3 percent or more of ABB's total share capital and voting rights as registered in the Commercial Register on February 28, 2010.

Under ABB's Articles of Incorporation, each registered share represents one vote. Significant shareholders do not have different voting rights.

To our knowledge, we are not directly or indirectly owned or controlled by any government or by any other corporation or person.

At December 31, 2009, we had approximately 494,000 shareholders. Approximately 206,000 were U.S. holders, of which approximately 770 were record holders. Based on the share register, U.S. holders (including holders of ADSs) held approximately 15 percent of the total number of shares issued, including treasury shares, at that date.

RELATED PARTY TRANSACTIONS*Affiliates and associates*

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

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Key management personnel

This section describes important business relationships between ABB and its Board members, or companies and organizations represented by them. This determination has been made based on ABB Ltd's Related Party Transaction Policy.

Vale S.A. and its subsidiaries (Vale) and ABB have entered into a framework agreement establishing general terms and conditions for the supply of products, systems and services among their respective group subsidiaries. ABB supplies Vale primarily with process automation products for mineral systems. The total revenues recorded by ABB in 2009 relating to its contracts with Vale were approximately \$130 million. Roger Agnelli is president and CEO of Vale.

On October 7, 2009, ABB entered into an unsecured syndicated \$2-billion, three-year revolving credit facility. As of December 31, 2009, SEB Skandinaviska Enskilda Banken AB (publ) (SEB) has committed to \$69 million out of the \$2-billion total. Jacob Wallenberg is the vice chairman of SEB.

In 2003, ABB entered into a 10-year agreement with IBM, pursuant to which IBM took over the operation and support of ABB's information systems infrastructure. In 2009, this agreement was amended and extended to 2016. The total value of the infrastructure and related operational services to be provided under the extended portion of this agreement is expected to approach \$1.4 billion. Hans Ulrich Märki is the retired chairman of IBM Europe, Middle East and Africa.

After comparing the revenues generated from ABB's business with Vale, and after reviewing the infrastructure and operational services arrangement with IBM and the banking commitments of SEB, the Board has determined that ABB's business relationships with those companies do not constitute material business relationships and that all members of the Board are considered to be independent directors. This determination was made in accordance with ABB Ltd's Related Party Transaction Policy which was prepared based on the Swiss Code of Best Practice for Corporate Governance and the independence criteria set forth in the corporate governance rules of the New York Stock Exchange.

In addition, ABB maintains important banking relationships with UBS AG (UBS), including that UBS has committed to lend \$69 million out of the \$2-billion total commitment under the above-referenced three-year revolving credit facility. Michel Demaré, the CFO of ABB, is also a director of UBS. ABB has also retained Ortec Finance B.V. (Ortec) to provide pension modelling services. Michel Demaré's spouse is the managing director and owns 49 percent of Ortec's Swiss subsidiary. The Board has determined that ABB's business relationships with UBS and Ortec are not material to ABB or UBS or Ortec or unusual in their nature or conditions.

Item 8. Financial Information

CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See "Item 18. Financial Statements" for a list of financial statements contained in this Annual Report.

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LEGAL PROCEEDINGS

Antitrust

Gas Insulated Switchgear business

In May 2004, we announced that we had undertaken an internal investigation which uncovered that certain of our employees together with employees of other companies active in the Gas Insulated Switchgear business were involved in anti-competitive practices. We reported promptly such practices to the appropriate authorities including the European Commission. The European Commission announced its decision on January 24, 2007, and granted ABB full immunity from fines under the European Commission's leniency program.

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

Power Transformers business

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

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

Cables business

In February 2009, ABB confirmed that its cables business is under investigation for alleged anti-competitive practices. Management is cooperating fully with the antitrust authorities in their investigations. An informed judgment about the outcome of these investigations or the amount of potential loss for the Company, if any, relating to these investigations cannot be made at this stage.

FACTS business

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

Suspect Payments

In June 2004, we disclosed to the SEC and the Italian authorities the preliminary results of our inquiry conducted with the assistance of outside counsel and forensic accountants. Those results showed that from the first quarter of 1998 through the first quarter of 2004, the medium voltage business of our Power Products division overstated its earnings before interest and taxes (operating income) and

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net income through the early recognition of certain revenue from incomplete projects, improper capitalization of costs on certain projects, unrecorded liabilities and borrowings, and other improper journal entries. As a result, the financial statements and certain financial data were restated in September 2004. The inquiry also uncovered improper payments to an employee of an Italian power generation company. The Company has reported this matter to the Italian authorities, who have initiated formal criminal proceedings, as well as to the SEC and the U.S. Department of Justice (the DoJ). The Company cannot reasonably predict the outcome of the criminal proceedings or what action, if any, the SEC or the DoJ may take.

In April 2005, we made the first of a series of voluntary disclosures to the DoJ and the SEC of certain suspect payments made by employees of ABB. The first disclosure concerned our U.S.-based network management business unit. Subsequently, we made additional voluntary disclosures regarding suspect payments by employees in several countries, including countries in the Middle East, Asia, South America, and Europe. These suspect payments were discovered as a result of our internal audit and compliance program. These payments may be in violation of the FCPA or other applicable laws. If we are found to have violated any of these laws, we could be liable for penalties and other costs and the violations could otherwise negatively impact our business. We are cooperating on these issues with the relevant authorities and are continuing our internal investigations and compliance reviews.

On October 27, 2005, the United Nations Independent Inquiry Committee issued its final report on the United Nations Oil-for-Food Program. This report alleges that certain ABB subsidiaries made illicit payments to the Iraqi government under contracts for humanitarian goods. We are cooperating on a voluntary basis with the SEC in its ongoing investigation of the matters raised in the report.

In August 2007, we made a voluntary disclosure to the SEC and the DoJ about suspect payments made by employees of ABB's recently divested Lummus Global business. These suspect payments were discovered as a result of our internal audit and compliance program. These payments may be in violation of the FCPA or other applicable laws. In connection with ABB's sale of the Lummus Global business, ABB retained certain liabilities, including for potential fines and penalties relating to these suspect payments. We are cooperating on these issues with the relevant authorities. In connection with these suspect payment matters we anticipate an unfavorable outcome and expect that fines will be imposed.

General

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

At December 31, 2009 and December 31, 2008, the Company accrued aggregate liabilities of \$300 million and \$795 million, respectively, included in provisions and other current liabilities and in other non-current liabilities for the above regulatory, compliance and legal contingencies. The Company's aggregate accrued liabilities at December 31, 2009, were impacted primarily by changes in the provisions relating to alleged anti-competitive practices, including, but not limited to, the European Commission's decision in October 2009 on the power transformers business. As it is not possible to make an informed judgment on the outcome of certain matters and as it is not possible based on information currently available to management to estimate the maximum potential liability, there could be material adverse outcomes beyond such accrued liabilities.

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DIVIDENDS AND DIVIDEND POLICY

See "Item 3. Key Information Dividends and Dividend Policy."

SIGNIFICANT CHANGES

Except as otherwise described in this Annual Report, there has been no significant change in our financial position since December 31, 2009.

Item 9. The Offer and Listing

MARKETS

The shares of ABB Ltd are principally traded on the SIX Swiss Exchange (under the symbol "ABBN") and on the NASDAQ OMX Stockholm Exchange (under the symbol "ABB"). ADSs of ABB Ltd have been traded on the New York Stock Exchange under the symbol "ABB" since April 6, 2001. ABB Ltd's ADSs are issued under the Amended and Restated Deposit Agreement, dated May 7, 2001, with Citibank, N.A. as depository. Each ADS represents one share.

Table of Contents**TRADING HISTORY**

No suspension in the trading of our shares occurred in the years ended December 31, 2009, 2008 and 2007.

The table below sets forth, for the periods indicated, the reported high and low closing prices for the shares on SIX Swiss Exchange and the NASDAQ OMX Stockholm Exchange and for the ADSs on the New York Stock Exchange.

| | SIX Swiss Exchange | | NASDAQ OMX Stockholm Exchange | | New York Stock Exchange | |
|---------------------------------|--------------------|-------|-------------------------------|--------|-------------------------|-------|
| | High | Low | High | Low | High | Low |
| | (CHF) | | (SEK) | | (\$) | |
| Annual highs and lows | | | | | | |
| 2005 | 12.95 | 6.35 | 77.75 | 37.30 | 9.79 | 5.42 |
| 2006 | 21.85 | 12.75 | 122.75 | 77.00 | 17.98 | 9.72 |
| 2007 | 36.52 | 19.65 | 202.00 | 113.75 | 31.81 | 15.96 |
| 2008 | 35.04 | 11.92 | 198.50 | 80.75 | 32.95 | 9.12 |
| 2009 | 22.20 | 13.16 | 151.50 | 98.50 | 21.90 | 10.97 |
| Quarterly highs and lows | | | | | | |
| 2008 | | | | | | |
| First quarter | 31.14 | 23.74 | 182.50 | 142.00 | 28.64 | 22.93 |
| Second quarter | 35.04 | 26.36 | 198.50 | 157.50 | 32.95 | 26.38 |
| Third quarter | 30.22 | 20.42 | 175.50 | 125.75 | 28.69 | 17.97 |
| Fourth quarter | 21.02 | 11.92 | 129.50 | 80.75 | 19.00 | 9.12 |
| 2009 | | | | | | |
| First quarter | 16.95 | 13.16 | 118.50 | 98.50 | 15.25 | 10.97 |
| Second quarter | 18.30 | 16.04 | 130.75 | 114.25 | 17.37 | 14.06 |
| Third quarter | 21.50 | 15.97 | 146.25 | 116.50 | 21.02 | 14.69 |
| Fourth quarter | 22.20 | 18.33 | 151.50 | 126.70 | 21.90 | 17.83 |
| Monthly highs and lows | | | | | | |
| 2009 | | | | | | |
| September | 21.50 | 19.71 | 146.25 | 133.75 | 21.02 | 18.37 |
| October | 22.20 | 19.23 | 151.50 | 133.70 | 21.90 | 18.53 |
| November | 20.17 | 18.40 | 136.90 | 127.90 | 20.04 | 18.36 |
| December | 19.94 | 18.33 | 138.50 | 126.70 | 19.24 | 17.83 |
| 2010 | | | | | | |
| January | 21.05 | 19.19 | 145.60 | 133.40 | 20.74 | 17.99 |
| February | 21.73 | 18.79 | 144.40 | 129.00 | 20.26 | 17.30 |

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Item 10. Additional Information

DESCRIPTION OF SHARE CAPITAL AND ARTICLES OF INCORPORATION

This section summarizes the material provisions of ABB Ltd's Articles of Incorporation and the Swiss Code of Obligations relating to the shares of ABB Ltd. The description is only a summary and is qualified in its entirety by ABB Ltd's Articles of Incorporation, a copy of which has been filed as Exhibit 1.1 to this Annual Report, ABB Ltd's filings with the commercial registry of the Canton of Zurich (Switzerland) and Swiss statutory law.

Registration and Business Purpose

ABB Ltd was registered as a corporation (*Aktiengesellschaft*) in the commercial register of the Canton of Zurich (Switzerland) on March 5, 1999, under the name of "New ABB Ltd" and its name was subsequently changed to "ABB Ltd". Its commercial registry number is CH-020.3.021.615-2.

ABB Ltd's purpose, as set forth in Article 2 of its Articles of Incorporation, is to hold interests in business enterprises, particularly in enterprises active in the areas of industry, trade and services. It may acquire, encumber, exploit or sell real estate and intellectual property rights in Switzerland and abroad and may also finance other companies. It may engage in all types of transactions and may take all measures that appear appropriate to promote, or that are related to, its purpose.

Our Shares

ABB Ltd's shares are registered shares (*Namenaktien*) with a par value of CHF 1.54 each following the dividend distribution in 2009 of CHF 0.48 per share by way of a reduction in the par value of the shares, from CHF 2.02 to 1.54. The shares are fully paid and non-assessable. The shares rank *pari passu* in all respects with each other, including in respect of entitlements to dividends, to a share of the liquidation proceeds in the case of a liquidation of ABB Ltd, to advance subscription rights and to pre-emptive rights.

Each share carries one vote in ABB Ltd's general shareholders' meeting. Voting rights may be exercised only after a shareholder has been recorded in ABB Ltd's share register (*Aktienbuch*) as a shareholder with voting rights, or with Euroclear Sweden AB in Sweden, which maintains a subregister of ABB Ltd's share register. Euroclear Sweden AB is an authorized central securities depository under the Swedish Act on Registration of Financial Instruments and carries out, among other things, the duties of registrar for Swedish companies listed on the NASDAQ OMX Stockholm Exchange. Registration with voting rights is subject to the restrictions described in "Transfer of Shares."

The shares are not issued in certificated form and are held in collective custody at SIX SIS AG. Shareholders do not have the right to request printing and delivery of share certificates (*aufgehobener Titeldruck*), but may at any time request ABB Ltd to issue a confirmation of the number of registered shares held.

Capital Structure

Issued Shares:

On December 31, 2009, and February 28, 2010, ABB's ordinary share capital (including treasury shares) amounted to CHF 3,587,160,187.38 divided into 2,329,324,797 fully paid registered shares with a par value of CHF 1.54 per share.

In February 2010, the Board of Directors announced that a proposal will be put to the 2010 Annual General Meeting to reduce the nominal value of the shares from CHF 1.54 to CHF 1.03 and distribute CHF 0.51 per share.

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Contingent Share Capital

As at December 31, 2009, ABB's share capital may be increased by an amount not to exceed CHF 308,000,000 through the issuance of up to 200,000,000 fully paid registered shares with a par value of CHF 1.54 per share through the exercise of conversion rights and/or warrants granted in connection with the issuance on national or international capital markets of newly or already issued bonds or other financial market instruments.

As at December 31, 2009, ABB's share capital may be increased by an amount not to exceed CHF 15,400,000 through the issuance of up to 10,000,000 fully paid registered shares with a par value of CHF 1.54 per share through the exercise of warrant rights granted to its shareholders. The Board may grant warrant rights not taken up by shareholders for other purposes in the interest of ABB.

The pre-emptive rights of the shareholders are excluded in connection with the issuance of convertible or warrant bearing bonds or other financial market instruments or the grant of warrant rights. The then-current owners of conversion rights and/or warrants will be entitled to subscribe for new shares. The conditions of the warrants will be determined by the Board.

The acquisition of shares through the exercise of warrants and each subsequent transfer of the shares will be subject to the restrictions of ABB's Articles of Incorporation.

In connection with the issuance of convertible or warrant-bearing bonds or other financial market instruments, the Board is authorized to restrict or deny the advance subscription rights of shareholders if such bonds or other financial market instruments are for the purpose of financing or refinancing the acquisition of an enterprise, parts of an enterprise, participations or new investments or an issuance on national or international capital markets. If the Board denies advance subscription rights, the convertible or warrant-bearing bonds or other financial market instruments will be issued at the relevant market conditions and the new shares will be issued pursuant to the relevant market conditions taking into account the share price and/or other comparable instruments having a market price. Conversion rights may be exercised during a maximum ten year period, and warrants may be exercised during a maximum seven-year period, in each case from the date of the respective issuance. The advance subscription rights of the shareholders may be granted indirectly.

In addition as at December 31, 2009, ABB's share capital may be increased by an amount not to exceed CHF 47,724,535.32 through the issuance of up to 30,989,958 fully paid shares with a par value of CHF 1.54 per share to employees. The pre-emptive and advance subscription rights of ABB's shareholders are excluded. The shares or rights to subscribe for shares will be issued to employees pursuant to one or more regulations to be issued by the Board, taking into account performance, functions, level of responsibility and profitability criteria. ABB may issue shares or subscription rights to employees at a price lower than that quoted on the stock exchange. The acquisition of shares within the context of employee share ownership and each subsequent transfer of the shares will be subject to the restrictions of ABB's Articles of Incorporation.

Authorized Share Capital

As at December 31, 2009, ABB's share capital may be increased by an amount not to exceed CHF 308,000,000 through the issuance of up to 200,000,000 fully paid shares with a par value of CHF 1.54 per share out of authorized share capital. The authorized shares are valid until May 5, 2011. The Board is authorized to determine the date of issue of new shares, the issue price, the type of payment, the condition for the exercise of the pre-emption rights, and the beginning date for dividend entitlement. The Board may permit pre-emptive rights that have not been exercised by shareholders to expire or it may place these rights and/or shares as to which pre-emptive rights have been granted but not exercised at market conditions or use them for other purposes in the interest of the Company. Furthermore, the Board is authorized to restrict or deny the pre-emptive rights of shareholders and

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allocate such rights to third parties if the shares are used (i) for the acquisition of an enterprise, parts of an enterprise, or participations, or for new investments, or in case of a share placement, for the financing or refinancing of such transactions; or (ii) for the purpose of broadening the shareholder constituency in connection with a listing of shares on domestic or foreign stock exchanges.

The subscription and the acquisition of the new shares, as well as each subsequent transfer of the shares, will be subject to the restrictions of ABB's Articles of Incorporation.

Transfer of Shares

The transfer of shares is effected by corresponding entry in the books of a bank or depository institution. An acquirer of shares must file a share registration form in order to be registered in ABB Ltd's share register (*Aktienbuch*) as a shareholder with voting rights. Failing such registration, the acquirer will not be able to participate in or vote at shareholders' meetings, but will be entitled to dividends, pre-emptive and advanced subscription rights, and liquidation proceeds.

An acquirer of shares will be recorded in ABB Ltd's share register with voting rights upon disclosure of its name and address. However, ABB Ltd may decline a registration with voting rights if the shareholder does not declare that it has acquired the shares in its own name and for its own account. If the shareholder refuses to make such declaration, it will be registered as a shareholder without voting rights. If persons fail to expressly declare in their registration application that they hold the shares for their own accounts (nominees), the board of directors may still enter such persons in the share register with the right to vote, provided that the nominee has entered into an agreement with the board of directors concerning his status, and further provided the nominee is subject to recognized bank or financial market supervision.

After having given the registered shareholder or nominee the right to be heard, the board of directors may cancel registrations in the share register retroactive to the date of registration if such registrations were made on the basis of incorrect information. The relevant shareholder or nominee will be informed promptly as to the cancellation. The board of directors will oversee the details and issue the instructions necessary for compliance with the preceding regulations. In special cases, it may grant exemptions from the rule concerning nominees.

Acquirers of registered shares who have chosen to have their shares registered in the share register with Euroclear Sweden AB are not requested to file a share registration form or declare that they have acquired the shares in their own name and for their own account in order to be registered as a shareholder with voting rights. However, in order to be entitled to vote at a shareholders' meeting those acquirers need to be entered in the Euroclear Sweden AB share register in their own name no later than ten calendar days prior to the shareholders' meeting. Uncertificated shares registered with Euroclear Sweden AB may be pledged in accordance with Swedish law.

Except as described in this subsection, neither the Swiss Code of Obligations nor ABB Ltd's Articles of Incorporation limit any right to own ABB Ltd's shares, or any rights of non-resident or foreign shareholders to exercise voting rights of ABB Ltd's shares.

Shareholders' Meetings

Under Swiss law, the annual general meeting of shareholders must be held within six months after the end of ABB Ltd's fiscal year. Annual general meetings of shareholders are convened by the board of directors, liquidators or representatives of bondholders or, if necessary, by the statutory auditors. The board of directors is further required to convene an extraordinary general meeting of shareholders if so resolved by the shareholders in a general meeting of shareholders or if so requested by one or more shareholders holding in aggregate at least 10 percent of ABB Ltd's share capital. A general meeting of shareholders is convened by publishing a notice in the Swiss Official Gazette of Commerce

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(*Schweizerisches Handelsamtsblatt*) at least 20 days prior to the meeting date. Holders of Euroclear Sweden AB-registered shares are able to attend shareholders' meetings in respect of such shares. Notices of shareholders' meetings are published in at least three national Swedish daily newspapers, as well as on ABB's website. Such notices contain information as to procedures to be followed by shareholders in order to participate and exercise voting rights at the shareholders' meetings.

One or more shareholders whose combined holdings represent an aggregate par value of at least CHF 616,000 may request in writing 40 calendar days prior to a general meeting of shareholders that specific items and proposals be included on the agenda and voted on at the next general meeting of shareholders.

The following powers are vested exclusively in the general meeting of the shareholders:

adoption and amendment of the articles of incorporation,

election of members of the board of directors and the auditors,

approval of the annual report and the consolidated financial statements,

approval of the annual financial statements and decision on the allocation of profits shown on the balance sheet, in particular with regard to dividends,

granting discharge to the members of the board of directors and the persons entrusted with management, and

passing resolutions as to all matters reserved to the authority of the shareholders' meeting by law or under the articles of incorporation or that are submitted to the shareholders' meeting by the board of directors to the extent permitted by law.

There is no provision in ABB Ltd's Articles of Incorporation requiring a quorum for the holding of shareholders' meetings.

Resolutions and elections usually require the approval of an "absolute majority" of the shares represented at a shareholders' meeting (i.e., a majority of the shares represented at the shareholders' meeting with abstentions having the effect of votes against the resolution). If the first ballot fails to result in an election and more than one candidate is standing for election, the presiding officer will order a second ballot in which a relative majority (i.e. a majority of the votes) shall be decisive.

A resolution passed with a qualified majority (at least two-thirds) of the shares represented at a shareholders' meeting is required for:

a modification of the purpose of ABB Ltd,

the creation of shares with increased voting powers,

restrictions on the transfer of registered shares and the removal of those restrictions,

restrictions on the exercise of the right to vote and the removal of those restrictions,

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an authorized or conditional increase in share capital,

an increase in share capital through the conversion of capital surplus, through an in-kind contribution or in exchange for an acquisition of property, and the grant of special benefits,

the restriction or denial of pre-emptive rights,

a transfer of ABB Ltd's place of incorporation, and

ABB Ltd's dissolution.

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In addition, the introduction of any provision in the articles of incorporation providing for a qualified majority must be resolved in accordance with such qualified majority voting requirements.

Pursuant to the Swiss Federal Merger Act, special quorum rules apply by law to a merger (*Fusion*) (including a possible squeeze-out merger), de-merger (*Spaltung*), or conversion (*Umwandlung*) of ABB Ltd.

At shareholders' meetings, shareholders can be represented by proxy, but only by their legal representative, another shareholder with the right to vote, a proxy nominated by ABB Ltd (*Organvertreter*), an independent proxy designated by ABB Ltd (*unabhängiger Stimmrechtsvertreter*) or a depository institution (*Depotvertreter*). All shares held by one shareholder may be represented by only one representative. Votes are taken on a show of hands unless a secret ballot is required by the general meeting of shareholders or the presiding officer. The presiding officer may arrange for resolutions and elections to be carried out by electronic means. As a result, resolutions and elections carried out by electronic means will be deemed to have the same effect as secret ballots. The presiding officer may at any time order that a resolution or election decided by a show of hands be repeated through a secret ballot if, in his view, the results of the vote are in doubt. In this case, the preceding decision by a show of hands shall be deemed to have not occurred.

Only shareholders registered in ABB Ltd's share register with the right to vote are entitled to participate at shareholders' meetings. See " Transfer of Shares." For practical reasons, shareholders must be registered in the share register with the right to vote no later than ten calendar days prior to a shareholders' meeting in order to be entitled to participate and vote at such shareholders' meeting.

Holders of Euroclear Sweden AB-registered shares are provided with financial and other information on ABB Ltd in the Swedish language in accordance with regulatory requirements and market practice. For shares that are registered in the system of Euroclear Sweden AB in the name of a nominee, such information is to be provided by the nominee.

Net Profits and Dividends

Swiss law requires that ABB Ltd retain at least 5 percent of its annual net profits as legal reserves for so long as these reserves amount to less than 20 percent of ABB Ltd's share capital. Any net profits remaining in excess of those reserves are at the disposal of the shareholders' meeting.

Under Swiss law, ABB Ltd may pay dividends only if it has sufficient distributable profits from previous fiscal years, or if its reserves are sufficient to allow distribution of a dividend. In either event, dividends may be paid out only after approval at the shareholders' meeting. The board of directors may propose that a dividend be paid out, but cannot itself set the dividend. The auditors must confirm that the dividend proposal of the board of directors conforms with statutory law. In practice, the shareholders' meeting usually approves the dividend proposal of the board of directors.

Dividends are usually due and payable after the shareholders' resolution relating to the allocation of profits has been passed by the shareholders' meeting. Under Swiss law, the statute of limitations to claim payment of an approved dividend is five years. Dividends not collected within five years after their due date accrue to ABB Ltd and will be allocated to ABB Ltd's other reserves.

Payment of dividends on Euroclear Sweden AB-registered shares is administered by Euroclear Sweden AB and paid out to the holder that is registered with Euroclear Sweden AB on the record date. Through the dividend access facility, shareholders with tax residence in Sweden will be entitled to receive, through the Euroclear Sweden AB system, a dividend in Swedish kronor equivalent to the dividend paid in Swiss francs without deduction of Swiss withholding tax. For further information, see " Taxation."

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Pre-emptive Rights

Shareholders of a Swiss corporation have certain pre-emptive rights to subscribe for new shares issued in connection with capital increases in proportion to the nominal amount of their shares held. A resolution adopted at a shareholders' meeting with a supermajority of two-thirds of the shares represented may, however, repeal, limit or suspend (or authorize the board of directors to repeal, limit or suspend) pre-emptive rights for cause. Cause includes an acquisition of a business or a part thereof, an acquisition of a participation in a company or the grant of shares to employees. In addition, based on Article 4bis para. 1 and para. 4 of the Articles of Incorporation of ABB Ltd, pre-emptive rights of the shareholders are excluded in connection with the issuance of convertible or warrant-bearing bonds or other financial market instruments, shares to employees of ABB issued out of ABB Ltd's contingent share capital or the grant of warrant rights to shareholders, or may be restricted or denied by the board of directors of ABB Ltd under certain circumstances as set forth in Article 4ter of ABB Ltd's Articles of Incorporation. See " Capital Structure."

Advance Subscription Rights

Shareholders of a Swiss corporation may have an advance subscription right with respect to bonds and other instruments issued in connection with options or conversion rights for shares if such option or conversion rights are based on the corporation's conditional capital. However, the shareholders' meeting can, with a supermajority of two-thirds of the shares represented at the meeting, exclude or restrict (or authorize the board of directors to exclude or restrict) such advance subscription rights for cause. See " Capital Structure Contingent Share Capital."

Borrowing Power

Neither Swiss law nor ABB Ltd's Articles of Incorporation restrict in any way ABB Ltd's power to borrow and raise funds. The decision to borrow funds is taken by or under the direction of the board of directors or the executive committee, and no shareholders' resolution is required. The Articles of Incorporation of ABB Ltd do not contain provisions concerning borrowing powers exercisable by its directors or how such borrowings could be varied.

Repurchase of Shares

Swiss law limits a corporation's ability to repurchase or hold its own shares. ABB Ltd and its subsidiaries may only repurchase shares if ABB Ltd has sufficient freely distributable reserves to pay the purchase price, and the aggregate nominal value of such shares does not exceed 10 percent of ABB Ltd's total share capital. Furthermore, ABB Ltd must create a special reserve on its balance sheet in the amount of the purchase price of the acquired shares. Such shares held by ABB Ltd or its subsidiaries do not carry any rights to vote at shareholders' meetings, but are entitled to the economic benefits applicable to the shares generally and are considered to be "outstanding" under Swiss law.

Notices

Written communication by ABB Ltd to its shareholders will be sent by ordinary mail to the last address of the shareholder or authorized recipient entered in the share register. To the extent that personal notification is not mandated by law, all communications to the shareholders are validly made by publication in the Swiss Official Gazette of Commerce (*Schweizerisches Handelsamtsblatt*).

Notices required under the Listing Rules of the SIX Swiss Exchange will be published in two Swiss newspapers in German and French. ABB Ltd or the SIX Swiss Exchange may also disseminate the relevant information on the online exchange information systems. Notices required under the listing rules of the NASDAQ OMX Stockholm will be published in three national daily Swedish newspapers, as well as on ABB's website.

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Duration, Liquidation and Merger

The duration of ABB Ltd as a legal entity is unlimited. It may be dissolved at any time by a shareholders' resolution which must be approved by a supermajority of two-thirds of the shares represented at the general meeting of shareholders (this supermajority requirement applies in the event of a dissolution by way of liquidation or a merger where ABB Ltd is not the surviving entity). Dissolution by court order is possible if it becomes bankrupt or if holders of at least 10 percent of its share capital registered in the commercial register can establish cause for dissolution.

Under Swiss law, any surplus arising out of a liquidation of a corporation (after the settlement of all claims of all creditors) is distributed to the shareholders in proportion to the paid-up par value of shares held, but this surplus is subject to Swiss withholding tax of 35 percent (see " Taxation).

Disclosure of Major Shareholders

Under the Swiss Stock Exchange Act, shareholders and groups of shareholders acting in concert who directly or indirectly acquire or sell shares of a listed Swiss corporation or rights based thereon and thereby reach, exceed or fall below the thresholds of 3 percent, 5 percent, 10 percent, 15 percent, 20 percent, 25 percent, 33¹/₃ percent, 50 percent or 66²/₃ percent of the voting rights of the corporation must notify the corporation and the exchange(s) in Switzerland on which such shares are listed of such holdings in writing within four trading days, whether or not the voting rights can be exercised. Following receipt of such a notification, the corporation must inform the public within two trading days.

An additional disclosure requirement exists under the Swiss Code of Obligations, according to which ABB Ltd must disclose individual shareholders and groups of shareholders acting in concert and their shareholdings if they hold more than 5 percent of all voting rights and ABB Ltd knows or has reason to know of such major shareholders. Such disclosures must be made once a year in the notes to the financial statements as published in its annual report. For a list of our major shareholders, see "Item 7. Major Shareholders and Related Party Transactions Major Shareholders."

Mandatory Offering Rules

Under the Swiss Stock Exchange Act, shareholders and groups of shareholders acting in concert who acquire more than 33¹/₃ percent of the voting rights (whether exercisable or not) of a listed Swiss company have to submit a takeover bid to all remaining shareholders unless the articles of incorporation of the company provide for an alteration of this obligation. ABB Ltd's Articles of Incorporation do not provide for any alterations of the bidder's obligations under the Swiss Stock Exchange Act. The mandatory offer obligation may be waived under certain circumstances, for example if another shareholder owns a higher percentage of voting rights than the acquiror. A waiver from the mandatory bid rules may be granted by the Swiss Takeover Board or the Swiss Federal Banking Commission. If no waiver is granted, the mandatory takeover bid must be made pursuant to the procedural rules set forth in the Swiss Stock Exchange Act and the implementing ordinances.

Other than the rules discussed in this section and in the section above entitled " Duration, Liquidation and Merger" and " Shareholder's Meetings" (which reflect mandatory provisions of Swiss law), no provision of ABB Ltd's Articles of Incorporation would operate only with respect to a merger, acquisition or corporate restructuring of ABB (or any of our subsidiaries) and have the effect of delaying, deferring or preventing a change in control of ABB.

Cancellation of Remaining Equity Securities

Under Swiss law, any offeror who has made a tender offer for the shares of a Swiss target company and who, as a result of such offer, holds more than 98 percent of the voting rights of the target company, may petition the court to cancel the remaining equity securities. The corresponding

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petition must be filed against the target company within three months after the lapse of the offer period. The remaining shareholders may join in the proceedings. If the court orders cancellation of the remaining equity securities, the target company will reissue the equity securities and deliver such securities to the offeror against performance of the offer for the benefit of the holders of the cancelled equity securities.

Directors and Officers

For further information regarding the material provisions of ABB Ltd's Articles of Incorporation and the Swiss Code of Obligations regarding directors and officers, see "Item 6. Directors, Senior Management and Employees Corporate Governance Duties of directors and officers."

Auditors

The auditors are subject to confirmation by the shareholders at the Annual General Meeting on an annual basis. Ernst & Young AG, with its registered head office at Bleicherweg 21, CH-8002 Zurich, Switzerland, has been the independent auditor of ABB Ltd and the ABB Group for the years ended December 31, 2009, 2008 and 2007.

Ernst & Young AG assumed the existing auditing mandate as auditor of the ABB Group in 1994. The head auditor responsible for the mandate, Nigel Jones, took over the mandate in 2008. He succeeded Charles Barone, who had served in this function since May 2003.

Ernst & Young AG periodically reads the approved minutes of meetings of our board of directors. Ernst & Young AG is present for parts of the FACC meetings where audit planning is discussed and the results of our internal audit department's audit procedures are presented. Ernst & Young AG also periodically meets with the FACC to discuss the results of its audit procedures.

See "Item 16C. Principal Accountant Fees and Services" for information regarding the fees paid to Ernst & Young AG.

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MATERIAL CONTRACTS

The following descriptions of the material provisions of the referenced agreements do not purport to be complete and are subject to, and qualified in their entirety by reference to, the agreements which have been filed as exhibits to this Annual Report.

Revolving Credit Facility

On October 7, 2009, ABB entered into an unsecured syndicated \$2-billion, three-year revolving credit facility. For a description of the facility, see "Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Credit Facilities" and "Note 12 Debt" to our Consolidated Financial Statements. See Exhibit 4.3 to this Annual Report.

Medium Term Note Program

One of our subsidiaries, ABB Capital B.V. is an issuer under a medium term note program (MTN Program) under which it is authorized to issue up to \$5,250 million in certain debt instruments. The terms of the MTN Program do not obligate any third party to extend credit to us, and the terms and availability of financings under the MTN Program are determined with respect to, and at the date of issuance of, each debt instrument. As a result, we may be unable to access capital through the MTN Program on terms favorable to us, if at all. As at December 31, 2009, the aggregate amount outstanding under the MTN Program was approximately \$2.0 billion from separate issuances of debt instruments. See Exhibits 2.3, 2.4, and 2.5 to this Annual Report.

ALSTOM Settlement

Pursuant to a Share Purchase and Settlement Agreement, dated as of March 31, 2000, among ABB Ltd, ALSTOM and ABB ALSTOM POWER, as amended by the Amendment to Share Purchase and Settlement Agreement, dated as of May 11, 2000 (which we refer to collectively as the Settlement Agreement), ALSTOM purchased our 50 percent interest in the joint venture ABB ALSTOM POWER for a cash payment of 1.25 billion euro. The Settlement Agreement provided for the termination of various joint venture agreements, the execution of various releases, the settlement of certain disputed items in relation to the joint venture, the unwinding of various financial arrangements between ABB ALSTOM POWER and the ABB Group, the prospective transfer to the joint venture of various assets and liabilities required to have been transferred to the joint venture under the original joint venture agreements, the transfer to us of certain subsidiaries of the joint venture, various payments among members of the ALSTOM group and the ABB Group in connection with the foregoing transactions (separate from the purchase price mentioned above), indemnification and the execution of various ancillary documents. The transaction was consummated on May 11, 2000. See Exhibit 4.1 to this Annual Report.

Sale Agreement for Nuclear Business

On December 21, 1999, our subsidiary, ABB Handels-und Verwaltungs AG, entered into an agreement to sell our nuclear business to BNFL for \$485 million. Under the agreement, we have undertaken not to compete with the divested business during a seven-year period that ended on April 28, 2007. We have agreed to indemnify BNFL against, among other things, certain environmental and other liabilities arising from specific sites operated by the nuclear business and certain tax liabilities of the nuclear business. These potential liabilities are described in "Item 3. Key Information Risk Factors" and "Item 5. Operating and Financial Review and Prospects Environmental Liabilities". The transaction was consummated on April 28, 2000. See Exhibit 4.2 to this Annual Report.

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Sale Agreement for Part of the Oil, Gas and Petrochemicals Business

On January 16, 2004, we announced that our subsidiary, ABB Handels-und Verwaltungs AG, had entered into an agreement to sell the upstream part of our Oil, Gas and Petrochemicals business to Laradew Limited, a new company formed by a private equity consortium consisting of Candover Partners, JP Morgan Partners and 3i Group. The sale included our U.S.-based Vetco Gray unit and our Norway-based Offshore Systems business. In July 2004, we completed the sale of the Upstream business for an initial purchase price of \$925 million. Net cash proceeds from the sale were approximately \$800 million, reflecting the initial purchase price adjusted for unfunded pension liabilities and changes in net working capital. On February 9, 2005, the purchasers and we entered into a Settlement Agreement and Amendment finalizing the sales price. As part of the sale, we agreed, among other things, to terminate certain securitization programs and operational leases, to indemnify the purchaser against certain pre-existing environmental and tax liabilities, to reimburse the purchaser against financial losses that may be incurred on certain ongoing projects of the business. See Exhibits 4.4 and 4.5 to this Annual Report.

CE Asbestos Settlement

On April 20, 2006, ABB Ltd and certain of its subsidiaries entered into certain agreements relating to the settlement of its Combustion Engineering subsidiary's asbestos liabilities. For further details regarding this settlement see Exhibits 4.10 and 4.11 hereto.

Share Sale and Purchase Agreement relating to the Lummus Global Business

On August 24, 2007, ABB Asea Brown Boveri Ltd and certain of its subsidiaries entered into an agreement to sell Lummus to Chicago Bridge & Iron for a purchase price of \$950 million. The transaction closed in November 2007. As part of the sale we have agreed to retain certain liabilities, including for potential fines and penalties connected with suspect payments made prior the completion of the sale (for further information see "Note 3 Acquisitions, divestments and discontinued operations" to our Consolidated Financial Statements). See Exhibit 4.12 to this Annual Report.

EXCHANGE CONTROLS

Other than in connection with government sanctions imposed on Belarus, Cote d'Ivoire, the Democratic Republic of the Congo, Iran, Iraq, Lebanon, Liberia, Myanmar, North Korea, Sierra Leone, Sudan, Uzbekistan, Zimbabwe, certain persons from the former Federal Republic of Yugoslavia and persons and organizations with connection to Osama bin Laden, the "al Qaeda" group or the Taliban and certain persons connected with the assassination of Rafik Hariri, there are currently no laws, decrees or regulations in Switzerland that restrict the export or import of capital, including, but not limited to, Swiss foreign exchange controls on payment of dividends, interest or liquidation proceeds, if any, to non-Swiss resident holders of shares. In addition, there are no limitations imposed by Swiss law or ABB Ltd's Articles of Incorporation on the rights of non-Swiss residents or non-Swiss citizens to hold or vote our shares.

TAXATION

Swiss Taxation

Withholding Tax on Dividends and Distributions

Dividends paid and similar cash or in-kind distributions that we make to a holder of shares or ADSs (including dividends on liquidation proceeds and stock dividends and taxable income resulting from partial liquidation) are subject to a Swiss federal withholding tax at a rate of 35 percent. A repurchase of shares by us for the purpose of a capital reduction is defined as a partial liquidation of

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the Company. In this case, the difference between the nominal value of the shares and their repurchase price is qualified as taxable income. The same would be true upon a repurchase of shares if we were not to dispose of the repurchased shares within six years after the repurchase, or if 10 percent of outstanding shares were exceeded. We must withhold the tax from the gross distribution and pay it to the Swiss Federal Tax Administration. A reduction of the shares' nominal value by means of a capital reduction does not represent a dividend or similar distribution for purposes of Swiss withholding tax.

Obtaining a Refund of Swiss Withholding Tax for U.S. Residents

The Convention between the Swiss Confederation and the United States of America for the Avoidance of Double Taxation with Respect to Taxes on Income, which entered into force on December 19, 1997 and which we will refer to in the following discussion as the Treaty, allows U.S. resident individuals or U.S. corporations to seek a refund of the Swiss withholding tax paid on dividends in respect of our shares or ADSs if they qualify for benefits under the Treaty. U.S. resident individuals and U.S. corporations holding less than 10 percent of the voting rights in respect of our shares or ADSs are entitled to seek a refund of withholding tax to the extent the tax withheld exceeds 15 percent of the gross dividend. U.S. corporations holding 10 percent or more of the voting rights of our shares or ADSs are entitled to seek a refund of withholding tax to the extent the tax withheld exceeds 5 percent of the gross dividend.

Claims for refunds must be filed with the Swiss Federal Tax Administration, Eigerstrasse 65, 3003 Bern, Switzerland, no later than December 31 of the third year following the calendar year in which the dividend or similar distribution became payable. The form used for obtaining a refund is Swiss Tax Form 82 (82C for companies; 82E for other entities; 82I for individuals; 82R for regulated investment companies (RICs)). This form may be obtained from any Swiss Consulate General in the United States or from the Swiss Federal Tax Administration at the address above. The form must be filled out in triplicate with each copy duly completed and signed before a notary public in the United States. The form must be accompanied by evidence of the deduction of withholding tax withheld at the source.

Stamp Duties upon Transfer of Securities

The sale of shares or ADSs, whether by Swiss resident or non-resident holders, may be subject to a Swiss securities transfer stamp duty of up to 0.15 percent calculated on the sale proceeds if it occurs through or with a Swiss bank or other Swiss securities dealer as defined in the Swiss Federal Stamp Tax Act. In addition to the stamp duty, the sale of shares or ADSs by or through a member of the SIX Swiss Exchange may be subject to a stock exchange levy.

United States Taxes

The following is a summary of the material U.S. federal income tax consequences of the ownership by U.S. holders (defined below) of shares or ADSs. This summary does not purport to address all of the tax considerations that may be relevant to a decision to purchase, own or dispose of shares or ADSs. This summary assumes that U.S. holders hold shares or ADSs as capital assets for U.S. federal income tax purposes. This summary does not address tax considerations applicable to holders that may be subject to special tax rules, such as U.S. expatriates, dealers or traders in securities or currencies, partnerships owning shares or ADSs, tax-exempt entities, banks and other financial institutions, regulated investment companies, traders in securities that elect to apply a mark to market method of accounting, insurance companies, holders that own (or are deemed to own) at least 10 percent or more (by voting power or value) of the stock of ABB, investors whose functional currency is not the U.S. dollar, persons subject to the alternative minimum tax, persons that will hold shares or ADSs as part of a position in a straddle or as part of a hedging or conversion transaction for U.S. tax purposes and persons who are not U.S. holders. This discussion does not address aspects of U.S. taxation other than

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U.S. federal income taxation, nor does it address state, local or foreign tax consequences of an investment in shares or ADSs.

This summary is based (1) on the Internal Revenue Code of 1986, as amended, U.S. Treasury Regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date of this registration statement and (2) in part, on representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms. The U.S. tax laws and the interpretation thereof are subject to change, which change could apply retroactively and could affect the tax consequences described below.

For purposes of this summary, a U.S. holder is a beneficial owner of shares or ADSs that, for U.S. federal income tax purposes, is:

a citizen or resident of the United States,

a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any state, including the District of Columbia,

an estate if its income is subject to U.S. federal income taxation regardless of its source, or

a trust if such trust validly has elected to be treated as a U.S. person for U.S. federal income tax purposes or if (1) a U.S. court can exercise primary supervision over its administration and (2) one or more U.S. persons have the authority to control all of its substantial decisions.

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of shares or ADSs, the treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. If you are a partner in a partnership that holds shares or ADSs you should consult your tax advisor.

Each prospective purchaser should consult the purchaser's tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, owning or disposing of shares or ADSs.

Ownership of ADSs in General

For U.S. federal income tax purposes, a holder of ADSs generally will be treated as the owner of the shares represented by the ADSs.

The U.S. Treasury Department has expressed concern that depositaries for American depositary receipts, or other intermediaries between the holders of shares of an issuer and the issuer, may be taking actions that are inconsistent with the claiming of U.S. foreign tax credits by U.S. holders of those receipts or shares. Accordingly, the analysis regarding the availability of a U.S. foreign tax credit for Swiss taxes and sourcing rules described below could be affected by future actions that may be taken by the U.S. Treasury Department.

Distributions

In general, for U.S. federal income tax purposes, the gross amount of any distribution (other than certain distributions, if any, of shares distributed to all shareholders of ABB, including holders of ADSs) made to you with respect to shares or ADSs, including the amount of any Swiss taxes withheld from the distribution, will constitute dividends to the extent of ABB's current and accumulated earnings and profits (as determined under U.S. federal income tax principles).

Non-corporate U.S. holders generally will be taxed on such distributions at the lower rates applicable to long-term capital gains (i.e., gains from the sale of capital assets held for more than one year) with respect to distributions received on or before January 1, 2011, provided that the U.S. holder meets certain holding period and other requirements and provided that such distributions constitute

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"qualified dividends" for U.S. federal income tax purposes. Distributions treated as dividends will not be treated as "qualified dividends" if we were to be treated as a "passive foreign investment company" (a "PFIC") for U.S. federal income tax purposes in the year that the dividend is paid or in the year prior to the year that the dividend is paid. Based on certain estimates of its gross income and gross assets and the nature of its business, ABB believes that it will not be classified as a PFIC for the taxable year ending December 31, 2009. ABB's status in future years will depend on its assets and activities in those years. ABB has no reason to believe that its assets or activities will change in a manner that would cause it to be classified as a PFIC. However, as PFIC status is a factual matter that must be determined annually at the close of each taxable year, there can be no certainty regarding ABB's PFIC status in any particular year until the end of that year. U.S. holders are urged to consult their own tax advisors regarding the availability to them of the reduced dividend rate in light of their own particular circumstances and the consequences to them if ABB were to be treated as a PFIC with respect to any taxable year.

Dividends paid to U.S. corporate holders will not be eligible for the dividends received deduction generally allowed to corporate U.S. holders.

If you are a U.S. holder and distributions with respect to shares or ADSs exceed ABB's current and accumulated earnings and profits as determined under U.S. federal income tax principles, then the excess generally would be treated first as a tax-free return of capital to the extent of your adjusted tax basis in the shares or ADSs. Any amount in excess of the amount of the dividend and the return of capital generally would be treated as capital gain. ABB does not maintain calculations of its earnings and profits under U.S. federal income tax principles.

If you are a U.S. holder, then dividends paid in Swiss francs, including the amount of any Swiss taxes withheld from the dividends, will be included in your gross income in an amount equal to the U.S. dollar value of the Swiss francs calculated by reference to the spot exchange rate in effect on the day the dividends are includible in income. In the case of ADSs, dividends generally are includible in income on the date they are received by the depository, regardless of whether the payment is in fact converted into U.S. dollars at that time. If dividends paid in Swiss francs are converted into U.S. dollars on the day they are includible in income, then you generally should not be required to recognize foreign currency gain or loss with respect to the conversion. However, any gains or losses resulting from the conversion of Swiss francs between the time of the receipt of dividends paid in Swiss francs and the time the Swiss francs are converted into U.S. dollars will be treated as ordinary income or loss to you, as the case may be. The amount of any distribution of property other than cash will be the fair market value of the property on the date of distribution.

If you are a U.S. holder, then you will have a basis in any Swiss francs received as a refund of Swiss withholding taxes equal to a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt of the dividend on which the tax was withheld. (See " Swiss Taxation Obtaining a Refund of Swiss Withholding Tax for U.S. Residents" above.)

If you are a U.S. holder, then dividends received by you with respect to shares or ADSs will be treated as foreign source income, which may be relevant in calculating your foreign tax credit limitation. Subject to certain conditions and limitations, Swiss tax withheld on dividends may be deducted from your taxable income or credited against your U.S. federal income tax liability. However, to the extent that you would be entitled to a refund of Swiss withholding taxes pursuant to the U.S. Switzerland tax treaty, you may not be eligible for a U.S. foreign tax credit with respect to the amount of such withholding taxes which may be refunded, even if you fail to claim the refund. See " Swiss Taxation Obtaining a Refund of Swiss Withholding Tax for U.S. Residents." The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by ABB generally will constitute passive income, or, in the case of certain U.S. holders, financial services income. The rules relating to the determination of the U.S.

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foreign tax credit are complex, and you should consult your tax advisor to determine whether and to what extent you would be entitled to this credit.

Sale or Exchange of Shares or ADSs

If you are a U.S. holder that holds shares or ADSs as capital assets, then you generally will recognize capital gain or loss for U.S. federal income tax purposes upon a sale or exchange of your shares or ADSs in an amount equal to the difference between your adjusted tax basis in the shares or ADSs and the amount realized on their disposition. If you are a non-corporate U.S. holder, the maximum marginal U.S. federal income tax rate applicable to the gain is generally lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income (other than certain dividends) if your holding period for the shares or ADSs exceeds one year (i.e., long-term capital gains). If you are a U.S. holder, then the gain or loss, if any, recognized by you generally will be treated as U.S. source income or loss, as the case may be, for U.S. foreign tax credit purposes.

If you are a U.S. holder and you receive any foreign currency on the sale of shares or ADSs, then you may recognize U.S. source ordinary income or loss as a result of currency fluctuations between the date of the sale of the shares or ADS, as the case may be, and the date the sales proceeds are converted into U.S. dollars.

Backup Withholding and Information Reporting

U.S. backup withholding tax and information reporting requirements generally apply to certain payments to certain noncorporate holders of stock. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, shares or ADSs made within the United States to a holder of shares or ADSs (other than an exempt recipient, including a corporation, a payee that is not a U.S. holder that provides an appropriate certification, and certain other persons).

A payor will be required to withhold backup withholding tax from any payments of dividends on, or the proceeds from the sale or redemption of, shares or ADSs within the United States to you, unless you are an exempt recipient, if you fail to furnish your correct taxpayer identification number or otherwise fail to establish an exception from backup withholding tax requirements or otherwise fail to establish an exception from backup withholding. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to you will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided that the required information is furnished to the U.S. Internal Revenue Service. The current backup withholding tax rate is 28 percent.

THE ABOVE SUMMARIES ARE NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE OWNERSHIP OF SHARES OR ADSs. PROSPECTIVE PURCHASERS OF SHARES OR ADSs SHOULD CONSULT THEIR TAX ADVISORS CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATIONS.

DOCUMENTS ON DISPLAY

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, we file reports and other information with the SEC. These materials, including this Annual Report and the exhibits thereto, may be inspected and copied at prescribed rates at the Commission's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Further information on the operation of the public reference room may be obtained by calling the Commission at 1-800-SEC-0330. The Commission also maintains a web site at www.sec.gov that contains reports and other information regarding registrants that file electronically with the Commission. Our annual reports and some of the other information we submit to the Commission may be accessed through this web site. In addition, material that we file can be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

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Item 11. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Disclosure

The continuously evolving financial markets and the dynamic business environment expose us to changes in foreign exchange, interest rate and other market price risks. We have developed and implemented comprehensive policies, procedures, and controls to identify, mitigate, and monitor financial risk on a firm-wide basis. To efficiently aggregate and manage financial risk that could impact our financial performance, we operate a Group Treasury function. Our Group Treasury function provides an efficient source of liquidity, financing, risk management, and other global financial services to the ABB Group companies. We do not permit proprietary trading activities. The market risk management activities are focused on mitigating material financial risks resulting from our global operating and financing activities.

The Group Treasury function maintains risk management control systems to monitor foreign exchange and interest rate risks and exposures arising from our underlying business, as well as the associated hedge positions. Such exposures are governed by written policies. Financial risks are monitored using a number of analytical techniques including market value and sensitivity analysis. The following quantitative analyses are based on sensitivity analysis tests, which assume parallel shifts of interest rate yield curves, and foreign exchange rates and equity prices.

Currency Fluctuations and Foreign Exchange Risk

It is our policy to identify and manage all transactional foreign exchange exposures to minimize risk. With the exception of certain financing subsidiaries, and to the extent certain operating subsidiaries are domiciled in high inflation environments, the functional currency of each of our companies is considered to be its local currency. Our policies require our subsidiaries to hedge all contracted foreign exchange exposures, as well as a portion of their forecast exposures, against their local currency. These transactions are undertaken mainly with our Group Treasury function.

We have foreign exchange transaction exposures related to our global operating and financing activities in currencies other than the functional currency in which our entities operate. Specifically, we are exposed to foreign exchange risk related to future earnings, assets or liabilities denominated in foreign currencies. The most significant currency exposures relate to operations in Germany, Sweden and Switzerland. In addition, we are exposed to currency risk associated with translating our functional currency financial statements into our reporting currency, which is the U.S. dollar.

Our operating companies are responsible for identifying their foreign currency exposures and entering into intercompany hedge contracts with the Group Treasury function, where legally possible, or external transactions to hedge this risk. The intercompany transactions have the effect of transferring the operating companies' currency risk to the Group Treasury function, but create no additional market risk to our consolidated results. The Group Treasury function then manages this risk by entering into offsetting transactions with third party financial institutions. According to our policy, material net currency exposures are hedged. Exposures are primarily hedged with forward foreign exchange contracts. The majority of the foreign exchange hedge instruments have, on average, a maturity of less than twelve months. The Group Treasury function also hedges currency risks associated with their financing of other ABB companies. For certain third party non-U.S. dollar denominated debt, we use cross currency swaps to hedge the currency risk and effectively convert the debt into U.S. dollar obligations. These swap contracts have maturity dates that exactly match the associated debt.

As of December 31, 2009 and 2008, the net fair value of financial instruments with exposure to foreign currency rate movements was \$2,232 million and \$1,946 million, respectively. The potential loss in fair value of such financial instruments from a hypothetical 10 percent move in foreign exchange rates against our position would be approximately \$599 million and \$579 million for December 31, 2009

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and 2008, respectively. The analysis reflects the aggregate adverse foreign exchange impact associated with transaction exposures, as well as translation exposures where appropriate. Our sensitivity analysis assumes a simultaneous shift in exchange rates against our positions exposed to foreign exchange risk and as such assumes an unlikely adverse case scenario. Exchange rates rarely move in the same direction. Therefore, the assumption of a simultaneous shift may overstate the impact of changing rates on assets and liabilities denominated in foreign currencies. The underlying trade-related transaction exposures of the industrial companies are not included in the quantitative analysis. If these underlying transaction exposures were included, they would tend to have an offsetting effect on the potential loss in fair value detailed above.

Interest Rate Risk

We are exposed to interest rate risk due to our financing, investing, and liquidity management activities. Our operating companies primarily invest excess cash with, and receive funding from, our Group Treasury function on an arm's length basis. It is our policy that the primary third-party funding and investing activities, as well as the monitoring and management of the resulting interest rate risk, are the responsibility of the Group Treasury function. The Group Treasury function adjusts the duration of the overall funding portfolio through derivative instruments in order to better match underlying assets and liabilities, as well as minimize the cost of capital.

As of December 31, 2009 and 2008, the potential reduction in earnings from a 100 basis points downward shift in interest rates on an interest bearing net asset position of \$7,389 million and \$5,495 million, respectively, was \$74 million and \$55 million, respectively.

Leases are not included as part of the sensitivity analysis. This represents a limitation of the analysis. While sensitivity analysis includes the interest rate sensitivity of the funding of the lease portfolio, a corresponding change in the lease portfolio was not considered in the sensitivity model.

Equity Risk

Certain of our entities have equity investments that expose us to equity price risk. As of December 31, 2009 and 2008, the net fair value of equity risk sensitive instruments was \$150 million and \$90 million, respectively. The potential loss in fair value of such financial instruments from a hypothetical 10 percent move in equity prices against our position would be approximately \$22 million and \$9 million, for December 31, 2009 and 2008, respectively. Included in the net fair value and potential loss in fair value figures for equity risk are derivative instruments designated as hedges of warrant appreciation rights granted to employees under our management incentive plans (see "Note 18 Share-based payment arrangements" to our Consolidated Financial Statements). As of December 31, 2009 and 2008, the amount of such instruments included in the total net fair value of equity risk sensitive instruments was \$64 million and \$53 million, respectively, and the corresponding amount of potential loss in fair value was \$14 million and \$6 million, respectively. The liabilities relating to the warrant appreciation rights are not included as part of the sensitivity analysis. If such liabilities being hedged were included, they would tend to have an offsetting effect on the potential loss in fair value.

Commodity Risk

We enter into commodity derivatives to hedge certain of our raw material exposures. As of December 31, 2009 and 2008, the net fair value of commodity derivatives was \$26 million and \$(173) million, respectively. The potential loss in fair value for such commodity hedging derivatives from a hypothetical adverse 10 percent move against our position in commodity prices would be approximately \$18 million and \$15 million for December 31, 2009 and 2008, respectively. A significant proportion of our commodity derivatives are denominated in euros. The foreign exchange risk arising

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on such contracts has been excluded from the calculation of the potential loss in fair value from a hypothetical 10 percent move in commodity prices as disclosed above.

Item 12. Description of Securities Other Than Equity Securities**American Depositary Shares**

Depositary fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary bank by the brokers (on behalf of their clients) receiving the newly-issued ADSs from the depositary bank and by the brokers (on behalf of their clients) delivering the ADSs to the depositary bank for cancellation. The brokers, in turn, charge these transaction fees to their clients.

Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary bank to the holders of record of ADSs as of the applicable ADS record date. The Depositary fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (i.e., stock dividends, rights offerings), the depositary bank charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or un-certificated in direct registration), the depositary bank sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts via the central clearing and settlement system, The Depository Trust Company (DTC), the depositary bank generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depositary banks.

In the event of refusal to pay the depositary fees, the depositary bank may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set-off the amount of the depositary fees from any distribution to be made to the ADS holder.

Depositary Payments

In 2009, we received reimbursements from Citigroup, the Depositary Bank of our ADS program, of approximately \$4 million to help cover costs related to our ADS program. Those costs, in addition to costs related to Sarbanes-Oxley, included principally the specific costs set forth below:

| | 2009 (\$ in thousands) |
|--|---------------------------|
| Listing fees (NYSE) | 280 |
| Proxy process expenses (printing, postage and distribution) | 250 |
| Investor relations efforts including non-deal roadshows/investor conferences, IR agency fees, etc. | 570 |

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PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

Not applicable.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Not applicable.

Item 15. Controls and Procedures

- (a) Disclosure controls and procedures.

We maintain controls and procedures designed to provide reasonable assurance that the information required to be disclosed in our filings under the Securities Exchange Act of 1934 (the Exchange Act, Rule 13a-15(e)) is recorded, processed, summarized and reported on a timely basis. Our Chief Executive Officer, Joe Hogan, and Chief Financial Officer, Michel Demaré, with the participation of key corporate senior management and management of key corporate functions, performed an evaluation of our disclosure controls and procedures as of December 31, 2009. Based on that evaluation, management, including the Chief Executive Officer and Chief Financial Officer, has concluded that, as of December 31, 2009, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in reports that we file or submit under the Exchange Act has been recorded, processed, summarized and reported within the time period specified in the rules and forms of the SEC and that such information has been accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

- (b) Management's annual report on internal control over financial reporting.

The Board of Directors and management of ABB Ltd and its consolidated subsidiaries ("ABB") are responsible for establishing and maintaining adequate internal control over financial reporting. ABB's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of the published Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with ABB's policies and procedures may deteriorate.

Management conducted an assessment of the effectiveness of internal control over financial reporting based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that ABB's internal control over financial reporting was effective as of December 31, 2009.

Ernst & Young AG, an independent registered public accounting firm, has issued an opinion on the effectiveness of the ABB Group's internal control over financial reporting as of December 31, 2009 which is included in "Item 18. Financial Statements".

- (c) Changes in internal control

During the year ended December 31, 2009, the ABB Group continued to standardize and consolidate its financial accounting and reporting processes through the integration of its various ERP systems into country-wide ERP's in a number of specific countries. A significant portion of these

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remaining system integrations are planned for 2010. These activities strengthen the overall design and operational effectiveness of the ABB Group's internal control over financial reporting and are part of the ABB Group's continuous improvement of its internal control environment.

Item 15T. Controls and Procedures

Not applicable.

Item 16A. Audit Committee Financial Expert

Our board of directors has determined that Bernd W. Voss, who serves on our audit committee, is independent, as that term is defined in the listing standards promulgated by the New York Stock Exchange, and is an audit committee financial expert.

Item 16B. Code of Ethics

Our chief executive officer, chief financial officer, principal accounting officer and persons performing similar functions are bound to adhere to our Code of Conduct, which applies to all employees of all companies in the ABB Group. Our Code of Conduct is available on our web site in the corporate governance section at www.abb.com/investorrelations.

Item 16C. Principal Accountant Fees and Services

Audit Fees

Fees for audit services provided by Ernst & Young totaled approximately \$27 million and \$29 million in 2009 and 2008, respectively. Audit fees include the standard audit work performed each fiscal year necessary to allow the auditor to issue an opinion on our Consolidated Financial Statements and to issue an opinion on the local statutory financial statements of ABB Ltd and its subsidiaries. Audit fees also include services that can be provided only by the ABB Group auditor such as assistance with the application of new accounting policies, pre-issuance reviews of quarterly financial results and comfort letters delivered to underwriters in connection with debt and equity offerings.

Audit-Related Fees

Fees for audit-related services provided by Ernst & Young totaled approximately \$2 million in each of 2009 and 2008, consisting primarily of accounting consultations and audits in connection with divestments, audits of pension and benefit plans and accounting advisory services.

Tax Fees

Fees for tax services provided by Ernst & Young totaled approximately \$2 million and \$3 million in 2009 and 2008, respectively, representing tax compliance fees as well as tax advice and planning fees.

All Other Fees

Fees for other services provided not included in the above three categories by Ernst & Young totaled approximately \$0.1 million in each of 2009 and 2008.

Pre-Approval Procedures and Policies

In accordance with the requirements of the U.S. Sarbanes-Oxley Act of 2002 and rules issued by the SEC, we utilize a procedure for the review and pre-approval of any services performed by Ernst & Young. The procedure requires that all proposed engagements of Ernst & Young for audit and permitted non-audit services are submitted to the FACC for approval prior to the beginning of any

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such services. In accordance with this policy, all services performed by and fees paid to Ernst & Young in 2009 and 2008, as discussed above in this Item 16C, were approved by the FACC.

Item 16D. Exemptions from the Listing Standards for Audit Committees

None.

Item 16E. Purchase of Equity Securities by Issuer & Affiliated Purchases

On February 13, 2008, we announced a share buyback program up to a maximum value of CHF 2.2 billion (equivalent to approximately USD 2 billion at then-current exchange rates), with the intention of completing the buyback program prior to the Annual General Meeting of shareholders in 2010 and proposing the cancellation of the shares at that meeting.

During 2008, purchases under the program made by or on behalf of ABB Ltd. or any "affiliated purchaser", as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, totaled 22,675,000 shares.

On February 12, 2009, we stated that given the market uncertainty, we were not actively pursuing new purchases under the program. Consequently, no repurchases took place in 2009 and through February 28, 2010.

As of December 31, 2009, CHF 1,549 million (equivalent to \$1,495 million at the year-end exchange rate of CHF 1.0358 per 1 USD) was available for further purchases under the program.

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

According to the New York Stock Exchange's corporate governance standards (the Standards), ABB is required to disclose significant ways in which its corporate governance practices differ from the Standards. ABB has reviewed the Standards and concluded that its corporate governance practices are generally consistent with the Standards, with the following significant exceptions:

Swiss law requires that our external auditors be appointed by our shareholders at our Annual General Meeting rather than by the finance and audit committee or the board of directors.

The Standards require that all equity compensation plans and material revisions thereto be approved by the shareholders. Consistent with Swiss law such matters are decided by our board of directors. However, the shareholders decide about the creation of new share capital that can be used in connection with equity compensation plans.

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PART III

Item 17. Financial Statements

We have elected to provide financial statements and the related information pursuant to Item 18.

Item 18. Financial Statements

See pages F-1 to F-85, which are incorporated herein by reference. All schedules are omitted as the required information is inapplicable or the information is presented in the Consolidated Financial Statements or notes thereto.

Item 19. Exhibits

- 1.1 Articles of Incorporation of ABB Ltd as amended to date.
- 2.1 Form of Amended and Restated Deposit Agreement, by and among ABB Ltd, Citibank, N.A., as Depositary, and the holders and beneficial owners from time to time of the American Depositary Shares issued thereunder (including as an exhibit the form of American Depositary Receipt). Incorporated by reference to Exhibit (a) to Form F-6EF (File No. 333-147488) filed by ABB Ltd on November 19, 2007.
- 2.2 Form of American Depositary Receipt (included in Exhibit 2.1).
- 2.3 EMTN Fiscal Agency Agreement, dated December 17, 2008, between ABB Capital B.V., Fortis Banque Luxembourg S.A. and Fortis Banque (Suisse) S.A. Incorporated by reference to Exhibit 2.3 to the Annual Report on Form 20-F filed by ABB Ltd on March 10, 2009.
- 2.4 EMTN Dealership Agreement, dated December 17, 2008, between ABB Capital B.V., ABB Ltd and Morgan Stanley & Co. International Limited. Incorporated by reference to Exhibit 2.4 to the Annual Report on Form 20-F filed by ABB Ltd on March 10, 2009.
- 2.5 EMTN Deed of Covenant, dated December 17, 2008, by ABB Capital B.V. The total amount of long-term debt securities of ABB Ltd authorized under any other instrument does not exceed 10 percent of the total assets of the ABB Group on a consolidated basis. ABB Ltd hereby agrees to furnish to the Commission, upon its request, a copy of any instrument defining the rights of holders of long-term debt of ABB Ltd or of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed. Incorporated by reference to Exhibit 2.5 to the Annual Report on Form 20-F filed by ABB Ltd on March 10, 2009.
- 4.1 Share Purchase and Settlement Agreement dated as of March 31, 2000 among ABB Ltd, ALSTOM and ABB ALSTOM POWER N.V., as amended. Incorporated by reference to Exhibit 4.1 to the Annual Report on Form 20-F filed by ABB Ltd on June 27, 2002.
- 4.2 Purchase Agreement, dated as of December 21, 1999, between ABB Handels-und Verwaltungs AG, as Seller, and British Nuclear Fuels plc, as Purchaser, as amended. Incorporated by reference to Exhibit 4.2 to the Annual Report on Form 20-F filed by ABB Ltd on June 27, 2002.
- 4.3 \$2,000,000,000 Multicurrency Revolving Credit Agreement, dated as of October 7, 2009, between ABB Ltd, certain subsidiaries of ABB Ltd as borrowers, approximately 30 banks as mandated lead arrangers, Credit Suisse, as facility agent, dollar swingline agent and euro swingline agent, and Nordea Bank AB (publ), as SEK swingline agent.

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- 4.4 Stock and Asset Purchase Agreement, dated January 16, 2004, between ABB Handels-und Verwaltungs AG and Laradew Limited. Incorporated by reference to Exhibit 4.6 to the Annual Report on Form 20-F filed by ABB on April 9, 2004.
- 4.5 Settlement Agreement and Amendment, dated as of February 9, 2005, between ABB Handels-und Verwaltungs AG and Vetco Limited (formerly known as Laradew Limited), relating to the Stock and Asset Purchase Agreement dated as of January 16, 2004, between Handels-und Verwaltungs AG and Laradew Limited. Incorporated by reference to Exhibit 4.8 to the Annual Report on Form 20-F filed by ABB on May 27, 2005.
- 4.6 Employment Agreement of Gary Steel, dated August 27, 2002. Incorporated by reference to Exhibit 4.11 to the Annual Report on Form 20-F filed by ABB on June 30, 2003.
- 4.7 Employment Agreement of Michel Demaré, dated October 28, 2004. Incorporated by reference to Exhibit 4.17 to the Annual Report on Form 20-F filed by ABB on May 27, 2005.
- 4.8 Employment Agreement of Ulrich Spiesshofer, dated September 5, 2005. Incorporated by reference to Exhibit 4.15 to the Annual Report on Form 20-F filed by ABB on April 19, 2006.
- 4.9 Contribution Agreement dated as of April 20, 2006 by and among ABB Ltd, ABB Asea Brown Boveri Ltd, ABB Holdings Inc., ABB Inc. and ABB Lummus Global Inc., Combustion Engineering 524 (g) Asbestos PI Trust and, solely for certain provisions contained therein, ABB Treasury Center (USA) Inc. Incorporated by reference to Exhibit 4.13 to the Annual Report on Form 20-F filed by ABB on April 18, 2007.
- 4.10 Promissory Note dated April 20, 2006 between ABB Inc. and ABB Ltd, as makers and Combustion Engineering 524(g) Asbestos PI Trust, as payee, for the principal amount of up to \$350,000,000. Incorporated by reference to Exhibit 4.14 to Annual Report on Form 20-F filed by ABB on April 18, 2007.
- 4.11 Share Sale and Purchase Agreement dated 24 August 2007 among ABB Holdings Inc., ABB Holdings B.V., ABB Asea Brown Boveri Ltd, Chicago Bridge & Iron Company, Chicago Bridge & Iron Company B.V., and Chicago Bridge & Iron Company N.V. Incorporated by reference to Exhibit 4.14 to the Annual Report on Form 20-F filed by ABB on March 19, 2008.
- 8.1 Subsidiaries of ABB Ltd as of February 28, 2010.
- 12.1 Certification of the chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification of the chief financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certification by the chief executive officer of ABB Ltd pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
- 13.2 Certification by the chief financial officer of ABB Ltd pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
- 15.1 Consent of Independent Registered Public Accounting Firm

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- 101 The following financial information from this Annual Report formatted in XBRL (Extensible Business Reporting Language) includes (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Cash Flows, (iv) Consolidated Statements of Stockholders' Equity, and (v) Notes to Consolidated Financial Statements, tagged as blocks of text.
Furnished electronically herewith.
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*
This document is being furnished in accordance with SEC Release Nos. 33-8212 and 34-74551.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

ABB LTD

By: /s/ MICHEL DEMARÉ

Name: Michel Demaré
Title: *Executive Vice President and
Chief Financial Officer*

By: /s/ RICHARD A. BROWN

Name: Richard A. Brown
Title: *Group Senior Vice President and
Chief Counsel Corporate & Finance*

Date: March 19, 2010.

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Report of management on internal control over financial reporting

The Board of Directors and management of ABB Ltd and its consolidated subsidiaries ("ABB") are responsible for establishing and maintaining adequate internal control over financial reporting. ABB's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of the published Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with ABB's policies and procedures may deteriorate.

Management conducted an assessment of the effectiveness of internal control over financial reporting based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that ABB's internal control over financial reporting was effective as of December 31, 2009.

Ernst & Young AG, an independent registered public accounting firm, has issued an opinion on the effectiveness of ABB's internal control over financial reporting as of December 31, 2009, which is included on page F-4 of this Annual Report.

/s/ JOE HOGAN

Chief Executive Officer

/s/ MICHEL DEMARÉ

Chief Financial Officer
Zurich, March 12, 2010

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of ABB Ltd:

We have audited the accompanying consolidated balance sheets of ABB Ltd as of December 31, 2009 and 2008, 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, 2009. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ABB Ltd at December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), ABB Ltd's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 12, 2010, expressed an unqualified opinion thereon.

/s/ Ernst & Young AG

Zürich, Switzerland
March 12, 2010

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of ABB Ltd:

We have audited ABB Ltd's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). ABB Ltd's Board of Directors and management are responsible for maintaining effective internal control over financial reporting, and management is responsible for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on internal control over financial reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, ABB Ltd maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2009 consolidated financial statements of ABB Ltd and our report dated March 12, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young AG

Zürich, Switzerland
March 12, 2010

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ABB Ltd

Consolidated Income Statements

Year ended December 31 (\$ in millions, except per share data in \$)

| | 2009 | 2008 | 2007 |
|--|-----------------|-----------------|-----------------|
| Sales of products | 26,820 | 29,705 | 24,816 |
| Sales of services | 4,975 | 5,207 | 4,367 |
| Total revenues | 31,795 | 34,912 | 29,183 |
| Cost of products | (19,057) | (20,506) | (17,292) |
| Cost of services | (3,413) | (3,466) | (2,923) |
| Total cost of sales | (22,470) | (23,972) | (20,215) |
| Gross profit | 9,325 | 10,940 | 8,968 |
| Selling, general and administrative expenses | (5,528) | (5,822) | (4,975) |
| Other income (expense), net | 329 | (566) | 30 |
| Earnings before interest and taxes | 4,126 | 4,552 | 4,023 |
| Interest and dividend income | 121 | 315 | 273 |
| Interest and other finance expense | (127) | (349) | (383) |
| Income from continuing operations before taxes and cumulative effect of accounting change | 4,120 | 4,518 | 3,913 |
| Provision for taxes | (1,001) | (1,119) | (595) |
| Income from continuing operations before cumulative effect of accounting change, net of tax | 3,119 | 3,399 | 3,318 |
| Income (loss) from discontinued operations, net of tax | 17 | (21) | 586 |
| Income before cumulative effect of accounting change, net of tax | 3,136 | 3,378 | 3,904 |
| Cumulative effect of accounting change, net of tax | | | (49) |
| Net income | 3,136 | 3,378 | 3,855 |
| Net income attributable to noncontrolling interests | (235) | (260) | (244) |
| Net income attributable to ABB | 2,901 | 3,118 | 3,611 |
| <i>Amounts attributable to ABB shareholders:</i> | | | |
| Income from continuing operations before cumulative effect of accounting change, net of tax | 2,884 | 3,142 | 3,083 |
| Income (loss) from discontinued operations, net of tax | 17 | (24) | 577 |
| Cumulative effect of accounting change, net of tax | | | (49) |
| Net income | 2,901 | 3,118 | 3,611 |
| <i>Basic earnings (loss) per share attributable to ABB shareholders:</i> | | | |
| Income from continuing operations before cumulative effect of accounting change, net of tax | 1.26 | 1.37 | 1.37 |
| Income (loss) from discontinued operations, net of tax | 0.01 | (0.01) | 0.25 |
| Cumulative effect of accounting change, net of tax | | | (0.02) |
| Net income | 1.27 | 1.36 | 1.60 |
| <i>Diluted earnings (loss) per share attributable to ABB shareholders:</i> | | | |
| Income from continuing operations before cumulative effect of accounting change, net of tax | 1.26 | 1.37 | 1.34 |
| Income (loss) from discontinued operations, net of tax | 0.01 | (0.01) | 0.25 |
| Cumulative effect of accounting change, net of tax | | | (0.02) |
| Net income | 1.27 | 1.36 | 1.57 |
| <i>Average number of shares (in millions) used to compute:</i> | | | |
| Basic earnings (loss) per share attributable to ABB shareholders | 2,284 | 2,287 | 2,258 |

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| | | | |
|--|-------|-------|-------|
| Diluted earnings (loss) per share attributable to ABB shareholders | 2,288 | 2,296 | 2,308 |
|--|-------|-------|-------|

See accompanying Notes to the Consolidated Financial Statements

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ABB Ltd

Consolidated Balance Sheets

December 31 (\$ in millions, except share data)

| | 2009 | 2008 |
|--|---------------|---------------|
| Cash and equivalents | 7,119 | 6,399 |
| Marketable securities and short-term investments | 2,433 | 1,354 |
| Receivables, net | 9,451 | 9,245 |
| Inventories, net | 4,550 | 5,306 |
| Prepaid expenses | 236 | 237 |
| Deferred taxes | 900 | 920 |
| Other current assets | 540 | 776 |
| Total current assets | 25,229 | 24,237 |
| Financing receivables, net | 452 | 445 |
| Property, plant and equipment, net | 4,072 | 3,562 |
| Goodwill | 3,026 | 2,817 |
| Other intangible assets, net | 443 | 411 |
| Prepaid pension and other employee benefits | 112 | 73 |
| Investments in equity method companies | 49 | 68 |
| Deferred taxes | 1,052 | 1,120 |
| Other non-current assets | 293 | 278 |
| Total assets | 34,728 | 33,011 |
| Accounts payable, trade | 3,853 | 4,451 |
| Billings in excess of sales | 1,623 | 1,224 |
| Accounts payable, other | 1,326 | 1,292 |
| Short-term debt and current maturities of long-term debt | 161 | 354 |
| Advances from customers | 1,806 | 2,014 |
| Deferred taxes | 327 | 428 |
| Provisions for warranties | 1,280 | 1,105 |
| Provisions and other current liabilities | 2,603 | 3,467 |
| Accrued expenses | 1,600 | 1,569 |
| Total current liabilities | 14,579 | 15,904 |
| Long-term debt | 2,172 | 2,009 |
| Pension and other employee benefits | 1,179 | 1,071 |
| Deferred taxes | 328 | 355 |
| Other non-current liabilities | 1,997 | 1,902 |
| Total liabilities | 20,255 | 21,241 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Capital stock and additional paid-in capital (2,329,324,797 and 2,322,792,835 issued shares at December 31, 2009 and 2008, respectively) | 3,943 | 4,841 |
| Retained earnings | 12,828 | 9,927 |
| Accumulated other comprehensive loss | (2,084) | (2,710) |
| Treasury stock, at cost (39,901,593 and 40,108,014 shares at December 31, 2009 and 2008, respectively) | (897) | (900) |
| Total ABB stockholders' equity | 13,790 | 11,158 |
| Noncontrolling interests | 683 | 612 |
| Total stockholders' equity | 14,473 | 11,770 |

Total liabilities and stockholders' equity

34,728 33,011

See accompanying Notes to the Consolidated Financial Statements

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ABB Ltd

Consolidated Statements of Cash Flows

Year ended December 31 (\$ in millions)

| | 2009 | 2008 | 2007 |
|--|----------------|--------------|----------------|
| Operating activities: | | | |
| Net income | 3,136 | 3,378 | 3,855 |
| <i>Adjustments to reconcile net income to net cash provided by operating activities:</i> | | | |
| Depreciation and amortization | 655 | 661 | 602 |
| Pension and postretirement benefits | (28) | 43 | (61) |
| Deferred taxes | (56) | (199) | (351) |
| Net gain from sale of property, plant and equipment | (15) | (49) | (46) |
| Income (loss) from equity accounted companies | 2 | (15) | (55) |
| Gain on sale of discontinued operations | | | (541) |
| Other | (6) | 233 | 280 |
| <i>Changes in operating assets and liabilities:</i> | | | |
| Trade receivables, net | 256 | (1,266) | (1,323) |
| Inventories, net | 1,130 | (800) | (551) |
| Trade payables | (718) | 522 | 530 |
| Billings in excess of sales | 295 | 539 | 374 |
| Provisions, net | (241) | 677 | (362) |
| Advances from customers | (316) | 130 | 411 |
| Other assets and liabilities, net | (67) | 104 | 292 |
| Net cash provided by operating activities | 4,027 | 3,958 | 3,054 |
| Investing activities: | | | |
| Changes in financing receivables, net | (7) | 7 | 56 |
| Purchases of marketable securities (available-for-sale) | (243) | (1,081) | (6,428) |
| Purchases of marketable securities (held-to-maturity) | (918) | | |
| Purchases of short-term investments | (3,824) | (2,512) | (3,679) |
| Purchases of property, plant and equipment and intangible assets | (967) | (1,171) | (756) |
| Acquisition of businesses (net of cash acquired) | (209) | (653) | (54) |
| Proceeds from sales of marketable securities (available-for-sale) | 79 | 110 | 6,492 |
| Proceeds from maturity of marketable securities (available-for-sale) | 855 | | |
| Proceeds from maturity of marketable securities (held-to-maturity) | 730 | | |
| Proceeds from short-term investments | 2,253 | 5,305 | 868 |
| Proceeds from sales of property, plant and equipment | 36 | 94 | 75 |
| Proceeds from sales of businesses and equity accounted companies (net of cash disposed) | 16 | 46 | 1,142 |
| Other | (21) | (31) | (7) |
| Net cash provided by (used in) investing activities | (2,220) | 114 | (2,291) |
| Financing activities: | | | |
| Net changes in debt with maturities of 90 days or less | (59) | (10) | (19) |
| Increase in debt | 586 | 458 | 210 |
| Repayment of debt | (705) | (786) | (247) |
| Issuance of shares | 89 | 49 | 241 |

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| | | | |
|--|---------|---------|-------|
| Purchase of treasury shares | | (621) | (199) |
| Dividends paid in the form of nominal value reduction / Dividends paid | (1,027) | (1,060) | (449) |
| Dividends paid to noncontrolling shareholders | (193) | (152) | (117) |
| Other | 8 | 3 | (45) |

Net cash used in financing activities (1,301) (2,119) (625)

| | | | |
|--|-----|-------|-----|
| Effects of exchange rate changes on cash and equivalents | 214 | (230) | 275 |
| Adjustment for the net change in cash and equivalents in assets held for sale and in discontinued operations | | 26 | 39 |

Net change in cash and equivalents continuing operations 720 1,749 452

| | | | |
|--|-------|-------|-------|
| Cash and equivalents beginning of period | 6,399 | 4,650 | 4,198 |
|--|-------|-------|-------|

Cash and equivalents end of period 7,119 6,399 4,650

Supplementary disclosure of cash flow information:

| | | | |
|--|-------|-------|-----|
| Interest paid | 156 | 244 | 246 |
| Taxes paid | 1,090 | 1,065 | 780 |
| Carrying value of debt and accrued interest converted into capital stock | | | 843 |

See accompanying Notes to the Consolidated Financial Statements

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ABB Ltd

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2009, 2008 and 2007 (\$ in millions)

| | Capital stock and additional paid-in capital | Retained earnings | Accumulated other comprehensive loss | | | | Treasury stock | Total ABB stockholders' equity | Noncontrolling interests | Total stockholders' equity | |
|---|---|----------------------|---|--|---|---|-------------------|---|-----------------------------|----------------------------------|--|
| | | | Foreign currency translation adjustments | gain (loss) on available-for-sale securities | and other post retirement plan adjustments | Unrealized gain (loss) on cash flow hedges | | | | | Total accumulated other comprehensive loss |
| Balance at January 1, 2007 | 4,514 | 3,647 | (1,462) | (2) | (629) | 74 | (2,019) | (104) | 6,038 | 451 | 6,489 |
| Comprehensive income: | | | | | | | | | | | |
| Net income | | 3,611 | | | | | | | 3,611 | 244 | 3,855 |
| Foreign currency translation adjustments | | | 505 | | | | 505 | | 505 | 34 | 539 |
| Foreign currency translation adjustments related to divestments of businesses | | | 51 | | | | 51 | | 51 | | 51 |
| Effect of change in fair value of available-for-sale securities (net of tax of \$0) | | | | 9 | | | 9 | | 9 | 1 | 10 |
| Unrecognized income related to pensions and other postretirement plans (net of tax of \$(5)) | | | | | 59 | | 59 | | 59 | | 59 |
| Adjustments related to pensions and other postretirement plans allocated to divestments of businesses (net of tax of \$0) | | | | | 84 | | 84 | | 84 | | 84 |
| Change in derivatives qualifying as cash flow hedges (net of tax of \$4) | | | | | | (19) | (19) | | (19) | | (19) |
| Total comprehensive income | | | | | | | | | 4,300 | 279 | 4,579 |
| Changes in noncontrolling interests | | | | | | | | | | (18) | (18) |
| Dividends paid to noncontrolling shareholders | | | | | | | | | | (120) | (120) |
| Dividends paid | | (449) | | | | | | | (449) | | (449) |
| Effect of adoption of new accounting standard for convertible debt | 146 | | | | | | | | 146 | | 146 |
| Conversion of convertible bonds | 830 | | | | | | | | 830 | | 830 |
| Treasury stock transactions | (1) | | | | | | (198) | | (199) | | (199) |
| Share-based payment arrangements | 45 | | | | | | | | 45 | | 45 |
| Issuance of shares | 241 | | | | | | | | 241 | | 241 |
| Call options | 5 | | | | | | | | 5 | | 5 |
| Balance at December 31, 2007 | 5,780 | 6,809 | (906) | 7 | (486) | 55 | (1,330) | (302) | 10,957 | 592 | 11,549 |
| Comprehensive income: | | | | | | | | | | | |
| Net income | | 3,118 | | | | | | | 3,118 | 260 | 3,378 |
| Foreign currency translation adjustments | | | (754) | | | | (754) | | (754) | (41) | (795) |
| Foreign currency translation adjustments related to divestments of businesses | | | 6 | | | | 6 | | 6 | | 6 |
| Effect of change in fair value of available-for-sale securities (net of tax of \$(26)) | | | | 76 | | | 76 | | 76 | (1) | 75 |
| Unrecognized income (expense) related to pensions and other postretirement plans (net of tax of \$212) | | | | | (492) | | (492) | | (492) | 1 | (491) |
| Change in derivatives qualifying as cash flow hedges (net of tax of \$53) | | | | | | (216) | (216) | | (216) | | (216) |

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| | | | | | | | | | | | |
|---|--------------|--------|---------|----|---------|-------|---------|-------|---------------|------------|---------------|
| Total comprehensive income | | | | | | | | | 1,738 | 219 | 1,957 |
| Changes in noncontrolling interests | | | | | | | | | | (45) | (45) |
| Dividends paid to noncontrolling shareholders | | | | | | | | | | (154) | (154) |
| Dividends paid in the form of nominal value reduction | (1,060) | | | | | | | | (1,060) | | (1,060) |
| Shares repurchased under buyback program | | | | | | | | (619) | (619) | | (619) |
| Treasury stock transactions | (21) | | | | | | | 21 | | | |
| Share-based payment arrangements | 63 | | | | | | | | 63 | | 63 |
| Issuance of shares | 49 | | | | | | | | 49 | | 49 |
| Call options | 30 | | | | | | | | 30 | | 30 |
| Balance at December 31, 2008 | 4,841 | 9,927 | (1,654) | 83 | (978) | (161) | (2,710) | (900) | 11,158 | 612 | 11,770 |
| Comprehensive income: | | | | | | | | | | | |
| Net income | | 2,901 | | | | | | | 2,901 | 235 | 3,136 |
| Foreign currency translation adjustments | | | 598 | | | | 598 | | 598 | 12 | 610 |
| Effect of change in fair value of available-for-sale securities (net of tax of \$26) | | | (63) | | | | (63) | | (63) | | (63) |
| Unrecognized expense related to pensions and other postretirement plans (net of tax of \$3) | | | | | (90) | | (90) | | (90) | (2) | (92) |
| Change in derivatives qualifying as cash flow hedges (net of tax of \$(54)) | | | | | | 181 | 181 | | 181 | | 181 |
| Total comprehensive income | | | | | | | | | 3,527 | 245 | 3,772 |
| Changes in noncontrolling interests | (49) | | | | | | | | (49) | 20 | (29) |
| Dividends paid to noncontrolling shareholders | | | | | | | | | | (194) | (194) |
| Dividends paid in the form of nominal value reduction | (1,024) | | | | | | | | (1,024) | | (1,024) |
| Treasury stock transactions | (3) | | | | | | | 3 | | | |
| Share-based payment arrangements | 66 | | | | | | | | 66 | | 66 |
| Issuance of shares | 90 | | | | | | | | 90 | | 90 |
| Call options | 22 | | | | | | | | 22 | | 22 |
| Balance at December 31, 2009 | 3,943 | 12,828 | (1,056) | 20 | (1,068) | 20 | (2,084) | (897) | 13,790 | 683 | 14,473 |

See accompanying Notes to the Consolidated Financial Statements

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ABB Ltd

Notes to the Consolidated Financial Statements

Note 1 The Company

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

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

Note 2 Significant accounting policies

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

Basis of presentation

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

Scope of consolidation

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

Reclassifications

Certain amounts reported for prior years in the Consolidated Financial Statements and Notes have been reclassified to conform to the current year's presentation. These changes primarily relate to the reclassification of cash-settled call options to derivatives (from marketable securities and short-term investments) in the Consolidated Balance Sheets, the presentation of deferred tax assets and liabilities on a net basis (where permitted) rather than on a gross basis in the Consolidated Balance Sheets and the breakdown of lines in the Consolidated Statements of Cash Flows related to purchases of, and proceeds from sales of, marketable securities (other-than-trading) and short-term investments in order to provide increased transparency of the transactions.

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 such construction activities, the Company elected to use the duration of the individual contracts as its operating cycle. Accordingly,

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 2 Significant accounting policies (Continued)

there are accounts receivable, inventories and provisions related to these contracts which will not be realized within one year that have been classified as current.

Use of estimates

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

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

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

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

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

growth rates, discount rates and other assumptions used in the Company's annual goodwill impairment test,

assumptions used in determining inventory obsolescence and net realizable value,

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

assessment of the allowance for doubtful accounts.

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

Cash and equivalents

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

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

Marketable securities and short-term investments

Management determines the appropriate classification of held-to-maturity and available-for-sale securities at the time of purchase. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost, adjusted for accretion of discounts or amortization of premiums to maturity computed under the effective interest method. Such accretion or amortization is included in "Interest

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 2 Significant accounting policies (Continued)

and dividend income". Marketable debt and equity securities not classified as held-to-maturity are classified as available-for-sale.

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

The Company performs a periodic review of its debt and equity securities to determine whether an other-than-temporary impairment has occurred. Generally, when an individual security has been in an unrealized loss position for an extended period of time, the Company evaluates whether an impairment has occurred. The evaluation is based on specific facts and circumstances at the time of assessment, which include general market conditions, the duration and extent to which the fair value is below cost and, through 2008, the Company's intent and ability to hold the security for a sufficient period of time to allow for recovery in value. In addition, for equity securities, the Company assesses whether the cost value will recover within the near-term. If an other-than-temporary impairment is identified, the security is written down to its fair value.

In 2009, the Company adopted new accounting standards for the recognition and measurement of other-than-temporary impairments of debt securities. The previous criterion of the Company's intent and ability to hold the security for a sufficient period of time to allow for recovery in value of the debt security was replaced and, under the new standards, if the fair value of a debt security is less than its amortized cost, then an other-than-temporary impairment is recognized if (i) the Company has the intent to sell the security, (ii) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost base or (iii) a credit loss exists in so far as the Company does not expect to recover the entire recognized amortized cost of the security. Impairment charges relating to such credit losses are recognized in "Interest and other finance expense" while impairments related to all other factors are recognized in "Accumulated other comprehensive loss".

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

Accounts receivable and allowance for doubtful accounts

Accounts receivable are recorded at the invoiced amount. 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 for collectability. Account balances are charged off against the allowance when the Company believes that the amount will not be recovered.

Concentrations of credit risk

The Company sells a broad range of products, systems and services to a wide range of industrial, commercial and utility customers as well as various government agencies and quasi-governmental agencies throughout the world. Concentrations of credit risk with respect to accounts receivable are

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 2 Significant accounting policies (Continued)

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 as discussed above in Accounts receivable and allowance for doubtful accounts. Such losses, in the aggregate, are in line with the Company's expectations.

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

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

Revenue recognition

The Company generally recognizes revenues for the sale of goods when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectability is reasonably assured. Delivery is considered to occur upon transfer of title and the risks and rewards of ownership.

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

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

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

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 2 Significant accounting policies (Continued)

The Company offers multiple solutions to meet its customers' needs. These solutions may involve the delivery of multiple products and/or performance of services and the delivery and/or performance may occur at different points in time or over different periods of time. In such circumstances, if certain criteria are met, the Company allocates revenues to each delivery of product or performance of service based on the individual elements' relative fair value. If there is no evidence for the fair value of the delivered item, the revenue is allocated based on the residual method, provided that the elements meet the criteria for treatment as a separate unit of accounting.

Unless the percentage-of-completion or completed-contract method applies, revenues from contracts that contain customer acceptance provisions are deferred until customer acceptance occurs, or the Company has demonstrated the customer-specified objective criteria have been met, or the contractual acceptance period has lapsed.

Taxes assessed by a governmental authority that are directly imposed on revenue-producing transactions between the Company and its customers, such as sales, use, value-added and some excise taxes are presented on a net basis (excluded from revenues).

Product-related expenses and contract loss provisions

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

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 are stated at acquisition cost or actual production cost, including direct material and labor and applicable manufacturing overheads, reduced by amounts recognized in cost of sales. Adjustments to reduce the cost of inventory to its net market value are made, if required for decreases in sales prices, obsolescence or similar impairments.

Accounting for discontinued operations

Assets and liabilities that meet certain criteria with respect to the Company's plans for their sale or abandonment are included in assets and liabilities held for sale and in discontinued operations. Depreciation and amortization cease when the assets meet the criteria to be classified as held for sale. Results from discontinued operations are recognized in the period in which they occur. Assets and 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 discontinued operations that are retained are not classified into assets or liabilities held for sale and in discontinued operations in our Consolidated Balance Sheets; future adjustments of such balances are recorded through income (loss) from discontinued operations, net of tax, in the Consolidated Income Statements. 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.

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 2 Significant accounting policies (Continued)

Impairment of long-lived assets

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

Property, plant and equipment

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

factories and office buildings: 30 to 40 years,

other facilities: 15 years,

machinery and equipment: 3 to 15 years,

furniture and office equipment: 3 to 8 years,

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

Goodwill and other intangible assets

Goodwill is tested for impairment annually as of October 1 or more frequently if events or circumstances indicate that the carrying value may not be recoverable. The Company performs a two-step impairment test. In the first step, the Company compares the fair value of each reporting unit to its carrying value. A reporting unit is an operating segment or one level below an operating segment. For the annual impairment review, the reporting units were the same as the operating segments for Power Systems, Automation Products and Robotics while for Power Products and Process Automation operating segments, the reporting units were determined to be one level below the operating segment. The Company determines the fair value of its reporting units based on the income approach whereby the fair value of each reporting unit is calculated based on the present value of future cash flows. If the carrying value of the net assets of a reporting unit exceeds the fair value of the reporting unit then the Company performs the second step of the impairment test to determine the implied fair value of the reporting unit's goodwill. If the carrying value of the reporting unit's goodwill exceeds its implied fair value, the Company records an impairment charge equal to the difference.

The cost of acquired intangible assets is amortized using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up. The amortization periods typically range from 1 to 10 years. Intangible assets are tested for impairment upon the occurrence of certain triggering events.

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 2 Significant accounting policies (Continued)

Capitalized software costs

Software for internal use

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

Software product to be sold

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

Derivative financial instruments and hedging activities

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

The Company recognizes all derivatives, other than certain derivatives indexed to the Company's own stock, at fair value in the Consolidated Balance Sheets. Derivatives that are not designated as hedging instruments are reported at fair value with derivative gains and losses reported through earnings and classified consistent with the nature of the underlying transaction. If the derivatives are designated as a hedge, depending on the nature of the hedge, changes in the fair value of the derivatives will either be offset against the change in fair value of the hedged item attributable to the risk being hedged through earnings (in the case of a fair value hedge) or recognized in "Accumulated other comprehensive loss" until the hedged item is recognized in earnings (in the case of a cash flow hedge). The ineffective portion of a derivative's change in fair value is immediately recognized in earnings consistent with the classification of the hedged item.

If an underlying hedged transaction is terminated early, the hedging derivative 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 are no longer probable of occurring, hedge accounting is discontinued and any derivative gain or loss previously included in "Accumulated other comprehensive loss" is reclassified into earnings consistent with the nature of the original forecasted transaction.

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

Derivatives are classified in the Consolidated Statements of Cash Flows in the same section as the underlying item, primarily within "Net cash provided by operating activities".

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 2 Significant accounting policies (Continued)

Leases

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

Sale-leasebacks

The Company occasionally enters into transactions accounted for as sale-leasebacks, in which fixed assets, generally real estate and/or equipment, are sold to a third party and then leased for use by the Company. Under certain circumstances, the necessary criteria to recognize a sale of these assets may not occur and then the transaction is reflected as a financing transaction, with the proceeds received from the transaction reflected as a borrowing or deposit liability. When the necessary criteria have been met to recognize a sale, gains or losses on the sale of the assets are generally deferred and amortized over the term of the transaction, except in certain limited instances when a portion of the gain or loss may be recognized upon inception. The lease of the asset is accounted for as either an operating lease or a capital lease, depending upon its specific terms.

Translation of foreign currencies and foreign exchange transactions

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

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

Income taxes

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

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 2 Significant accounting policies (Continued)

deduction's technical merit. A valuation allowance is recorded to reduce deferred tax assets to the amount that is more likely than not to be realized.

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

The Company operates in numerous tax jurisdictions and, as a result, is regularly subject to audit by tax authorities. The Company provides for tax contingencies on the basis of their technical merits, including relative tax law and Organisation for Economic Co-operation and Development (OECD) guidelines, as well as on items relating to potential audits by tax authorities based upon its evaluations 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 tax contingencies whenever it is deemed more likely than not that a tax asset has been impaired or a tax liability has been incurred for events such as tax claims or changes in tax laws.

The Company applies a two-step approach to recognize and measure uncertainty in income taxes. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50 percent likely of being realized upon ultimate settlement.

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

Research and development

Research and development costs not related to specific customer orders are expensed as incurred. Such research and development expenses are included in "Selling, general and administrative expenses" and were \$1,037 million, \$1,027 million and \$871 million in 2009, 2008 and 2007, respectively.

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 and shares granted subject to certain conditions under the Company's share-based payment arrangements and, prior to September 2007, shares issuable in relation to outstanding convertible bonds. See further discussion related to earnings per share in Note 20 and further discussion of the potentially dilutive securities in Note 18.

Share-based payment arrangements

The Company has various share-based payment arrangements for its employees, which are described more fully in Note 18. Such arrangements are accounted for under the fair value method. For awards that are equity-settled, total compensation is measured at grant date, based on the fair

Table of Contents**ABB Ltd****Notes to the Consolidated Financial Statements (Continued)****Note 2 Significant accounting policies (Continued)**

value of the award at that date, and recorded in income over the period the employees are required to render service. For awards that are cash-settled, compensation is initially measured at grant date and subsequently remeasured at each reporting period, based on the fair value and vesting percentage of the award at each of those dates, with changes in the liability recorded in earnings.

Fair value measures

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

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

The levels of the fair value hierarchy are as follows:

Level

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

Level

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

Level

3: Valuation inputs are based on the Company's assumptions of relevant market data (unobservable input). The impairment of certain long-lived assets included in "Property,

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Notes to the Consolidated Financial Statements (Continued)

Note 2 Significant accounting policies (Continued)

plant and equipment, net" and "Other intangible assets, net" was calculated using Level 3 inputs.

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

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

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

Contingencies and asset retirement obligations

The Company is subject to proceedings, litigation or threatened litigation and other claims and inquiries, related to environmental, labor, product, regulatory and other matters and is required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses. A determination of the provision required, if any, for these contingencies is made after analysis of each individual issue, often with assistance from both internal and external legal counsel and technical experts. The required amount of a provision for a contingency of any type may change in the future due to new developments in the particular matter, including changes in the approach to its resolution.

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

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

The Company may have a legal obligation to perform environmental clean-up activities as a result of the normal operation of its business or have other asset retirement obligations. In some cases, the timing or the method of settlement, or both are conditional upon a future event that may or may not be within the control of the Company, but the underlying obligation itself is unconditional and certain. The Company recognizes a provision for these and other asset retirement obligations when a liability for the retirement or clean-up activity has been incurred and a reasonable estimate of its value can be made. Asset retirements provisions are initially recognized at fair value, and subsequently adjusted for

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 2 Significant accounting policies (Continued)

accrued interest and changes in estimates. Provisions for environmental obligations are not discounted to their present value when the timing of payments cannot be reasonably estimated.

Pensions and other postretirement benefits

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

The Company uses actuarial valuations to determine its pension and postretirement benefit costs and credits. The amounts calculated depend on a variety of key assumptions, including discount rates and expected return on plan assets. Current market conditions are considered in selecting these assumptions. See Note 17 for further discussion of the Company's employee benefit plans.

New accounting pronouncements

Convertible bonds

As of January 1, 2009, the Company adopted a new accounting standard that changed the accounting for convertible debt instruments that contained cash settlement features. Under the previous accounting standards, such convertible debt, in its entirety, was accounted for on a historic cost basis. This new standard requires the issuer of such instruments to separately account, upon issuance, for the liability and the equity components of the convertible instrument. The liability component is calculated as the fair value of a similar debt instrument that does not have a conversion feature, while the equity component is the difference between the total net proceeds on issuance and the liability component. Consequently on issuance, the carrying amount of the bonds may be less than par and, over the period to maturity of the bonds, this discount on issuance is amortized to interest expense so that interest expense during the life of the bonds reflects the issuer's borrowing rate for nonconvertible debt.

Under the new accounting standard, if an instrument within its scope is derecognized prior to maturity, the settlement consideration (shares, cash or a combination of both) transferred to bondholders is calculated and allocated to the liability component and equity component of the debt as follows:

The amount of the consideration allocated to the liability component is the fair value, immediately prior to extinguishment, of a similar debt instrument that does not have a conversion feature. Any difference between this amount and the sum of the carrying amount of the liability and the unamortized issuance costs, is recognized in the income statement as a gain (loss) on debt extinguishment.

The remaining settlement consideration is allocated to the reacquisition of the equity component and recognized as a reduction in stockholders' equity.

At December 31, 2009 and 2008, the Company did not have any convertible debt instruments outstanding. However, the Company adopted the provisions of the new standard on a retroactive basis to January 1, 2007, as they related to the Company's 1 billion Swiss francs 3.5% Convertible Bonds

Table of Contents**ABB Ltd****Notes to the Consolidated Financial Statements (Continued)****Note 2 Significant accounting policies (Continued)**

(issued in 2003 and due 2010) fully converted by bondholders in 2007. Separately accounting for the equity component on issuance resulted in a discount on issuance of the bonds and subsequent accretion to par over the original life of the bonds. The impact on the Company's 2007 Consolidated Income Statement was a loss of \$49 million from the cumulative effect of the accounting change, a loss of \$90 million arising on the conversions by bondholders during 2007 and a charge to "Interest and other finance expense" of \$7 million related to amortization of the discount during 2007 (in addition to the interest expense of \$9 million representing the nominal interest rate of 3.5% on the bonds).

Noncontrolling interests in consolidated financial statements

As of January 1, 2009, the Company adopted a new accounting standard which changed the accounting and reporting for minority interests, which are recharacterized as noncontrolling interests and classified as a component of equity. This change was effective prospectively as of January 1, 2009, except for the presentation and disclosure requirements which apply retrospectively for all periods presented. As a result of the adoption, noncontrolling interests of \$612 million and \$592 million were reclassified to stockholders' equity at December 31, 2008 and 2007, respectively. Income attributable to noncontrolling interests of \$235 million, \$260 million and \$244 million for 2009, 2008 and 2007, respectively, is included in "Net income" and is deducted to arrive at "Net income attributable to ABB".

Business combinations

As of January 1, 2009, the Company adopted a new accounting standard for business combinations that have an acquisition date on or after January 1, 2009. Assets acquired, liabilities assumed, contractual contingencies and contingent consideration are recognized at their fair value on the acquisition date. Acquisition-related costs are recognized separately from the acquisition and expensed as incurred. Restructuring costs are expensed in periods subsequent to the acquisition date. Changes in deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period (the period after the acquisition date during which the acquirer may adjust the provisional amounts recognized for a business combination) impact income tax expense in periods subsequent to the acquisition date. Acquired in-process research and development is capitalized as an intangible asset and amortized over its estimated useful life.

Fair value and derivatives

As of January 1, 2009, the Company adopted a new accounting standard that amended and expanded the disclosure requirements for derivatives. Additional qualitative disclosures about the objectives and strategies for using derivatives, additional quantitative disclosures about fair value amounts of gains and losses on derivative instruments and information regarding credit-risk-related contingent features in derivative agreements are required. These additional disclosures do not change the accounting treatment of derivatives. Comparable disclosures for periods prior to 2009 are not required and therefore the information presented in Note 5 does not contain certain comparative information as of December 31, 2008 and for the years ended December 31, 2008 and 2007.

As of January 1, 2009, the Company adopted, for all non-financial assets and liabilities accounted for at fair value on a non-recurring basis, the framework for measuring fair value (as described in the Fair value measures section above) and the related disclosure requirements.

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 2 Significant accounting policies (Continued)

Disclosures about postretirement benefit plan assets

As of 2009, the Company adopted a new accounting standard that does not change the accounting treatment but amends the required disclosures for plan assets of defined benefit pension plans and other postretirement plans. The required disclosures include:

- a description of the pension plans' investment policies and strategies,
- the fair value of each major category of plan assets,
- the inputs and valuation techniques used to measure the fair value of plan assets,
- the effect of fair value measurements using significant unobservable inputs on changes in plan assets, and
- the significant concentrations of risk within plan assets.

Applicable for future periods

Fair value measurements

In January 2010, an accounting standard update was issued requiring two new disclosures for fair value measurements. The update requires disclosure of significant transfers in and out of fair value Level 1 (observable quoted prices) and Level 2 (observable inputs other than Level 1 inputs), with a description of the reasons for the transfers. This disclosure requirement is effective for the Company for periods beginning January 1, 2010. The update also requires information about purchases, sales, issuances, and settlements on a gross basis when reconciling fair value measurements using significant unobservable inputs (Level 3). This disclosure requirement is effective for the Company for periods beginning January 1, 2011. The Company does not believe that these new disclosure requirements will have a material impact on its Consolidated Financial Statements.

Revenue recognition with multiple deliverable arrangements

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

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

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

Table of Contents**ABB Ltd****Notes to the Consolidated Financial Statements (Continued)****Note 2 Significant accounting policies (Continued)***Revenue arrangements that include software arrangements*

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

Note 3 Acquisitions, divestments and discontinued operations**Acquisitions**

Acquisitions in 2009, 2008 and 2007 were:

| | 2009 | 2008 | 2007 |
|--|---|------|------|
| | (\$ in millions, except number of acquired businesses) | | |
| Acquisitions (net of cash acquired) | 209 | 653 | 54 |
| Aggregate excess of purchase price over fair value of net assets acquired ⁽¹⁾ | 147 | 456 | 23 |
| Number of new businesses or joint ventures | 8 | 12 | 14 |

⁽¹⁾ Recorded as goodwill (see Note 11)

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

During 2009 and 2007, no individual acquisition was significant. In August 2008, the Company completed the acquisition of the U.S. transformer company Kuhlman Electric Corporation (Kuhlman). Kuhlman manufactures a wide range of transformers for the industrial and electric utility sectors and was integrated into the Company's Power Products segment. The final purchase price, including

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 3 Acquisitions, divestments and discontinued operations (Continued)

assumed debt, amounted to \$513 million (net of \$5 million cash acquired). The final purchase price allocation was as follows:

| | Allocated amount (\$ in millions) | Weighted-average useful life |
|--|---|---------------------------------|
| Customer relationships | 63 | 6 years |
| Order backlog | 20 | less than 1 year |
| Trademarks and trade names | 16 | 10 years |
| Technology | 15 | 4 years |
| Other assets and liabilities, net ⁽¹⁾ | (28) | |
| Goodwill | 427 | |
| Total | 513 | |

(1) Including debt assumed upon acquisition

Divestments

The Company has divested businesses and investments not considered by management to be aligned with its focus on power and automation technologies as described in Note 1. Since these divestments did not meet the requirements for classification as discontinued operations, 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 divestment.

In May 2007, the Company completed the sale of its 50 percent stake in Jorf Lasfar Energy Company S.C.A. (Jorf Lasfar), a power plant based in Morocco and its 50 percent stake in S.T.CMS Electric Company Private Limited (Neyveli), a power plant in India, to Taqa, the Abu Dhabi National Energy Company. The Company's share of the pre-tax earnings of Jorf Lasfar and Neyveli in 2007 was \$21 million and \$4 million, respectively. The sale of these investments resulted in a gain of \$38 million, which was included in continuing operations and was part of the Company's Corporate and Other segment. During 2008, the Company recorded an additional gain of \$16 million related to the favorable outcome on an outstanding tax case.

Other divestments excluding those in the Discontinued operations section below were:

| | 2009 | 2008 | 2007 |
|---|------------------|------|------|
| | (\$ in millions) | | |
| Proceeds from sale of operating units and investments | 16 | 27 | 27 |
| Net gains (losses) recognized on disposals, included in "Other income (expense), net" | (1) | 24 | 11 |

Revenues and income from these businesses and investments were not significant in 2009, 2008 and 2007.

Discontinued operations

In 2009, 2008 and 2007, the Company's Consolidated Financial Statements were impacted by activities related to the divestment of a number of businesses held for sale and/or in discontinued

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 3 Acquisitions, divestments and discontinued operations (Continued)

operations. In the discussion below, the revenue and operating results of the divested businesses in the year of disposition reflect the results of those businesses through the date of disposition.

Transformer business in South Africa

During 2008, the Company sold its 50 percent stake in the shares of ABB Powertech Transformers to Powertech, a wholly-owned subsidiary of the Altron Group at a gain of \$11 million. This business was part of the Company's Power Products segment prior to being reclassified to discontinued operations. In 2008 and 2007 the transformer business in South Africa had revenues of \$29 million and \$167 million, respectively and corresponding income of \$2 million and \$15 million, respectively, recorded in "Income (loss) from discontinued operations, net of tax".

Downstream oil and gas business

During the first quarter of 2007, the Company reclassified its downstream oil and gas business, Lummus Global (Lummus), to discontinued operations based on management's decision to sell that business. This business was part of the Company's Corporate and Other segment prior to being reclassified to discontinued operations. In November 2007, the Company completed the sale of Lummus to Chicago Bridge & Iron and received net cash proceeds of approximately \$810 million. The sale triggered an accelerated payment of \$204 million by the Company to the CE Asbestos PI Trust, a trust set up to cover asbestos liabilities of Combustion Engineering. The payment to the trust was executed on November 14, 2007. The Company retained certain liabilities including those for potential fines and penalties connected with suspect payments made prior to completion of the sale (see Note 15).

The Lummus business had revenues in 2007 of \$870 million. Income for 2007 of \$9 million was recorded in "Income (loss) from discontinued operations, net of tax", as was the Company's gain on the sale of Lummus of \$530 million. In 2008, the Company recorded certain adjustments that reduced the gain on sale by \$5 million. In 2009 certain provisions could be released, increasing the gain on sale by \$21 million.

Building Systems business in Germany

In April 2007, the Company completed the sale of its Building Systems business in Germany to the WISAG Group. This business was part of the Company's Corporate and Other segment prior to being reclassified to discontinued operations. In 2007 the business had revenues of \$47 million and losses of \$2 million recorded in "Income (loss) from discontinued operations, net of tax".

Power Lines business

In February 2007, the Company sold its Power Lines businesses in Brazil and Mexico for a sales price of \$20 million and at no gain or loss. These businesses had revenues of \$39 million and losses of \$3 million in 2007, which were recorded in "Income (loss) from discontinued operations, net of tax". All Power Lines businesses were part of the Company's Power Systems segment prior to being reclassified to discontinued operations.

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 3 Acquisitions, divestments and discontinued operations (Continued)*Upstream oil and gas business*

In 2007, the Company recorded income in connection with the release of certain provisions, amounting to approximately \$21 million, in "Income (loss) from discontinued operations, net of tax", related to the divestment in 2004 of the upstream oil and gas business and the settlement agreement in 2006 relating to certain items disputed by the buyer after the closing of the transaction.

Other

In 2008, "Income (loss) from discontinued operations, net of tax", also included costs of approximately \$31 million related to the Company's asbestos obligations. In 2009 and 2007, such costs were not significant (see Note 15).

Operating results of the Company's discontinued operations are summarized as follows:

| | 2009 | 2008 | 2007 |
|---|------------------|-------------|------------|
| | (\$ in millions) | | |
| Revenues | 2 | 32 | 1,123 |
| Costs and expenses, finance loss | (11) | (82) | (1,047) |
| Operating income (loss) before taxes | (9) | (50) | 76 |
| Tax (expense) benefit | 8 | 20 | (20) |
| Operating income (loss) from discontinued operations | (1) | (30) | 56 |
| Gain (loss) from dispositions, net of tax | 18 | 9 | 530 |
| Income (loss) from discontinued operations, net of tax | 17 | (21) | 586 |

At December 31, 2009 and 2008, there were no amounts included in assets and liabilities held for sale and in discontinued operations.

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Notes to the Consolidated Financial Statements (Continued)

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

At December 31, 2009 and 2008, cash and equivalents and marketable securities and short-term investments consisted of the following:

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

| | December 31, 2008 | | | | Cash and equivalents | Marketable securities and short-term investments |
|-------------------------------------|-------------------|------------------------|-------------------------|------------|----------------------|--|
| | Cost basis | Gross unrealized gains | Gross unrealized losses | Fair value | | |
| | (\$ in millions) | | | | | |
| Cash | 1,736 | | | 1,736 | 1,736 | |
| Time deposits | 3,674 | | | 3,674 | 3,581 | 93 |
| <i>Securities held-to-maturity:</i> | | | | | | |

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| | | | | | | |
|--|--------------|------------|-------------|--------------|--------------|--------------|
| Corporate commercial papers | 532 | | | 532 | 532 | |
| <i>Debt securities available-for-sale:</i> | | | | | | |
| U.S. government obligations | 92 | 8 | | 100 | | 100 |
| European government obligations | 1,397 | 117 | (13) | 1,501 | 550 | 951 |
| Other government obligations | 10 | | (2) | 8 | | 8 |
| Corporate Equity securities available-for-sale | 132 | 4 | (7) | 129 | | 129 |
| | 73 | 2 | (2) | 73 | | 73 |
| Total | 7,646 | 131 | (24) | 7,753 | 6,399 | 1,354 |

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Notes to the Consolidated Financial Statements (Continued)

Note 4 Cash and equivalents and marketable securities and short-term investments (Continued)

At December 31, 2009, contractual maturities of debt securities classified as held-to-maturity and available-for-sale consisted of the following:

December 31, 2009

| | Held-to-maturity | | Available-for-sale | |
|---------------------|------------------|------------|--------------------|--------------|
| | Cost basis | Fair value | Cost basis | Fair value |
| | (\$ in millions) | | | |
| Less than one year | 456 | 456 | 1,220 | 1,218 |
| One to five years | | | 151 | 155 |
| Six to ten years | | | 82 | 85 |
| Due after ten years | | | 1 | 1 |
| Total | 456 | 456 | 1,454 | 1,459 |

The net unrealized holding gains on available-for-sale securities were \$20 million, \$107 million and \$7 million in 2009, 2008 and 2007, respectively. Gross realized gains on available-for-sale securities were \$8 million and \$130 million in 2009 and 2007, respectively. In 2008 the gross realized gains were not significant. Gross realized losses on available-for-sale securities were \$35 million in 2009 and not significant in 2008 and 2007. Such gains and losses were included in "Interest and other finance expense".

There were no other-than-temporary impairments in 2009 and 2007. At December 31, 2008 the Company recognized in "Interest and other finance expense" an other-than-temporary impairment of \$20 million on its available-for-sale equity securities and adjusted the cost base of these securities accordingly.

At December 31, 2009, gross unrealized losses on available-for-sale securities that have been in a continuous unrealized loss position were not significant. At December 31, 2008, such gross unrealized losses and relative fair values were as follows:

| | December 31, 2008 | | | |
|--|------------------------|---------------|----------------------|---------------|
| | Less than 12 months | | 12 months or more | |
| | Unrealized losses | Fair value | Unrealized losses | Fair value |
| (\$ in millions) | | | | |
| <i>Debt securities available-for-sale:</i> | | | | |
| European government obligations | (13) | 247 | | |
| Other government obligations | | | (2) | 3 |
| Corporate | (2) | 26 | (5) | 37 |
| Total securities in a continuous unrealized loss position | (15) | 273 | (7) | 40 |

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The substantial majority of the unrealized losses on available-for-sale debt securities at December 31, 2008, are attributable to fair value fluctuations related primarily to the instability in the credit market environment at that time. Despite these fair value fluctuations, the Company has received the full par value of debt securities that have matured and expects to collect all principal and interest amounts due according to the contractual terms of the investments. Furthermore, the Company does

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 4 Cash and equivalents and marketable securities and short-term investments (Continued)

not intend and does not expect to be required to sell these securities before the recovery of their amortized cost.

During 2008, the Company changed its intent and sold an individual security (with an amortized cost of \$50 million at the time of sale) that had been classified upon purchase as held-to-maturity. The sale took place based on evidence of a significant deterioration in the issuer's creditworthiness. The gain on sale recorded by the Company was not significant. There were no sales of held-to-maturity securities in 2009 and 2007.

At both December 31, 2009 and 2008, the Company pledged \$62 million of marketable securities as collateral for issued letters of credit and other security arrangements.

Note 5 Financial instruments

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

Currency risk

Due to the global nature of its operations, many of the Company's subsidiaries are exposed to currency risk in their operating activities from entering into transactions in currencies other than their functional currency. To manage such currency risks, the Company's policies require its subsidiaries to hedge their foreign currency exposures from binding sales and purchase contracts denominated in foreign currencies, as well as at least fifty percent of the anticipated foreign currency denominated sales volume of standard products and related foreign currency denominated purchases over the next twelve months. Forward foreign exchange contracts are the main instrument used to protect the Company against the volatility of future cash flows (caused by changes in exchange rates) of contracted and forecasted sales and purchases denominated in foreign currencies.

Commodity risk

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

Interest rate risk

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

Table of Contents**ABB Ltd****Notes to the Consolidated Financial Statements (Continued)****Note 5 Financial instruments (Continued)****Equity risk**

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

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

Volume of derivative activity

At December 31, 2009, the gross notional amount of outstanding derivatives (whether designated as hedges or not) was as follows:

Foreign exchange and interest rate derivatives:

| Type of derivative | Total notional amount (\$ in millions) |
|---------------------------------------|---|
| Foreign exchange contracts | 14,446 |
| Embedded foreign exchange derivatives | 3,951 |
| Interest rate contracts | 2,860 |

Derivative commodity contracts:

| Type of derivative | Total notional amount |
|---------------------|--------------------------|
| Copper swaps | 22,002 metric tonnes |
| Aluminum swaps | 2,193 metric tonnes |
| Nickel swaps | 24 metric tonnes |
| Electricity futures | 1,330,978 megawatt hours |
| Crude oil swaps | 154,632 barrels |

Equity derivatives:

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

Cash flow hedges

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

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 5 Financial instruments (Continued)

in the hedge relationship, or hedge component excluded from the assessment of effectiveness, is recognized in earnings during the current period.

At December 31, 2009, "Accumulated other comprehensive loss" included \$20 million of unrealized gains, net of tax, on derivatives designated as cash flow hedges. Of this amount, net gains of \$18 million are expected to be reclassified to earnings in 2010. At December 31, 2009, the longest maturity of a derivative classified as a cash flow hedge was 72 months.

During 2009 and 2008, net of tax gains of \$3 million and \$6 million, respectively, and during 2007 net of tax losses of \$2 million were reclassified into earnings as a result of the discontinuance of cash flow hedge accounting as it became probable that the originally forecasted transactions would not occur. In addition, in 2009 net of tax gains of \$4 million, and in 2008 and 2007 net of tax losses of \$4 million and \$2 million, respectively, were included in earnings due to ineffectiveness in cash flow hedge relationships.

The pre-tax effects of derivative instruments, designated and qualifying as cash flow hedges, on "Accumulated other comprehensive loss" and the Consolidated Income Statement during 2009, were as follows:

| Type of derivative designated as a cash flow hedge | 2009 | | | | |
|--|---|---|------------------|---|------------------|
| | Gains recognized in OCI ⁽¹⁾ on derivatives (effective portion) (\$ in millions) | Gains (losses) reclassified from OCI ⁽¹⁾ into income (effective portion) | | Gains recognized in income (ineffective portion and amount excluded from effectiveness testing) | |
| | | Location | (\$ in millions) | Location | (\$ in millions) |
| Foreign exchange contracts | 84 | Total revenues | (91) | Total revenues | 4 |
| | | Total cost of sales | 4 | Total cost of sales | |
| Commodity contracts | 31 | Total cost of sales | (40) | Total cost of sales | 2 |
| | | Selling, general and administrative expenses | (16) | Selling, general and administrative expenses | |
| Cash-settled call options | 8 | | | | |
| Total | 123 | | (143) | | 6 |

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

The amount of derivative gains (losses), net of tax, reclassified from "Accumulated other comprehensive loss" to earnings during 2009, 2008 and 2007 was \$(105) million, \$49 million and \$79 million, respectively.

Fair value hedges

To reduce its interest rate and foreign currency exposures arising primarily from its debt issuance activities, the Company uses interest rate and cross-currency swaps. Where such instruments are designated as fair value hedges, the changes in fair value of these instruments, as well as the changes in fair value of the risk component of the underlying debt being hedged, are recorded as offsetting gains and losses in "Interest and other finance expense". Hedge ineffectiveness in 2009, 2008 and 2007 was not significant.

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Notes to the Consolidated Financial Statements (Continued)

Note 5 Financial instruments (Continued)

The effect of derivative instruments, designated and qualifying as fair value hedges, on the Consolidated Income Statement in 2009, was as follows:

| Type of derivative designated as a fair value hedge | 2009 | | Losses recognized in income on hedged item | |
|---|------------------------------------|--|--|------------------|
| | Location | Gains recognized in income on derivatives designated as fair value hedges (\$ in millions) | Location | (\$ in millions) |
| Interest rate contracts | Interest and other finance expense | 41 | Interest and other finance expense | (41) |
| Cross-currency swaps | Interest and other finance expense | 3 | Interest and other finance expense | (3) |
| Total | | 44 | | (44) |

Derivatives not designated in hedge relationships

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

Furthermore, under certain circumstances, the Company is required to split and account separately for foreign currency derivatives that are embedded within certain binding sales or purchase contracts denominated in a currency other than the functional currency of the subsidiary and the counterparty. The gains (losses) recognized on such derivatives during 2009 are included in the table below.

The impact of derivative instruments not designated as hedging instruments on the Consolidated Income Statement in 2009, was as follows:

| Type of derivative not designated as a hedge | Location | Gains (losses) recognized in income (\$ in millions) |
|--|------------------------------------|--|
| Foreign exchange contracts: | Total revenues | 389 |
| | Total cost of sales | (264) |
| | Interest and other finance expense | 70 |
| Embedded foreign exchange contracts: | Total revenues | (234) |
| | Total cost of sales | 51 |
| Commodity contracts: | Total cost of sales | 96 |
| Interest rate contracts: | Interest and other finance expense | 2 |
| Cross-currency swaps: | Interest and other finance expense | 2 |
| Cash-settled call options: | Interest and other finance expense | 1 |
| Total | | 113 |

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Notes to the Consolidated Financial Statements (Continued)

Note 5 Financial instruments (Continued)

The fair values of derivatives included in the Consolidated Balance Sheet at December 31, 2009, were as follows:

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

Although the Company is party to close-out netting agreements with most derivative counterparties, the fair values in the table above and in the Consolidated Balance Sheets at December 31, 2009 and 2008, have been presented on a gross basis.

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Notes to the Consolidated Financial Statements (Continued)

Note 6 Fair values

Recurring fair value measures

The following tables show the fair value of financial assets and liabilities measured at fair value on a recurring basis at December 31, 2009 and 2008:

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

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Notes to the Consolidated Financial Statements (Continued)

Note 6 Fair values (Continued)

| | December 31, 2008 | | | Total fair value |
|---|-------------------|--------------|---------|------------------|
| | Level 1 | Level 2 | Level 3 | |
| | (\$ in millions) | | | |
| Assets | | | | |
| Available-for-sale securities in "Cash and equivalents" | | | | |
| Debt securities | | 550 | | 550 |
| Available-for-sale securities in "Marketable securities and short-term investments" | | | | |
| Equity securities | 38 | 35 | | 73 |
| Debt securities | 100 | | | 100 |
| Debt securities | 17 | 934 | | 951 |
| Debt securities | 8 | | | 8 |
| Debt securities | 5 | 124 | | 129 |
| Derivative assets | 5 | 640 | | 645 |
| Derivative assets | | 200 | | 200 |
| Total | 173 | 2,483 | | 2,656 |
| Liabilities | | | | |
| Derivative liabilities | 7 | 789 | | 796 |
| Derivative liabilities | | 180 | | 180 |
| Total | 7 | 969 | | 976 |

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

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

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

Non-recurring fair value measures

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On January 1, 2009, the Company adopted new fair value measurement principles for non-financial assets. During 2009, certain long-lived non-financial assets (primarily assets included in "Property, plant and equipment, net") were measured at fair value due to impairments resulting from restructuring and

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 6 Fair values (Continued)

changes in the use of the assets. Impairment charges of \$46 million were recognized in "Other income (expense), net" and mainly related to the Power Products segment (\$20 million) and the Corporate and Other segment (\$13 million). The fair value amounts (measured at the time of the adjustment) of such long-lived assets still held at December 31, 2009, identified as Level 2 and Level 3, amounted to \$7 million and \$17 million, respectively.

For non-recurring fair value measures determined using unobservable inputs (Level 3), the Company calculated fair values using estimated cash flows adjusted for market participants' best use assumptions and, when applicable, rental rates offered in the market for similar assets. These cash flows were discounted using an appropriate risk-free interest rate adjusted for nonperformance risk. For construction-in-progress, costs were derived from current vendors' pricing for materials.

Disclosure about financial instruments carried on a cost basis

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

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

Financing receivables (non-current portion): Financing receivables (including loans granted) are carried at amortized cost, less an allowance for credit losses, if required. Fair values are determined using a discounted cash flow methodology based upon loan rates of similar instruments and reflecting appropriate adjustments for non-performance risk. The carrying values and estimated fair values of long-term loans granted at December 31, 2009, were \$96 million and \$95 million, respectively and at December 31, 2008, were \$99 million and \$99 million, respectively.

Long-term debt (non-current portion): Fair values of public bond issues are based on quoted market prices. The fair values of other debt are based on the present value of future cash flows, discounted at estimated borrowing rates for similar debt instruments, or in the case of private placement bond or note issuances, using the relevant borrowing rates derived from interest rate swap curves. The carrying values and estimated fair values of long-term debt at December 31, 2009, were \$2,172 million and \$2,273 million, respectively and at December 31, 2008, were \$2,009 million and \$2,014 million, respectively.

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Notes to the Consolidated Financial Statements (Continued)

Note 7 Receivables, net

"Receivables, net" consisted of the following:

| | December 31, | |
|---|------------------|--------------|
| | 2009 | 2008 |
| | (\$ in millions) | |
| Trade receivables | 6,961 | 7,028 |
| Other receivables | 691 | 604 |
| Allowance | (312) | (232) |
| | 7,340 | 7,400 |
| Unbilled receivables, net: | | |
| Costs and estimated profits in excess of billings | 2,957 | 2,638 |
| Advance payments consumed | (846) | (793) |
| | 2,111 | 1,845 |
| Total | 9,451 | 9,245 |

"Trade receivables" in the table above includes contractual retention amounts billed to customers of \$325 million and \$262 million at December 31, 2009 and 2008, respectively. Management expects that the majority of related contracts will be completed and the majority of the billed amounts retained by the customer will be collected. Of the retention amounts outstanding at December 31, 2009, approximately 60 percent and approximately 30 percent are expected to be collected in 2010 and 2011, respectively. "Other receivables" in the table above consists of value added tax, claims, rental deposits and other non-trade receivables.

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

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

| | 2009 | 2008 | 2007 |
|--------------------------------|------------------|------------|------------|
| | (\$ in millions) | | |
| Balance at January 1, | 232 | 224 | 174 |
| Additions | 195 | 126 | 130 |
| Deductions | (119) | (106) | (143) |
| Exchange rate differences | 4 | (12) | 63 |
| Balance at December 31, | 312 | 232 | 224 |

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 8 Inventories, net

"Inventories, net", consisted of the following:

| | December 31, | |
|---------------------------|------------------|--------------|
| | 2009 | 2008 |
| | (\$ in millions) | |
| Raw materials | 1,771 | 1,934 |
| Work in process | 1,795 | 2,106 |
| Finished goods | 1,174 | 1,340 |
| Advances to suppliers | 227 | 350 |
| | 4,967 | 5,730 |
| Advance payments consumed | (417) | (424) |
| Total | 4,550 | 5,306 |

"Work in process" in the table above contains inventoried costs relating to long-term contracts of \$361 million and \$366 million at December 31, 2009 and 2008, respectively. "Advance payments consumed" in the table above relate to contractual advances received from customers on work in process.

Note 9 Financing receivables, net

"Financing receivables, net" consisted of the following:

| | December 31, | |
|--------------------------|------------------|------------|
| | 2009 | 2008 |
| | (\$ in millions) | |
| Loans receivable | 96 | 99 |
| Pledged financial assets | 296 | 298 |
| Other | 60 | 48 |
| Total | 452 | 445 |

"Loans receivable" in the table above primarily represent financing arrangements provided to customers related to products manufactured by the Company. Loans receivable are reported in the balance sheet at outstanding principal amount less any write-offs or allowance for uncollectible loans. The Company determines the loan losses based on historical experience and ongoing credit evaluation of the borrower's financial position.

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" in the table above, with an offsetting non-current deposit liability, which is included in "Other non-current liabilities" (see Note 13). Net gains on these transactions are being recognized over the lease terms, which expire by 2021.

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Notes to the Consolidated Financial Statements (Continued)

Note 10 Property, plant and equipment, net

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

| | December 31, | |
|--------------------------|------------------|--------------|
| | 2009 | 2008 |
| | (\$ in millions) | |
| Land and buildings | 3,113 | 2,817 |
| Machinery and equipment | 6,047 | 5,345 |
| Construction in progress | 564 | 534 |
| | 9,724 | 8,696 |
| Accumulated depreciation | (5,652) | (5,134) |
| Total | 4,072 | 3,562 |

In 2009, 2008 and 2007, depreciation expense including depreciation of assets under capital leases was \$501 million, \$506 million and \$437 million, respectively. At December 31, 2009 and 2008, capital leases represented \$101 million and \$63 million of land and buildings and \$72 million and \$48 million of machinery and equipment. Total accumulated depreciation associated with assets under capital leases was \$80 million and \$56 million at December 31, 2009 and 2008, respectively.

Note 11 Goodwill and other intangible assets

Changes in "Goodwill" for the years ended December 31, 2009 and 2008 were as follows:

| | Power Products | Power Systems | Automation Products | Process Automation | Robotics | Corporate and Other | Total |
|-------------------------------------|-------------------|------------------|------------------------|-----------------------|------------|---------------------------|--------------|
| | (\$ in millions) | | | | | | |
| Cost at January 1, 2008 | 158 | 428 | 772 | 920 | 118 | 43 | 2,439 |
| Accumulated impairment charges | | | | | | (18) | (18) |
| Balance at January 1, 2008 | 158 | 428 | 772 | 920 | 118 | 25 | 2,421 |
| Goodwill acquired during the year | 406 | | 11 | 39 | | | 456 |
| Exchange rate differences | (10) | (6) | (27) | (11) | (4) | (1) | (59) |
| Other | | (2) | | | 1 | | (1) |
| Balance at December 31, 2008 | 554 | 420 | 756 | 948 | 115 | 24 | 2,817 |
| Goodwill acquired during the year | 58 | 7 | 68 | 14 | | | 147 |
| Exchange rate differences | 7 | 2 | 23 | 20 | 8 | (1) | 59 |
| Other | | | 1 | 3 | (2) | 1 | 3 |
| Balance at December 31, 2009 | 619 | 429 | 848 | 985 | 121 | 24 | 3,026 |

In 2009 goodwill acquired primarily relates to Ensto Busch-Jaeger Oy in Finland (\$63 million), recorded in the Automation Products operating segment, Comem Group in several countries (\$37 million), recorded in the Power Products operating segment, and a number of

smaller acquisitions and purchase accounting adjustments. In 2008, goodwill acquired mainly relates to the Kuhlman acquisition (see Note 3).

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Notes to the Consolidated Financial Statements (Continued)

Note 11 Goodwill and other intangible assets (Continued)

Intangible assets other than goodwill consisted of the following:

| | December 31, 2009 | | | December 31, 2008 | | |
|---------------------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
| | Gross carrying amount | Accumulated amortization | Net carrying amount | Gross carrying amount | Accumulated amortization | Net carrying amount |
| | (\$ in millions) | | | (\$ in millions) | | |
| Capitalized software for internal use | 641 | (441) | 200 | 564 | (369) | 195 |
| Capitalized software for sale | 378 | (334) | 44 | 377 | (316) | 61 |
| Intangibles other than software: | | | | | | |
| Customer-related | 155 | (45) | 110 | 113 | (18) | 95 |
| Technology-related | 71 | (38) | 33 | 57 | (34) | 23 |
| Marketing-related | 37 | (6) | 31 | 36 | (13) | 23 |
| Other | 67 | (42) | 25 | 49 | (35) | 14 |
| Total | 1,349 | (906) | 443 | 1,196 | (785) | 411 |

In 2009 and 2008, the Company capitalized intangible assets of \$143 million and \$311 million, respectively. Of these amounts, in 2009, \$59 million, \$0 million and \$84 million related to software for internal use, software for sale and intangibles other than software, respectively, while in 2008, \$130 million, \$2 million and \$179 million related to software for internal use, software for sale and intangibles other than software, respectively. In 2009 the capitalized intangibles other than software include \$66 million related to business combinations with a weighted-average useful life of approximately 9 years and in 2008 include \$176 million related to business combinations with a weighted-average useful life of approximately 6 years.

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

| | 2009 | 2008 | 2007 |
|---------------------------------------|------------------|------------|------------|
| | (\$ in millions) | | |
| Capitalized software for internal use | 76 | 54 | 40 |
| Capitalized software for sale | 25 | 40 | 40 |
| Intangibles other than software | 53 | 61 | 45 |
| Total | 154 | 155 | 125 |

In 2009, 2008 and 2007 impairment charges on intangible assets other than goodwill were not significant. These charges are included in "Other income (expense), net", in the Consolidated Income Statements.

Table of Contents**ABB Ltd****Notes to the Consolidated Financial Statements (Continued)****Note 11 Goodwill and other intangible assets (Continued)**

At December 31, 2009, future amortization expense of intangible assets other than goodwill is estimated to be as follows:

| | (\$ in millions) |
|--------------|------------------|
| 2010 | 129 |
| 2011 | 102 |
| 2012 | 74 |
| 2013 | 50 |
| 2014 | 32 |
| Thereafter | 56 |
| Total | 443 |

Note 12 Debt

The Company's total debt at December 31, 2009 and 2008 amounted to \$2,333 million and \$2,363 million, respectively.

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

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

| | December 31, | |
|--|------------------|------------|
| | 2009 | 2008 |
| | (\$ in millions) | |
| Short-term debt (weighted-average interest rate of 4.4% and 12.6%) | 128 | 159 |
| Current maturities of long-term debt (weighted-average nominal interest rate of 4.7% and 4.5%) | 33 | 195 |
| Total | 161 | 354 |

Short-term debt primarily represents short-term loans from various banks, including at December 31, 2009, approximately \$50 million related to the financing of specific projects.

At December 31, 2009 and 2008, the Company had in place three commercial paper programs: a \$1 billion commercial paper program for the private placement of U.S. dollar-denominated commercial paper in the United States; a \$1 billion Euro-commercial paper program for the issuance of commercial paper in a variety of currencies and a 5 billion Swedish krona commercial paper program for the issuance of Swedish krona- and euro-denominated commercial paper. No amounts were outstanding under any of these programs at December 31, 2009 and 2008.

In addition, during 2009, the Company replaced its \$2 billion multicurrency revolving credit facility, maturing 2010 with a new 3-year, \$2 billion, multicurrency credit facility, maturing 2012. The facility is for general corporate purposes, including as a back-stop for the above-mentioned commercial paper programs. Interest costs on drawings under the new facility are LIBOR, STIBOR or EURIBOR (depending on the currency of the drawings) plus a margin of 100 basis points, while commitment fees (payable on the unused portion of the facility) amount to 0.40 percent per annum. Utilization fees,

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 12 Debt (Continued)

payable on drawings, amount to 0.25 percent per annum on drawings over one-third but less than or equal to two-thirds of the total facility, or 0.50 percent per annum on drawings over two-thirds of the total facility. No utilization fees are payable on drawings less than one-third of the total facility. No amount was drawn under either facility at December 31, 2009 and 2008. 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 instruments 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 a U.S. dollar obligation. The carrying value of debt, designated as being hedged by fair value hedges, is adjusted for changes in the fair value of the risk component of the debt being hedged.

The following table summarizes the Company's long-term debt considering the effect of interest rate 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, | | | | | |
|-----------------------------------|---------------------------------|-------------------------|-------------------|--------------|-------------------------|-------------------|
| | Balance | 2009 Nominal rate | Effective rate | Balance | 2008 Nominal rate | Effective rate |
| | (\$ in millions, except % data) | | | | | |
| Floating rate | 2,072 | 5.7% | 3.0% | 2,124 | 5.7% | 5.8% |
| Fixed rate | 133 | 5.0% | 5.0% | 80 | 4.8% | 4.8% |
| | 2,205 | | | 2,204 | | |
| Current portion of long-term debt | (33) | 4.7% | 4.7% | (195) | 4.5% | 3.5% |
| Total | 2,172 | | | 2,009 | | |

At December 31, 2009, maturities of long-term debt were as follows:

| | (\$ in millions) |
|--------------|------------------|
| Due in 2010 | 33 |
| Due in 2011 | 987 |
| Due in 2012 | 64 |
| Due in 2013 | 1,009 |
| Due in 2014 | 5 |
| Thereafter | 107 |
| Total | 2,205 |

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 12 Debt (Continued)

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

| | December 31, | | | |
|----------------------------------|---|----------------------------------|---|----------------------------------|
| | 2009 | | 2008 | |
| | Nominal outstanding (in millions) | Carrying value ⁽¹⁾ | Nominal outstanding (in millions) | Carrying value ⁽¹⁾ |
| Public bonds: | | | | |
| 10% GBP Instruments, due 2009 | GBP | | GBP | 20 \$ 30 |
| 3.75% CHF Bonds, due 2009 | CHF | | CHF | 108 \$ 102 |
| 6.5% EUR Instruments, due 2011 | EUR | 650 \$ | EUR | 650 \$ 915 |
| 4.625% EUR Instruments, due 2013 | EUR | 700 \$ | EUR | 700 \$ 941 |
| Private placements | | | | \$ 33 |
| Total outstanding bonds | | \$ 1,961 | | \$ 2,021 |

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

All of the public bonds outstanding at December 31, 2009 and 2008, in the table above, have been swapped into floating rate obligations through the use of interest rate swaps and consequently are shown as floating rate debt in the table of long-term debt above.

The 6.5% EUR Instruments, due 2011, 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. The Company has entered into interest rate swaps to hedge its interest obligations on the 6.5% EUR Instruments, due 2011. After considering the impact of these interest rate swaps, these bonds effectively became a floating rate euro obligation.

The 4.625% EUR Instruments, due 2013, pay interest annually in arrears at a fixed annual rate of 4.625 percent. The Company has the option to redeem the bonds early at any time from June 6, 2010, in accordance with the terms of the bonds. In the event of a change of control, a bondholder can require the Company to repurchase or redeem the bonds, in accordance with the terms of the bonds. The Company has entered into interest rate swaps to hedge its interest obligations on the 4.625% EUR Instruments, due 2013. As a result of these swaps, these bonds effectively became a floating rate euro obligation.

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 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, 2009 and 2008, are lease obligations, bank borrowings of subsidiaries and other long-term debt, none of which is individually significant.

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 13 Provisions and other current liabilities and other non-current liabilities

"Provisions and other current liabilities" consisted of the following:

| | December 31, | |
|--|------------------|--------------|
| | 2009 | 2008 |
| | (\$ in millions) | |
| Contract related provisions | 522 | 508 |
| Restructuring and other related provisions | 464 | 151 |
| Taxes payable | 437 | 582 |
| Provisions for contractual penalties and compliance and litigation matters | 354 | 858 |
| Derivatives (see Note 5) | 249 | 796 |
| Provision for insurance related reserves | 171 | 166 |
| Pension and other employee benefits (see Note 17) | 68 | 66 |
| Environmental provisions (see Note 15) | 29 | 46 |
| WAR liabilities | 37 | 42 |
| Income tax related liabilities | 12 | 14 |
| Other | 260 | 238 |
| Total | 2,603 | 3,467 |

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

| | December 31, | |
|---|------------------|--------------|
| | 2009 | 2008 |
| | (\$ in millions) | |
| Income tax related liabilities | 854 | 701 |
| Non-current deposit liabilities (see Note 9) | 296 | 298 |
| Environmental provisions (see Note 15) | 268 | 247 |
| Deferred income | 78 | 89 |
| Non-current derivative liabilities (see Note 5) | 67 | 180 |
| WAR liabilities | 6 | 3 |
| Other non-current liabilities | 428 | 384 |
| Total | 1,997 | 1,902 |

Note 14 Leases

The Company's lease obligations primarily relate to real estate and office equipment. Rent expense was \$509 million, \$458 million and \$387 million in 2009, 2008 and 2007, respectively. Sublease income received on leased assets by the Company was \$52 million, \$42 million and \$44 million in 2009, 2008 and 2007, respectively.

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 14 Leases (Continued)

At December 31, 2009, future net minimum lease payments for operating leases, having initial or remaining non-cancelable lease terms in excess of one year, consisted of the following:

| | (\$ in millions) |
|-----------------|------------------|
| 2010 | 461 |
| 2011 | 393 |
| 2012 | 325 |
| 2013 | 264 |
| 2014 | 228 |
| Thereafter | 460 |
| | 2,131 |
| Sublease income | (114) |
| Total | 2,017 |

At December 31, 2009, the future net minimum lease payments for capital leases and the present value of the net minimum lease payments consisted of the following:

| | (\$ in millions) |
|---|------------------|
| 2010 | 42 |
| 2011 | 39 |
| 2012 | 34 |
| 2013 | 22 |
| 2014 | 17 |
| Thereafter | 148 |
| Total minimum lease payments | 302 |
| Less amount representing estimated executory costs included in total minimum lease payments | (6) |
| Net minimum lease payments | 296 |
| Less amount representing interest | (126) |
| Present value of minimum lease payments | 170 |

Minimum lease payments have not been reduced by minimum sublease rentals of \$3 million due in the future under non-cancelable subleases. The present value of minimum lease payments is presented in short-term debt and current maturities of long-term debt or long-term debt in the Consolidated Balance Sheets.

Note 15 Commitments and contingencies**Contingencies Environmental**

The Company is engaged in environmental clean-up activities at certain sites arising under various United States and other environmental protection laws and under certain agreements with third parties. In some cases, these environmental remediation actions are subject to legal proceedings, investigations or claims, and it is uncertain to what extent the Company is actually obligated to perform. Provisions

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 15 Commitments and contingencies (Continued)

for these unresolved matters have been set up if it is probable that the Company has incurred a liability and the amount of loss can be reasonably estimated. If a provision has been recognized for any of these matters the Company records an asset when it is probable that it will recover a portion of the costs expected to be incurred to settle them. Management is of the opinion, based upon information presently available, that the resolution of any such obligation and non-collection of recoverable costs would not have a further material adverse effect on the Company's Consolidated Financial Statements.

Contingencies related to former Nuclear Technology business

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

Under the terms of the sale agreement, BNFL is responsible to have the remediation of the Hematite site performed in a cost efficient manner and pursue recovery of remediation costs from other potentially responsible parties as conditions for obtaining cost sharing contributions from the Company. Westinghouse Electric Company LLC (Westinghouse), BNFL's former subsidiary, now oversees remediation activities at the Hematite site. Westinghouse was acquired during 2006 by a consortium led by Toshiba Corporation, Japan. During the 2007 through 2009 period, Westinghouse's efforts were focused on modifying, finalizing and obtaining regulatory approval of its draft decommissioning plan for the Hematite site.

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

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

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

The impact of the above environmental obligations on "Income (loss) from discontinued operations, net of tax", was a charge of \$11 million in 2009, and was not significant in 2008 and 2007.

Table of Contents**ABB Ltd****Notes to the Consolidated Financial Statements (Continued)****Note 15 Commitments and contingencies (Continued)**

The impact of the above obligations on "Income from continuing operations, net of tax" was not significant in 2009, 2008 and 2007.

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

| | 2009 | 2008 | 2007 |
|-----------------------------|------------------|-----------|----------|
| | (\$ in millions) | | |
| Cash expenditures | | | |
| Nuclear Technology business | 11 | 4 | 3 |
| Various businesses | 18 | 8 | 4 |
| | 29 | 12 | 7 |

The Company has estimated 2010 expenditures to be \$29 million.

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

| | December 31, | |
|--|------------------|------------|
| | 2009 | 2008 |
| | (\$ in millions) | |
| Provision balance relating to: | | |
| Nuclear Technology business | 230 | 241 |
| Various businesses | 67 | 52 |
| | 297 | 293 |
| Environmental provisions included in: | | |
| Provisions and other current liabilities | 29 | 46 |
| Other non-current liabilities | 268 | 247 |
| | 297 | 293 |

Provisions for the above estimated losses for environmental obligations have not been discounted.

Asbestos obligations

The Company's Combustion Engineering, Inc. subsidiary (CE) was a co-defendant in a large number of lawsuits claiming damage for personal injury resulting from exposure to asbestos. A smaller number of claims were also brought against the Company's former Lummus subsidiary as well as against other entities of the Company. Separate plans of reorganization for CE and Lummus, as amended, were filed under Chapter 11 of the U.S. Bankruptcy Code. The CE plan of reorganization and the Lummus plan of reorganization (collectively, the Plans) became effective on April 21, 2006 and August 31, 2006, respectively.

Under the Plans, separate personal injury trusts were created and funded to settle future asbestos-related claims against CE and Lummus and on the respective Plan effective dates, channeling injunctions were issued pursuant to Section 524(g) of the U.S. Bankruptcy Code under which all present and future asbestos-related personal injury claims filed against the Company and its affiliates

Table of Contents**ABB Ltd****Notes to the Consolidated Financial Statements (Continued)****Note 15 Commitments and contingencies (Continued)**

and certain other entities that relate to the operations of CE and Lummus are channeled to the CE Asbestos PI Trust or the Lummus Asbestos PI Trust, respectively.

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

| | 2009 | 2008 | 2007 |
|--|------------------|------|------|
| | (\$ in millions) | | |
| Income (loss) from discontinued operations, net of tax | | (31) | |
| Cash expenditures | 1 | 100 | 382 |

Included in the \$382 million cash expenditures in 2007 was a payment of \$28 million related to funding of the Lummus Asbestos PI Trust, completed on May 2, 2007, and payment of \$204 million to the CE Asbestos PI Trust on November 14, 2007, as required in conjunction with the sale of Lummus that occurred on November 16, 2007.

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

| | December 31, | |
|--|------------------|-----------|
| | 2009 | 2008 |
| | (\$ in millions) | |
| Asbestos provisions included in: | | |
| Provisions and other current liabilities | 28 | 4 |
| Other non-current liabilities | 25 | 50 |
| | 53 | 54 |

Included in the asbestos provisions above are two additional payments of \$25 million each to the CE Asbestos PI Trust for which the Company is liable on a contingent basis. One additional payment of \$25 million is payable in 2010 or 2011 if the Company attains an earnings before interest and taxes (EBIT) margin of 9 percent for 2009 or 14 percent in 2010. The other payment of \$25 million is payable in 2011 if the Company attains an EBIT margin of 9.5 percent in 2010. During 2008, the Company recorded both of these contingent payment obligations as, based on forecasted financial results, it expected to achieve the target EBIT margins in 2009 and 2010. If the Company is found by the U.S. Bankruptcy Court (the Bankruptcy Court) to have defaulted on its asbestos payment obligations, the CE Asbestos PI Trust may petition the Bankruptcy Court to terminate the CE channeling injunction and the protections afforded by that injunction to the Company and other entities of the Company, as well as certain other entities, including Alstom SA.

Contingencies Regulatory, Compliance and Legal*Gas Insulated Switchgear business*

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

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Notes to the Consolidated Financial Statements (Continued)

Note 15 Commitments and contingencies (Continued)

Company full immunity from fines assessed to the Company of euro 215 million under the European Commission's leniency program.

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

Power Transformers business

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

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

Cables business

The Company's cables business is under investigation for alleged anti-competitive practices. Management is cooperating fully with the antitrust authorities in their investigations. An informed judgment about the outcome of these investigations or the amount of potential loss for the Company, if any, relating to these investigations cannot be made at this stage.

FACTS business

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

Suspect payments

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

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 15 Commitments and contingencies (Continued)

Foreign Corrupt Practices Act or other applicable laws. The Company is cooperating with the relevant authorities regarding these issues and is continuing its internal investigations and compliance reviews. The Company anticipates an unfavorable outcome with respect to the investigation of these suspect payments and expects that fines will be imposed.

Earnings overstatement in an Italian subsidiary

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

General

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

At December 31, 2009 and 2008, the Company accrued aggregate liabilities of \$300 million and \$795 million, respectively, included in provisions and other current liabilities and in other non-current liabilities for the above regulatory, compliance and legal contingencies. The Company's aggregate accrued liabilities at December 31, 2009, were impacted primarily by changes in the provisions relating to alleged anti-competitive practices, including, but not limited to, the European Commission's decision in October 2009 on the power transformers business. As it is not possible to make an informed judgment on the outcome of certain matters and as it is not possible, based on information currently available to management, to estimate the maximum potential liability on other matters, there could be material adverse outcomes beyond the amounts accrued.

Guarantees general

The following table provides quantitative data regarding the Company's third-party guarantees. The maximum potential payments represent a "worst-case scenario", and do not reflect management's expected results. The carrying amount of liabilities recorded in the Consolidated Balance Sheets reflects

Table of Contents**ABB Ltd****Notes to the Consolidated Financial Statements (Continued)****Note 15 Commitments and contingencies (Continued)**

the Company's best estimate of future payments, which it may incur as part of fulfilling its guarantee obligations.

| | December 31, | | | |
|----------------------------|----------------------------------|--------------------------------------|----------------------------------|--------------------------------------|
| | 2009 | | 2008 | |
| | Maximum potential payments | Carrying amount of liabilities | Maximum potential payments | Carrying amount of liabilities |
| | (\$ in millions) | | | |
| Performance guarantees | 237 | 1 | 413 | 1 |
| Financial guarantees | 91 | | 95 | |
| Indemnification guarantees | 282 | 1 | 277 | 6 |
| Total | 610 | 2 | 785 | 7 |

Performance guarantees

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

The Company retained obligations for guarantees related to the Power Generation business contributed in mid-1999 to the former ABB Alstom Power NV joint venture (Alstom Power NV). The guarantees primarily consist of performance guarantees, advance payment guarantees and other miscellaneous guarantees under certain contracts such as indemnification for personal injuries and property damages, taxes and compliance with labor laws, environmental laws and patents. The guarantees are related to projects which are expected to be completed by 2013 but in some cases have no definite expiration date. In May 2000, the Company sold its interest in Alstom Power NV to Alstom SA (Alstom). As a result, Alstom and its subsidiaries have primary responsibility for performing the obligations that are the subject of the guarantees. Further, Alstom, the parent company and Alstom Power NV, have undertaken jointly and severally to fully indemnify and hold harmless the Company against any claims arising under such guarantees. Management's best estimate of the total maximum potential exposure of quantifiable guarantees issued by the Company on behalf of its former Power Generation business was approximately \$99 million and \$120 million at December 31, 2009 and 2008, respectively. The Company has not experienced any losses related to guarantees issued on behalf of the former Power Generation business.

The Company retained obligations for guarantees related to the Upstream Oil and Gas business sold in 2004. The guarantees primarily consist of performance guarantees and have original maturity dates ranging from one to seven years. The maximum amount payable under the guarantees was approximately \$98 million and \$239 million at December 31, 2009 and 2008, respectively. The Company has the ability to recover potential payments under these guarantees through certain backstop guarantees. The maximum potential recovery under these backstop guarantees was approximately \$6 million and \$16 million at December 31, 2009 and 2008, respectively.

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Notes to the Consolidated Financial Statements (Continued)

Note 15 Commitments and contingencies (Continued)

The Company retained obligations for guarantees related to the Building Systems business in Germany sold in 2007. The guarantees primarily consist of performance guarantees and have original maturity dates ranging from one to thirteen years. The maximum amount payable under the guarantees was approximately \$38 million and \$54 million at December 31, 2009 and 2008, respectively.

Financial guarantees

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

At December 31, 2009 and 2008, the Company had \$91 million and \$95 million, respectively, of financial guarantees outstanding. Of each of those amounts, \$22 million was issued on behalf of companies in which the Company currently has or formerly had an equity interest. The guarantees have various maturity dates. The majority of the durations run to 2013, with the longest expiring in 2021.

Indemnification guarantees

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

The Company delivered to the purchasers of Lummus guarantees related to assets and liabilities divested in 2007. The maximum liability of \$50 million at each of December 31, 2009 and 2008, relating to these businesses, will reduce over time, pursuant to the sales agreements.

The Company delivered to the purchasers of its interest in Jorf Lasfar guarantees related to assets and liabilities divested in 2007. The maximum liability at December 31, 2009 and 2008, of \$145 million and \$143 million, respectively, relating to this business is subject to foreign exchange fluctuations.

The Company delivered to the purchaser of the Reinsurance business guarantees related to assets and liabilities divested in 2004. The maximum liability at December 31, 2009 and 2008, of \$87 million and \$84 million, respectively, related to this business will reduce over time, pursuant to the sales agreement, and subject to foreign exchange fluctuations.

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

Product and order related contingencies

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

Table of Contents**ABB Ltd****Notes to the Consolidated Financial Statements (Continued)****Note 15 Commitments and contingencies (Continued)**

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

| | 2009 | 2008 |
|--|------------------|--------------|
| | (\$ in millions) | |
| Balance at January 1, | 1,105 | 1,121 |
| Claims paid in cash or in kind | (234) | (173) |
| Net increase to provision for changes in estimates, warranties issued and warranties expired | 365 | 203 |
| Exchange rate differences | 44 | (46) |
| Balance at December 31, | 1,280 | 1,105 |

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.

In December 2009, the Company and IBM signed an extension to the 2003 agreement for the period up to 2016. The agreement covers the Company's information systems infrastructure across 17 countries in Europe, North America and Asia Pacific. IBM will provide server and network management, as well as end user and help desk services for the majority of the Company's information systems infrastructure operations.

Pursuant to the global framework agreement, IBM receives monthly payments from the Company's subsidiaries in the respective countries related to information systems infrastructure services. Costs for these services in 2009, 2008 and 2007 were \$269 million, \$296 million and \$251 million, respectively.

Related party transactions

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

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 16 Taxes

Provision for taxes consisted of the following:

| | 2009 | 2008 | 2007 |
|---|------------------|--------------|------------|
| | (\$ in millions) | | |
| Current taxes on income | 1,057 | 1,282 | 939 |
| Deferred taxes | (56) | (163) | (344) |
| Tax expense from continuing operations | 1,001 | 1,119 | 595 |

| | | | |
|---|------------|-------------|-----------|
| Tax expense (benefit) from discontinued operations | (7) | (36) | 36 |
|---|------------|-------------|-----------|

The weighted-average tax rate results from applying each subsidiary's statutory income tax rate to the "Income from continuing operations before taxes". 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 and the change in applicable tax rates.

| | 2009 | 2008 | 2007 |
|---|------------------------------------|--------------|--------------|
| | (\$ in millions, except % data) | | |
| Reconciliation of taxes: | | | |
| Income from continuing operations before taxes | 4,120 | 4,518 | 3,913 |
| Weighted-average tax rate | 23.9% | 28.1% | 30.4% |
| Taxes at weighted-average tax rate | 983 | 1,270 | 1,189 |
| Items taxed at rates other than the weighted-average tax rate | (13) | 3 | 4 |
| Changes in valuation allowance, net | (46) | (414) | (698) |
| Changes in tax laws and enacted tax rates | 5 | (19) | (15) |
| Other, net | 72 | 279 | 115 |
| Tax expense from continuing operations | 1,001 | 1,119 | 595 |

| | | | |
|--|--------------|--------------|--------------|
| Effective tax rate for the year | 24.3% | 24.8% | 15.2% |
|--|--------------|--------------|--------------|

Certain provisions recorded as an expense in 2008 and the release of certain of these provisions in 2009 primarily related to alleged anti-competitive practices, originated in jurisdictions with a tax rate other than the weighted-average tax rate.

The reconciliation of taxes for 2009, 2008 and 2007 included changes in the valuation allowance recorded in certain jurisdictions in respect of deferred tax assets that were recognized for net operating losses and timing differences incurred in those jurisdictions.

The change in valuation allowance was required as the Company determined that it was more likely than not that such deferred tax assets would be realized. In 2009, the change in valuation allowance included a benefit of \$60 million related to the Company's operations in Central Europe. In 2008 and 2007, the change in valuation allowance was predominantly related to the Company's operations in North America with approximately \$330 million and \$550 million, respectively.

In 2009, "Other, net" of \$72 million in the table above included:

a benefit of approximately \$74 million relating to the release of provision for costs of previously disclosed investigations by European authorities into suspect payments and alleged

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Notes to the Consolidated Financial Statements (Continued)

Note 16 Taxes (Continued)

anti-competitive practices that were credited for financial accounting purposes, but were not taxable,

an expense of approximately \$40 million relating to items that were deducted for financial accounting purposes, but were not tax deductible such as interest expense, state and local taxes on productive activities, disallowed meals and entertainment expenses and other similar items, and

an expense of approximately \$100 million relating to a net increase in tax accruals.

In 2008, "Other, net" of \$279 million in the table above included:

an expense of approximately \$140 million related to a pending tax dispute in Northern Europe,

an expense of approximately \$100 million relating to costs of previously disclosed investigations by U.S. and European authorities into suspect payments and alleged anti-competitive practices, respectively, that were deducted for financial accounting purposes, but were not tax deductible,

the release of a provision of approximately \$53 million related to the court decision in Northern Europe concerning certain sale and leaseback transactions as well as to the favorable outcome related to the interpretation of tax law and double tax treaty agreements by competent tax authorities in the Mediterranean region,

an expense of approximately \$50 million relating to items that were deducted for financial accounting purposes, but were not tax deductible such as interest expense, state and local taxes on productive activities, disallowed meals and entertainment expenses and other similar items, and

an expense of approximately \$40 million relating to a net increase in tax accruals.

In 2007, "Other, net" of \$115 million in the table above included:

an expense of approximately \$35 million related to the interpretation of tax law and double tax treaty agreements by competent tax authorities in the Mediterranean region,

an expense of approximately \$35 million relating to items that were deducted for financial accounting purposes, but were not tax deductible such as interest expense, state and local taxes on productive activities, disallowed meals and entertainment expenses and other similar items, and

an additional expense of approximately \$45 million relating to a net increase in tax accruals.

As of January 1, 2009, the Company adopted a new accounting standard that retroactively changed the accounting for convertible debt instruments that contained cash settlement features, which had an impact on "Income from continuing operations before taxes" in 2007. As a

result, the "Weighted-average tax rate" for 2007 changed from 29.7 percent to 30.4 percent, and the "Effective tax rate" for 2007 changed from 14.8 percent to 15.2 percent.

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 16 Taxes (Continued)

Deferred income tax assets and liabilities consisted of the following:

| | December 31, | |
|---|------------------|--------------|
| | 2009 | 2008 |
| | (\$ in millions) | |
| <i>Deferred tax assets:</i> | | |
| Unused tax losses and credits | 1,100 | 1,234 |
| Pension and other accrued liabilities | 1,094 | 988 |
| Inventories | 255 | 245 |
| Property, plant and equipment | 91 | 97 |
| Other | 135 | 134 |
| Total gross deferred tax asset | 2,675 | 2,698 |
| Valuation allowance | (473) | (488) |
| Total gross deferred tax asset, net of valuation allowance | 2,202 | 2,210 |
| <i>Deferred tax liabilities:</i> | | |
| Property, plant and equipment | (242) | (221) |
| Pension and other accrued liabilities | (172) | (291) |
| Inventories | (168) | (170) |
| Other current assets | (155) | (150) |
| Unremitted earnings | (142) | (97) |
| Other | (26) | (24) |
| Total gross deferred tax liability | (905) | (953) |
| Net deferred tax asset | 1,297 | 1,257 |
| <i>Included in:</i> | | |
| "Deferred taxes" current assets | 900 | 920 |
| "Deferred taxes" non-current assets | 1,052 | 1,120 |
| "Deferred taxes" current liabilities | (327) | (428) |
| "Deferred taxes" non-current liabilities | (328) | (355) |
| Net deferred tax asset | 1,297 | 1,257 |

Certain entities have deferred tax assets related to net operating loss carry-forwards and other items. As recognition of these assets did not meet the more likely than not criterion, valuation allowances of \$473 million and \$488 million were established at December 31, 2009 and 2008, respectively. At December 31, 2009, and 2008, the item unused tax losses and credits included approximately \$240 million and \$300 million, respectively, for which the Company has established a full valuation allowance as, due to limitations imposed by the relevant tax law, the Company determined that, more likely than not, such deferred tax assets would not be realized.

At December 31, 2009, net operating loss carry-forwards of \$2,876 million and tax credits of \$147 million were available to reduce future taxes of certain subsidiaries. Of these amounts, \$1,690 million loss carry-forwards and \$134 million tax credits will expire in varying amounts through 2029. These carry-forwards were predominantly related to the Company's U.S. operations.

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 16 Taxes (Continued)

Unrecognized tax benefits consisted of the following:

| | Unrecognized tax benefits | Penalties and interest related to unrecognized tax benefits | Total |
|---|------------------------------|---|------------|
| | (\$ in millions) | | |
| Classification as unrecognized tax items on January 1, 2007 | 524 | 107 | 631 |
| Increase relating to prior year tax positions | 101 | 48 | 149 |
| Decrease relating to prior year tax positions | (128) | (7) | (135) |
| Increase relating to current year tax positions | 76 | 2 | 78 |
| Decrease related to current year tax positions | (4) | | (4) |
| Decrease due to settlements with tax authorities | (30) | (16) | (46) |
| Decrease as a result of the applicable statute of limitations | (37) | (10) | (47) |
| Exchange rate differences | 16 | 5 | 21 |
| Balance at December 31, 2007 which would, if recognized, affect the effective tax rate | 518 | 129 | 647 |
| Net change due to acquisitions and divestments | 6 | 1 | 7 |
| Increase relating to prior year tax positions | 189 | 75 | 264 |
| Decrease relating to prior year tax positions | (20) | (1) | (21) |
| Increase relating to current year tax positions | 93 | 1 | 94 |
| Decrease related to current year tax positions | (17) | (1) | (18) |
| Decrease due to settlements with tax authorities | (127) | (55) | (182) |
| Decrease as a result of the applicable statute of limitations | (25) | (5) | (30) |
| Exchange rate differences | (19) | (5) | (24) |
| Balance at December 31, 2008 which would, if recognized, affect the effective tax rate | 598 | 139 | 737 |
| Net change due to acquisitions and divestments | (2) | | (2) |
| Increase relating to prior year tax positions | 133 | 62 | 195 |
| Decrease relating to prior year tax positions | (9) | (8) | (17) |
| Increase relating to current year tax positions | 93 | 6 | 99 |
| Decrease due to settlements with tax authorities | (41) | (3) | (44) |
| Decrease as a result of the applicable statute of limitations | (69) | (22) | (91) |
| Exchange rate differences | 9 | 2 | 11 |
| Balance at December 31, 2009 which would, if recognized, affect the effective tax rate | 712 | 176 | 888 |

In 2009, the "Increase relating to prior year tax positions" in the table above included an expense of approximately \$27 million in taxes and approximately \$27 million in penalties and interest relating to a pending tax dispute in Northern Europe. Further, it included an increase of provision of approximately \$34 million in taxes relating to a pending assessment by competent tax authorities in Central Europe.

In 2008, the "Increase relating to prior year tax positions" in the table above included an expense of approximately \$85 million in taxes and approximately \$50 million in penalties and interest relating to

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a pending tax dispute in Northern Europe. Further, it included an increase of provision of approximately \$33 million in taxes relating to a pending assessment by competent tax authorities in Central Europe.

In 2007, the "Decrease relating to prior year tax positions" in the table above included approximately \$100 million related to the outcome of a court decision in Northern Europe where the Company had claimed in its tax return a divestment loss that had not met the technical merits for recognition under the relevant accounting standard. Neither penalties nor interest were due as a result of this court decision.

In 2008, the "Decrease due to settlements with tax authorities" included the release of provisions of approximately \$53 million in taxes and approximately \$48 million in penalties and interest relating to court cases in Northern Europe concerning certain sale and leaseback transactions, as well as to the favorable outcome in the Mediterranean region relating to the interpretation of tax law and double tax treaty agreements by competent tax authorities. Further, it included the release of provision of approximately \$33 million in taxes relating to the favorable outcome of an assessment by competent tax authorities in Central Europe.

At December 31, 2009, the Company expects the resolution of uncertain tax positions related to pending court cases amounting to approximately \$200 million for taxes, penalties and interest within the next twelve months. Otherwise, the Company had not identified any other significant changes which were considered reasonably possible to occur within the next twelve months.

At December 31, 2009, the earliest significant open tax years that remained subject to examination were the following:

| Region | Year |
|-----------------------------|-------------|
| Central Europe | 2002 |
| Mediterranean | 2005 |
| India, Middle East & Africa | 2003 |
| North America | 2006 |
| North Asia | 2001 |
| Northern Europe | 2004 |
| South America | 2005 |
| South Asia | 2004 |

Note 17 Employee benefits

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

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Notes to the Consolidated Financial Statements (Continued)

Note 17 Employee benefits (Continued)

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.

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

Obligations and funded status of the plans

The following tables set forth the change in benefit obligations, the change in plan assets and the funded status recognized in the Consolidated Balance Sheets at December 31, 2009 and 2008, for the Company's benefit plans:

| | 2009 | 2008 | 2009 | 2008 |
|---|------------------|--------------|-------------------------------|------------|
| | Pension benefits | | Other postretirement benefits | |
| | (\$ in millions) | | | |
| Benefit obligation at January 1, | 7,761 | 8,884 | 207 | 215 |
| Service cost | 154 | 177 | 2 | 2 |
| Interest cost | 432 | 438 | 13 | 13 |
| Contributions by plan participants | 56 | 45 | | |
| Benefit payments | (558) | (498) | (13) | (16) |
| Benefit obligations of businesses disposed and acquired | 24 | 31 | | 2 |
| Actuarial (gain) loss | 634 | (619) | 6 | (5) |
| Plan amendments and other | 21 | (243) | 2 | (1) |
| Exchange rate differences | 390 | (454) | 2 | (3) |
| Benefit obligation at December 31, | 8,914 | 7,761 | 219 | 207 |
| Fair value of plan assets at January 1, | 7,051 | 8,906 | | |
| Actual return on plan assets | 935 | (1,053) | | |
| Contributions by employer | 307 | 273 | 13 | 16 |
| Contributions by plan participants | 56 | 45 | | |
| Benefit payments | (558) | (498) | (13) | (16) |
| Plan assets of businesses disposed and acquired | | 28 | | |
| Plan amendments and other | 2 | (253) | | |
| Exchange rate differences | 356 | (397) | | |
| Fair value of plan assets at December 31, | 8,149 | 7,051 | | |
| Funded status underfunded | 765 | 710 | 219 | 207 |

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Notes to the Consolidated Financial Statements (Continued)

Note 17 Employee benefits (Continued)

The amounts recognized in "Accumulated other comprehensive loss" at December 31, 2009, 2008 and 2007 (including \$2 million recognized in "Noncontrolling interests" in 2009) consisted of:

| | December 31, | | | | | |
|---|------------------|----------------|-------------------------------|-------------|------|------|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| | Pension benefits | | Other postretirement benefits | | | |
| | (\$ in millions) | | | | | |
| Transition liability | | | | (2) | (3) | (4) |
| Net actuarial loss | (1,313) | (1,239) | (530) | (77) | (76) | (86) |
| Prior service cost | (40) | (40) | (47) | 61 | 79 | 90 |
| Amount recognized in OCI⁽¹⁾ | (1,353) | (1,279) | (577) | (18) | | |
| Taxes associated with amount recognized in OCI ⁽¹⁾ | 301 | 301 | 91 | | | |
| Total amount recognized in OCI⁽¹⁾, net of tax | (1,052) | (978) | (486) | (18) | | |

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

The following amounts have also been recognized in the Company's Consolidated Balance Sheets at December 31, 2009 and 2008:

| | December 31, | | | |
|-------------------------------|------------------|------------|-------------------------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| | Pension benefits | | Other postretirement benefits | |
| | (\$ in millions) | | | |
| Overfunded plans | (112) | (72) | | |
| Underfunded plans current | 28 | 22 | 18 | 18 |
| Underfunded plans non-current | 849 | 760 | 201 | 189 |
| Funded status | 765 | 710 | 219 | 207 |

| | December 31, | |
|--|------------------|-------------|
| | 2009 | 2008 |
| | (\$ in millions) | |
| Non-current assets | | |
| Overfunded pension plans | (112) | (72) |
| Other employee-related benefits | | (1) |
| Prepaid pension and other employee benefits | (112) | (73) |

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Notes to the Consolidated Financial Statements (Continued)

Note 17 Employee benefits (Continued)

| | December 31, | |
|--|------------------|-----------|
| | 2009 | 2008 |
| | (\$ in millions) | |
| Current liabilities | | |
| Underfunded pension plans | 28 | 22 |
| Underfunded other benefit plans | 18 | 18 |
| Other employee-related benefits | 22 | 26 |
| Pension and other employee benefits (Note 13) | 68 | 66 |

| | December 31, | |
|--|------------------|--------------|
| | 2009 | 2008 |
| | (\$ in millions) | |
| Non-current liabilities | | |
| Underfunded pension plans | 849 | 760 |
| Underfunded other benefit plans | 201 | 189 |
| Other employee-related benefits | 129 | 122 |
| Pension and other employee benefits | 1,179 | 1,071 |

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

| | December 31, | | | | | |
|--------------------|------------------|--------------|------------|--------------|--------------|------------|
| | 2009 | | | 2008 | | |
| | PBO | Assets | Difference | PBO | Assets | Difference |
| | (\$ in millions) | | | | | |
| PBO exceeds assets | 7,651 | 6,774 | 877 | 7,035 | 6,253 | 782 |
| Assets exceed PBO | 1,263 | 1,375 | (112) | 726 | 798 | (72) |
| Total | 8,914 | 8,149 | 765 | 7,761 | 7,051 | 710 |

The accumulated benefit obligation (ABO) for all defined benefit pension plans was \$8,627 million and \$7,522 million at December 31, 2009 and 2008, respectively. The funded status, calculated by the ABO and fair value of plan assets for pension plans with ABO in excess of fair value of plan assets (underfunded) or fair value of plan assets in excess of ABO (overfunded), respectively was:

| | December 31, | | | | | |
|--------------------|------------------|--------|------------|-------|--------|------------|
| | 2009 | | | 2008 | | |
| | ABO | Assets | Difference | ABO | Assets | Difference |
| | (\$ in millions) | | | | | |
| ABO exceeds assets | 6,285 | 5,627 | 658 | 6,654 | 6,039 | 615 |
| Assets exceed ABO | 2,342 | 2,522 | (180) | 868 | 1,012 | (144) |

| | | | | | | |
|--------------|--------------|--------------|------------|--------------|--------------|------------|
| Total | 8,627 | 8,149 | 478 | 7,522 | 7,051 | 471 |
|--------------|--------------|--------------|------------|--------------|--------------|------------|

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

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Notes to the Consolidated Financial Statements (Continued)

Note 17 Employee benefits (Continued)

Components of net periodic benefit cost

For 2009, 2008 and 2007, net periodic benefit cost consisted of the following:

| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
|---|------------------|------------|------------|----------------|-----------|-----------|
| | | | | Other | | |
| | Pension | | | postretirement | | |
| | benefits | | | benefits | | |
| | (\$ in millions) | | | | | |
| Service cost | 154 | 177 | 189 | 2 | 2 | 1 |
| Interest cost | 432 | 438 | 361 | 13 | 13 | 12 |
| Expected return on plan assets | (384) | (471) | (400) | | | |
| Amortization transition liability | | | | 1 | 1 | 1 |
| Amortization prior service cost | 13 | 14 | 4 | (11) | (11) | (11) |
| Amortization of net actuarial loss | 71 | 13 | 31 | 6 | 5 | 7 |
| Curtailements, settlements and special termination benefits | 2 | 38 | 21 | (8) | | |
| Other | | | 3 | | | 1 |
| Net periodic benefit cost | 288 | 209 | 209 | 3 | 10 | 11 |

The net actuarial loss and prior service cost for the defined benefit pension plans estimated to be amortized from "Accumulated other comprehensive loss" into net periodic benefit cost in 2010 is \$74 million and \$26 million, respectively.

The estimated net actuarial loss, transition cost and prior service cost for the defined benefit non-pension postretirement plans that will be amortized from "Accumulated other comprehensive loss" into net periodic benefit cost in 2010 is \$5 million, \$1 million and \$(9) million, respectively.

Assumptions

The following weighted-average assumptions were used to determine benefit obligations at December 31, 2009 and 2008:

| | December 31, | | | |
|-------------------------------|--------------|------|----------------|------|
| | 2009 | 2008 | 2009 | 2008 |
| | Pension | | Other | |
| | benefits | | postretirement | |
| | | | benefits | |
| | (in %) | | | |
| Discount rate | 4.66 | 5.63 | 5.54 | 6.30 |
| Rate of compensation increase | 2.13 | 2.22 | | |
| Pension increase assumption | 1.22 | 1.49 | | |

The discount rate assumptions reflect the rates at which the benefit obligations could effectively be settled. The principal assumption was that the relevant fixed income securities are AA rated corporate bonds. In those countries with sufficient liquidity in corporate bonds, the Company used the current market long-term corporate bond rates and matched the bond duration with the average duration of the pension liabilities. In those countries where the liquidity of the AA corporate bonds was deemed to be insufficient, the Company determined the discount rate by adding the credit spread derived from an

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 17 Employee benefits (Continued)

AA corporate bond index in another relevant liquid market, as adjusted for interest rate differentials, to the domestic government bond curve or interest rate swap curve.

The following weighted-average assumptions were used to determine the "Net periodic benefit cost" above for years ended December 31, 2009, 2008 and 2007:

| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
|--|-----------------|------|------|-------------------------------|------|------|
| | Pension benefit | | | Other postretirement benefits | | |
| | (in %) | | | | | |
| Discount rate | 5.63 | 5.16 | 4.39 | 6.30 | 6.17 | 5.70 |
| Expected long-term rate of return on plan assets | 5.47 | 5.55 | 5.00 | | | |
| Rate of compensation increase | 2.22 | 2.35 | 2.32 | | | |

The "Expected long-term rate of return on plan assets" 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.

| | December 31, | |
|---|--------------|-------|
| | 2009 | 2008 |
| Health care cost trend rate assumed for next year | 8.89% | 9.82% |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) | 5.00% | 4.97% |
| Year that the rate reaches the ultimate trend rate | 2017 | 2017 |

A one-percentage-point change in assumed health care cost trend rates would have the following effects at December 31, 2009:

| | 1-percentage-point | |
|--|--------------------|----------|
| | increase | decrease |
| | (\$ in millions) | |
| Effect on total of service and interest cost | | (1) |
| Effect on postretirement benefit obligation | 10 | (17) |
| Plan assets | | |

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

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

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 17 Employee benefits (Continued)

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

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

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

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

the funding ratio of the plan,

the likelihood of extraordinary cash contributions being required,

the risk embedded in each individual asset class, and

the correlations between each of the above.

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

The plans are mainly invested in equity securities and bonds, with smaller allocations to real estate, private equity and hedge funds.

Table of Contents**ABB Ltd****Notes to the Consolidated Financial Statements (Continued)****Note 17 Employee benefits (Continued)**

The Company's global pension asset allocation is the result of the asset allocations of the individual plans. The target asset allocation of the Company's plans on a weighted-average basis is as follows:

| Asset Category | Target percentage |
|--|------------------------------|
| Global fixed income securities | 52 |
| Emerging markets fixed income securities | 3 |
| Global equity securities | 26 |
| Emerging markets equity securities | 3 |
| Real estate | 8 |
| Cash and equivalents | 4 |
| Private equity | 2 |
| Hedge funds | 2 |

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The actual asset allocations of the plans are in line with the target asset allocations, which are set on an individual plan basis by the boards of trustees. They are the result of individual plans' risk assessments.

Global and emerging markets fixed income securities include corporate bonds of companies from diversified industries and government bonds from mature market issuers. Global and emerging markets equity securities primarily include investments in large-cap and mid-cap companies. Global equity securities represent equities listed in mature markets (mainly in the United States, Europe and Japan). "Real Estate" investments are largely made up of domestic real estate in Switzerland held in the Swiss plans. The investments in "Private equity" and "Hedge funds" pursue a variety of investment strategies.

Based on the above global asset allocation, the expected long-term return on assets is 5.47 percent. The Company and the local boards of trustees regularly review the investment performance of the asset classes and individual asset managers. Due to the diversified nature of the investments, the Company is of the opinion that no significant concentration of risks exists in its pension fund assets.

The Company does not expect any plan assets to be returned to the employer during 2010.

At December 31, 2009 and 2008, plan assets included approximately 0.7 million shares and 0.8 million shares of the Company's capital stock with a total value of \$14 million and \$11 million, respectively.

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Table of Contents**ABB Ltd****Notes to the Consolidated Financial Statements (Continued)****Note 17 Employee benefits (Continued)**

The fair values of the Company's pension plan assets at December 31, 2009 by asset category are presented below. For further information on the fair value hierarchy and an overview of the Company's valuation techniques applied see Note 2.

| | December 31, 2009 | | | Total fair value |
|-------------------------------|-------------------|--------------|------------|---------------------|
| | Level 1 | Level 2 | Level 3 | |
| | (\$ in millions) | | | |
| Asset Category: | | | | |
| Cash and equivalents | 102 | 193 | | 295 |
| Global equities | 2,077 | 45 | | 2,122 |
| Emerging markets equities | 271 | | | 271 |
| Global fixed income | 1,831 | 2,389 | | 4,220 |
| Emerging markets fixed income | | 212 | | 212 |
| Insurance contracts | | 34 | | 34 |
| Private equity | 5 | 22 | 149 | 176 |
| Hedge funds | | | 127 | 127 |
| Real estate | 71 | | 621 | 692 |
| Total | 4,357 | 2,895 | 897 | 8,149 |

The following table represents the reconciliation for 2009 of those asset categories whose fair value use significant unobservable inputs (Level 3):

| | Private equity | Hedge funds | Real estate | Total Level 3 |
|--|-------------------|----------------|----------------|------------------|
| | (\$ in millions) | | | |
| Balance at January 1, 2009 | 152 | 137 | 603 | 892 |
| Return on plan assets: | | | | |
| Assets still held at December 31, 2009 | (8) | (2) | 2 | (8) |
| Assets sold during the year | (1) | (22) | (1) | (24) |
| Purchases (sales) | 5 | 6 | (4) | 7 |
| Transfers into Level 3 | | 18 | | 18 |
| Exchange rate differences | 1 | (10) | 21 | 12 |
| Balance at December 31, 2009 | 149 | 127 | 621 | 897 |

Real estate properties are valued under the income approach using the discounted cash flow method, by which the market value of a property is determined as the total of all projected future earnings discounted to the valuation date. The discount rates are determined for each property individually according to the property's location and specific use, and by considering initial yields of comparable market transactions. Private equity investments include investments in partnerships and related funds. Such investments consist of both publicly-traded and privately-held securities. Publicly-traded securities that are not quoted in active markets are valued using available quotes and adjusted for liquidity restrictions. Privately-held securities are valued taking into account various factors, such as the most recent financing involving unrelated new investors, earnings multiple analyses using comparable companies and discounted cash flow analyses. Hedge funds are normally not exchange-

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 17 Employee benefits (Continued)

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

Contributions

The Company made cash contributions of \$307 million and \$184 million to other pension plans and \$13 million and \$16 million to other benefit plans during 2009 and 2008, respectively. Included in the cash contributions were \$49 million of discretionary contributions to certain of the Company's pension plans in 2009. In 2008, the Company made non-cash contributions of \$89 million of available-for-sale debt securities to certain of the Company's pension plans in Finland, Germany and in the United States.

The Company expects to contribute approximately \$271 million to its pension plans and \$18 million to its other postretirement benefit plans in 2010.

The Company also maintains several defined contribution plans. The expense for these plans was \$91 million, \$92 million and \$68 million in 2009, 2008 and 2007, respectively. The Company also contributed \$18 million, \$22 million and \$20 million to multi-employer plans in 2009, 2008 and 2007, respectively. In the United States, a withdrawal from a multi-employer plan in 2009 resulted in an \$11 million provision.

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, 2009 are as follows:

| | Pension benefits | Other postretirement benefits | |
|-------------------|---------------------|-------------------------------------|-----------------------|
| | | Benefit payments | Medicare subsidies |
| | | (\$ in millions) | |
| 2010 | 587 | 19 | (1) |
| 2011 | 579 | 19 | (1) |
| 2012 | 588 | 19 | (1) |
| 2013 | 600 | 19 | (1) |
| 2014 | 604 | 19 | (1) |
| Years 2015 - 2019 | 3,116 | 97 | (7) |

The Medicare subsidies column represents payments estimated to be received from the United States government as part of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The United States government began making the subsidy payments for employers in 2006.

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Notes to the Consolidated Financial Statements (Continued)

Note 18 Share-based payment arrangements

The Company has three share-based payment plans, as more fully described in the respective sections below. Compensation cost for equity-settled awards is recorded in "Total cost of sales" and in "Selling, general and administrative expenses" and totaled \$66 million, \$63 million and \$32 million in 2009, 2008 and 2007, respectively. Compensation cost for cash-settled awards is recorded in "Selling, general and administrative expenses" and is disclosed in the WAR, LTIP and Other share-based payments sections of this note. The total tax benefit recognized in 2009, 2008 and 2007, was not significant.

At December 31, 2009, the Company had the ability to issue up to approximately 31 million new shares out of contingent capital in connection with share-based payment arrangements. In addition, of the 40 million shares held by the Company in treasury stock at December 31, 2009, 17 million of such shares could be used to settle share-based payment arrangements.

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

MIP

Under the MIP, the Company offers physically-settled warrants, cash-settled warrant appreciations rights (WARs) and, as of the May 2007 launch, options, to key employees for no consideration.

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

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

Warrants and options

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

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 18 Share-based payment arrangements (Continued)

of the warrants and options. In estimating forfeitures, the Company has used the data from previous comparable MIP launches.

| | 2009 grant | 2008 grant | 2007 grant |
|-------------------------|------------|------------|------------|
| Expected volatility | 41% | 36% | 27% |
| Dividend yield | 2.34% | 1.42% | 1.14% |
| Expected term | 6 years | 6 years | 6 years |
| Risk-free interest rate | 1.93% | 3.36% | 3.00% |

Presented below is a summary of the activity related to warrants and options in 2009:

| | Number of instruments | Number of shares ⁽¹⁾ | Weighted-average exercise price (in Swiss francs) ⁽²⁾ | Weighted-average remaining contractual term (in years) | Aggregate intrinsic value (in millions of Swiss francs) ⁽³⁾ |
|---|-----------------------|---------------------------------|--|--|--|
| Outstanding at January 1, 2009 | 73,926,090 | 14,785,218 | 27.14 | | |
| Granted | 24,093,500 | 4,818,700 | 19.00 | | |
| Exercised ⁽⁴⁾ | (2,060,500) | (412,100) | 7.09 | | |
| Forfeited | (2,067,315) | (413,463) | 30.68 | | |
| Outstanding at December 31, 2009 | 93,891,775 | 18,778,355 | 25.42 | 4.0 | 24 |
| Vested and expected to vest at December 31, 2009 | 88,736,427 | 17,747,285 | 25.35 | 3.9 | 23 |
| Exercisable at December 31, 2009 | 18,999,570 | 3,799,914 | 16.69 | 2.3 | 19 |

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

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

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

(4) The cash received upon exercise amounted to \$3 million. The shares were issued out of contingent capital.

Of the outstanding instruments at December 31, 2009, 2008 and 2007, 8.8 million, 3.0 million and 9.5 million, respectively, have been sold to a third-party by participants, representing 1.8 million, 0.6 million and 1.9 million shares, respectively.

At December 31, 2009, there was \$50 million of total unrecognized compensation cost related to non-vested warrants and options granted under the MIP. That cost is expected to be recognized over a weighted-average period of 1.7 years. The weighted-average grant-date fair value of warrants and options granted during 2009, 2008 and 2007 was 1.15 Swiss francs, 2.32 Swiss francs and 1.35 Swiss francs, respectively. In 2009, 2008 and 2007, the aggregate intrinsic value (on the days of exercise) of instruments exercised was 5 million Swiss francs, 57 million Swiss francs and 117 million Swiss francs, respectively.

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Notes to the Consolidated Financial Statements (Continued)

Note 18 Share-based payment arrangements (Continued)

Presented below is a summary, by launch, related to instruments outstanding at December 31, 2009:

| Exercise price (in Swiss francs) ⁽¹⁾ | Number of instruments | Number of shares ⁽²⁾ | Weighted-average remaining contractual term (in years) |
|--|--------------------------|------------------------------------|---|
| 7.50 | 3,439,165 | 687,833 | 0.9 |
| 15.30 | 11,367,500 | 2,273,500 | 2.1 |
| 26.00 | 26,695,635 | 5,339,127 | 3.4 |
| 36.40 | 28,573,975 | 5,714,795 | 4.4 |
| 19.00 | 23,815,500 | 4,763,100 | 5.4 |
| Total number of instruments and shares | 93,891,775 | 18,778,355 | 4.0 |

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

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

WARs

As each WAR gives the holder the right to receive cash equal to the market price of an equivalent listed warrant on date of exercise, the Company records a liability based upon the fair value of outstanding WARs at each period end, accreted on a straight-line basis over the three-year vesting period. In "Selling, general and administrative expenses", the Company recorded expense of \$17 million, income of \$83 million and expense of \$142 million for 2009, 2008 and 2007, respectively, as a result of changes in both the fair value and vested portion of the outstanding WARs. To hedge its exposure to fluctuations in the fair value of outstanding WARs, the Company purchased cash-settled call options, which entitle the Company to receive amounts equivalent to its obligations under the outstanding WARs. The cash-settled call options are recorded as derivatives measured at fair value (see Note 5), with subsequent changes in fair value recorded through earnings to the extent that they offset the change in fair value of the liability for the WARs. In 2009, 2008 and 2007, the Company recorded expense of \$1 million, expense of \$98 million and income of \$132 million, respectively, in "Selling, general and administrative expenses" related to the cash-settled call options.

The aggregate fair value of outstanding WARs was \$64 million and \$53 million at December 31, 2009 and 2008, respectively. The fair value of WARs was determined based upon the trading price of equivalent warrants listed on the SIX Swiss Exchange.

Presented below is a summary of the activity related to WARs in 2009:

| | Number of WARs |
|---|-------------------|
| Outstanding at January 1, 2009 | 59,671,430 |
| Granted | 21,131,000 |
| Exercised | (15,952,540) |
| Forfeited | (987,955) |
| Expired | (62,500) |
| Outstanding at December 31, 2009 | 63,799,435 |
| Exercisable at December 31, 2009 | 25,270,670 |

Table of Contents**ABB Ltd****Notes to the Consolidated Financial Statements (Continued)****Note 18 Share-based payment arrangements (Continued)**

The aggregate fair value at date of grant of WARs granted in 2009, 2008 and 2007 was \$22 million, \$33 million and \$7 million, respectively. In 2009, 2008 and 2007, share-based liabilities of \$20 million, \$53 million and \$106 million, respectively, were paid upon exercise of WARs by participants.

ESAP

The employee share acquisition plan (ESAP) is an employee stock-option plan with a savings feature. Employees save over a twelve-month period, by way of monthly salary deductions. At the end of the savings period, employees choose whether to exercise their stock options using their savings plus interest to buy ABB Ltd shares (American Depositary Shares (ADS) in the case of employees in the United States 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. Employees can withdraw from the ESAP at any time during the savings period and will be entitled to a refund of their accumulated savings.

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

| | 2009 grant | 2008 grant | 2007 grant |
|-------------------------|-------------------|-------------------|-------------------|
| Expected volatility | 35% | 57% | 34% |
| Dividend yield | 2.07% | 2.61% | 0.89% |
| Expected term | 1 year | 1 year | 1 year |
| Risk-free interest rate | 0.37% | 1.44% | 2.82% |
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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 18 Share-based payment arrangements (Continued)

Presented below is a summary of activity under the ESAP in 2009:

| | Number of shares ⁽¹⁾ | Weighted-average exercise price (in Swiss francs) ⁽²⁾ | Weighted-average remaining contractual term (in years) | Aggregate intrinsic value (in millions of Swiss francs) ⁽²⁾⁽³⁾ |
|---|---------------------------------|--|--|---|
| Outstanding at January 1, 2009 | 6,261,920 | 15.30 | | |
| Granted | 4,862,440 | 19.36 | | |
| Forfeited | (220,020) | 15.30 | | |
| Exercised ⁽⁴⁾ | (5,523,112) | 15.30 | | |
| Not exercised (savings returned plus interest) | (518,788) | 15.30 | | |
| Outstanding at December 31, 2009 | 4,862,440 | 19.36 | 0.8 | 3 |
| Vested and expected to vest at December 31, 2009 | 4,653,355 | 19.36 | 0.8 | 3 |
| Exercisable at December 31, 2009 | | | | |

(1) Includes shares represented by ADS.

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

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

(4) The cash received upon exercise amounted to \$83 million and the corresponding tax benefit was not significant. The shares were issued out of contingent capital.

The exercise prices per ABB Ltd share and per ADS of 19.36 Swiss francs and \$18.75, respectively, for the 2009 grant, 15.30 Swiss francs and \$12.98, respectively, for the 2008 grant and 34.98 Swiss francs and \$29.78, respectively, for the 2007 grant were determined using the closing price of the ABB Ltd share on SIX Swiss Exchange and ADS on the New York Stock Exchange on the respective grant dates.

At December 31, 2009, there was \$10 million of total unrecognized compensation cost related to non-vested options granted under the ESAP. That cost is expected to be recognized over the first ten months of 2010 in "Total cost of sales" and in "Selling, general and administrative expenses". The weighted-average grant-date fair value of options granted during 2009, 2008 and 2007, was 2.55 Swiss francs, 3.34 Swiss francs and 4.93 Swiss francs, respectively. The total intrinsic value (on the day of exercise) of options exercised in 2009 and 2007 was 22 million Swiss francs and 61 million Swiss francs, respectively. No options were exercised in 2008.

LTIP

The Company has a long-term incentive plan (LTIP) for members of its Executive Committee and selected other executives (Eligible Participants), as defined in the terms of the LTIP and determined by the Company's Governance, Nomination and Compensation Committee. The LTIP involves annual conditional grants of the Company's stock to such Eligible Participants that are subject to certain conditions. Each launch under the LTIP is composed of two components – a share-price performance component and a co-investment component.

Under the share-price performance component, the number of shares granted is dependent upon the base salary of the Eligible Participant. The actual number of shares that each Eligible Participant

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 18 Share-based payment arrangements (Continued)

will receive at a future date is dependent on (i) 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 (ii) the term of service of the respective Eligible Participant in their capacity as an Eligible Participant 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 by the Company, after the end of the Evaluation Period, will be dependent on the Company's ranking in comparison with the defined peers. The full amount of the grant will vest if the Company's Performance is positive and better than three-quarters of the defined peers. For the 2009 LTIP launch, if the Company's Performance is negative but other conditions are met, a reduced number of shares will vest. In addition, for the 2009 LTIP launch, if the Company's net income (adjusted for the financial impact of items that are, in the opinion of the Company's Board, non-operating, non-recurring or unforeseen such as divestments and acquisitions) is negative for the year preceding the year in which the Evaluation Period ends, no shares will vest, irrespective of the outcome of the Company's Performance.

Under the co-investment component of the LTIP, each Eligible Participant is invited to invest in the Company's shares, up to an individually defined maximum number of shares. If the Eligible Participant remains the owner of such shares until the end of the Evaluation Period, the Company will deliver free-of-charge to the Eligible Participant a matching number of shares.

Upon vesting, an Eligible Participant in the 2009 LTIP launch can elect to receive, in cash, 30 percent of the value of the total number of shares (under both components) that have vested. In December 2009, the 2008 and 2007 LTIP launches were modified to also allow the Eligible Participants in those launches to receive 30 percent of the value of the total number of shares that vest in cash (Cash-Settled Awards). The remaining 70 percent (Equity-Settled Awards) can only be received in the form of shares. The additional compensation cost as a result of such modification was not significant.

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Notes to the Consolidated Financial Statements (Continued)

Note 18 Share-based payment arrangements (Continued)

Presented below is a summary of launches of the LTIP outstanding at December 31, 2009:

| Launch year | Evaluation Period | Reference price (Swiss francs) ⁽¹⁾ |
|-------------|-----------------------------------|--|
| 2007 | March 15, 2007, to March 15, 2010 | 21.08 |
| 2008 | March 15, 2008, to March 15, 2011 | 26.20 |
| 2009 | March 15, 2009, to March 15, 2012 | 14.16 |

(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 the SIX Swiss Exchange over the 20 trading days preceding March 15 of the respective launch year.

Presented below is a summary of activity under the LTIP in 2009:

| | Number of shares | Weighted-average grant-date fair value per share (Swiss francs) |
|---------------------------------------|------------------|---|
| Nonvested at January 1, 2009 | 1,763,484 | 24.62 |
| Granted | 1,352,016 | 9.83 |
| Vested | (109,212) | 17.28 |
| Expired ⁽¹⁾ | (489,612) | 17.23 |
| Forfeited | (24,442) | 20.80 |
| Nonvested at December 31, 2009 | 2,492,234 | 18.41 |

(1) Expired as the criteria for the Company's Performance condition was not satisfied.

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

At December 31, 2009, there was \$14 million of total unrecognized compensation cost related to Equity-Settled Awards under the LTIP. That cost is expected to be recognized over a weighted-average period of 1.7 years. The compensation cost recorded in 2009 for the Cash-Settled Awards was not significant. There were no Cash-Settled Awards in 2008 and 2007 under LTIP.

The aggregate fair value, at the dates of grant, of shares granted in 2009, 2008 and 2007, was approximately \$13 million, \$21 million and \$16 million, respectively. The total grant-date fair value of shares that vested during 2009 and 2008 was \$2 million and \$13 million, respectively. No grants under LTIP vested in 2007. The weighted-average grant-date fair value of shares granted during 2009, 2008 and 2007, was 9.83 Swiss francs, 31.47 Swiss francs and 23.75 Swiss francs, respectively.

For the share-price performance component of launches up to and including the 2008 LTIP launch, the fair value of the granted shares is the market price of the ABB Ltd share on grant date for the Equity-Settled Awards and the market price of the ABB Ltd share at each reporting date for the Cash-Settled Awards.

Table of Contents**ABB Ltd****Notes to the Consolidated Financial Statements (Continued)****Note 18 Share-based payment arrangements (Continued)**

For the share-price performance component of the 2009 LTIP launch, the fair value of the shares relative to the Equity-Settled Awards is based on the market price of the ABB Ltd share on grant date, adjusted for the probability of vesting as computed using a Monte Carlo simulation model at grant date. The main inputs to the Monte Carlo simulation model for the grant-date fair value of the Equity-Settled Awards are the Company's and each peer company's (i) option implied volatilities (ranging from 5.6 percent to 51.5 percent), (ii) risk-free rates (ranging from 2.2 percent to 4.1 percent), (iii) equity betas (ranging from 0.81 to 1.29) and (iv) equity risk premiums (ranging from 6 percent to 8 percent). The fair value of the shares relative to the Cash-Settled Awards is based on the market price of the ABB Ltd share at each reporting date adjusted for the probability of vesting as computed using a Monte Carlo simulation model at each reporting date. The main inputs to the Monte Carlo simulation model for the December 31, 2009, fair value of the Cash-Settled Awards are the Company's and each peer company's (i) option implied volatilities (ranging from 16.0 percent to 51.1 percent), (ii) risk-free rates (ranging from 2.3 percent to 4.6 percent), (iii) equity betas (ranging from 0.83 to 1.31) and (iv) equity risk premiums (ranging from 6 percent to 8 percent).

For the co-investment component under all LTIP launches, the fair value of the shares is the market price of the ABB Ltd share on grant date for the Equity-Settled Awards and on each reporting date for the Cash-Settled Awards.

Other share-based payments

The Company has other minor share-based payment arrangements with certain individual employees. In December 2009, such arrangements were modified to give the participants the right to receive, upon vesting, 30 percent of the value of the vested shares in cash. The additional compensation cost as a result of such modification was not significant. The compensation cost recorded in "Selling, general and administrative expenses" in 2009 for the cash-settled arrangements was not significant. There were no such cash-settled arrangements in 2008 and 2007.

Note 19 Stockholders' equity

At December 31, 2009, the Company had 2,770,314,755 authorized shares, of which 2,329,324,797 were registered and issued. At December 31, 2008, the Company had 2,770,314,755 authorized shares, of which 2,322,792,835 were registered and issued.

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

In May 2009, the Annual General Meeting of Shareholders approved a proposal to reduce the nominal value of ABB Ltd's shares from 2.02 Swiss francs per share to 1.54 Swiss francs per share and to distribute the 0.48 Swiss francs per share to shareholders. The distribution, equivalent to \$1.024 billion, resulted in a reduction in capital stock and additional paid-in capital.

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Notes to the Consolidated Financial Statements (Continued)

Note 19 Stockholders' equity (Continued)

In May 2008, the Annual General Meeting of Shareholders approved a proposal to reduce the nominal value of ABB Ltd's shares from 2.50 Swiss francs per share to 2.02 Swiss francs per share and to distribute the 0.48 Swiss francs per share to shareholders. The distribution, equivalent to \$1.06 billion, resulted in a reduction in capital stock and additional paid-in capital.

Upon and in connection with each launch of the Company's MIP, the Company sold call options to a bank at fair value, giving the bank the right to acquire shares equivalent to the number of shares represented by the MIP warrant and WAR awards to participants. Under the terms of the agreement with the bank, the call options can only be exercised by the bank to the extent that MIP participants have either sold or exercised their warrants or exercised their WARs. During 2009, the bank exercised a portion of the call options held (with strike prices of 7.00 and 7.50 Swiss francs) that had been issued at fair value during 2003 and 2004. As a result, approximately 1.0 million shares were issued by the Company resulting in a net increase in capital stock and additional paid-in capital of \$7 million.

During 2008, the bank exercised a portion of the call options held (with strike prices of 7.00 and 7.50 Swiss francs) that had been issued at fair value during 2003 and 2004. As a result, approximately 6.8 million shares were issued by the Company resulting in a net increase in capital stock and additional paid-in capital of \$49 million.

During 2007, the bank holding call options issued during 2001, 2003 and 2004 (in connection with the launches of the Company's MIP in those years), and with strike prices ranging from 7.00 to 13.49 Swiss francs, exercised a portion of the call options held. As a result, approximately 19.6 million shares were issued by the Company and there was a net increase in capital stock and additional paid-in capital of \$181 million.

At December 31, 2009, call options representing 35 million shares and with strike prices ranging from 7.50 to 36.40 Swiss francs were held by the bank. These call options expire in periods ranging from December 2010 to May 2015. However, at December 31, 2009, only 5 million of these instruments, with strike prices ranging from 7.50 to 36.40 Swiss francs, could be exercised under the terms of the agreement with the bank.

In addition to the above, at December 31, 2009, the Company had further outstanding obligations to deliver:

up to 2.8 million shares, at a strike price of 26.00 Swiss francs, relating to the options granted under the 2007 launch of the MIP, vesting in May 2010 and expiring in May 2013,

up to 3.0 million shares, at a strike price of 36.40 Swiss francs, relating to the options granted under the 2008 launch of the MIP, vesting in May 2011 and expiring in May 2014,

up to 4.7 million shares, at a strike price of 19.00 Swiss francs, relating to the options granted under the 2009 launch of the MIP, vesting in May 2012 and expiring in May 2015,

up to 4.9 million shares, at a strike price of 19.36 Swiss francs, to employees under the ESAP, vesting and expiring in November 2010,

up to 2.5 million shares free-of-charge to Eligible Participants under the 2009, 2008 and 2007 launches of the LTIP, vesting and expiring in March 2012, 2011 and 2010, respectively, and

less than a million shares in connection with certain other share-based payment arrangements with employees.

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Notes to the Consolidated Financial Statements (Continued)

Note 19 Stockholders' equity (Continued)

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

As described in Note 2, during 2007, the bondholders of the Company's 1 billion Swiss franc convertible bonds converted their bonds, resulting in the issuance of 105 million shares and an increase in capital stock and additional paid-in capital of \$830 million.

During 2007, the Company purchased on the open market 10 million of its own shares for use in connection with share-based payment arrangements. These transactions resulted in an increase in treasury stock of \$199 million.

In November 2009 and 2007, the Company issued 5.5 million and 3.7 million shares, respectively, from contingent capital stock for the purposes of fulfilling the Company's obligations under the ESAP. This share issuance resulted in an increase in capital stock and additional paid-in capital of \$83 million and \$60 million, respectively. No shares were issued under the ESAP in 2008.

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, Zurich prepared in compliance with Swiss law. At December 31, 2009, of the 12,901 million Swiss francs stockholders' equity reflected in such unconsolidated financial statements, 3,587 million Swiss francs is share capital, 2,092 million Swiss francs is restricted, 3,328 million Swiss francs is unrestricted and 3,894 million Swiss francs is available for distribution.

In February 2010, the Board of Directors announced that a proposal will be put to the Annual General Meeting to reduce the nominal value of the shares from 1.54 Swiss francs per share to 1.03 Swiss francs per share and distribute the 0.51 Swiss francs per share to shareholders.

Note 20 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 and shares granted subject to certain conditions under the Company's share-based payment arrangements; and, prior to September 2007, shares issuable in relation to outstanding convertible bonds. In 2009, 2008 and 2007, outstanding securities representing a maximum of 41 million, 24 million and 3 million shares, respectively, were excluded from the calculation of diluted earnings (loss) per share as their inclusion would have been anti-dilutive.

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 20 Earnings per share (Continued)**Basic earnings per share:**

| | 2009 | 2008 | 2007 |
|--|--|--------------|--------------|
| | (\$ in millions, except per share data in \$) | | |
| <i>Amounts attributable to ABB shareholders:</i> | | | |
| Income from continuing operations | 2,884 | 3,142 | 3,083 |
| Income (loss) from discontinued operations, net of tax | 17 | (24) | 577 |
| Cumulative effect of accounting change, net of tax | | | (49) |
| Net income | 2,901 | 3,118 | 3,611 |

| | | | |
|--|--------------|--------------|--------------|
| Weighted-average number of shares outstanding (in millions) | 2,284 | 2,287 | 2,258 |
| <i>Basic earnings (loss) per share attributable to ABB shareholders:</i> | | | |
| Income from continuing operations | 1.26 | 1.37 | 1.37 |
| Income (loss) from discontinued operations, net of tax | 0.01 | (0.01) | 0.25 |
| Cumulative effect of accounting change, net of tax | | | (0.02) |
| Net income | 1.27 | 1.36 | 1.60 |

Diluted earnings per share:

| | 2009 | 2008 | 2007 |
|--|--|--------------|--------------|
| | (\$ in millions, except per share data in \$) | | |
| <i>Amounts attributable to ABB shareholders:</i> | | | |
| Income from continuing operations | 2,884 | 3,142 | 3,083 |
| <i>Effect of dilution:</i> | | | |
| Interest on convertible bonds, net of tax | | | 9 |
| Income from continuing operations | 2,884 | 3,142 | 3,092 |
| Income (loss) from discontinued operations, net of tax | 17 | (24) | 577 |
| Cumulative effect of accounting change, net of tax | | | (49) |
| Net income, adjusted | 2,901 | 3,118 | 3,620 |

| | | | |
|---|--------------|--------------|--------------|
| Weighted-average number of shares outstanding (in millions) | 2,284 | 2,287 | 2,258 |
| <i>Effect of dilutive securities:</i> | | | |
| Call options and shares | 4 | 9 | 18 |
| Convertible bonds | | | 32 |
| Dilutive weighted-average number of shares outstanding (in millions) | 2,288 | 2,296 | 2,308 |

| | | | |
|--|------|--------|--------|
| <i>Diluted earnings (loss) per share attributable to ABB shareholders:</i> | | | |
| Income from continuing operations | 1.26 | 1.37 | 1.34 |
| Income (loss) from discontinued operations, net of tax | 0.01 | (0.01) | 0.25 |
| Cumulative effect of accounting change, net of tax | | | (0.02) |

| | | | |
|-----------------------------|-------------|-------------|-------------|
| Net income, adjusted | 1.27 | 1.36 | 1.57 |
|-----------------------------|-------------|-------------|-------------|

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 21 Restructuring and related expenses**Cost take-out program**

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

The following table outlines the total amount of costs expected to be incurred as well as the costs incurred in 2009 and the cumulative costs incurred to date under the program per operating segment.

| | Costs incurred in 2009 | Cumulative costs incurred to date (\$ in millions) | Total expected costs |
|---------------------|---------------------------|--|-------------------------|
| Power Products | 77 | 78 | 210 |
| Power Systems | 90 | 91 | 150 |
| Automation Products | 130 | 142 | 260 |
| Process Automation | 81 | 105 | 160 |
| Robotics | 124 | 191 | 200 |
| Corporate and Other | 14 | 16 | 20 |
| Total | 516 | 623 | 1,000 |

During 2009, the Company recorded an expense of \$516 million under this program; \$293 million was recorded in "Total cost of sales", \$75 million in "Selling, general and administrative expenses" and \$148 million in "Other income (expense), net". This expense consisted of \$342 million related to employee severance costs, \$129 million of estimated contract settlement, loss order and other costs and \$45 million related to inventory and long-lived asset impairments.

During 2008, the Company recorded an expense of \$107 million under this program; \$72 million was recorded in "Total cost of sales", \$32 million in "Selling, general and administrative expenses" and \$3 million in "Other income (expense), net". This expense consisted of \$99 million related to employee severance costs, \$3 million of estimated contract settlement, loss order and other costs and \$5 million related to inventory and long-lived asset impairments.

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

Robotics reorganization

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

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Notes to the Consolidated Financial Statements (Continued)

Note 21 Restructuring and related expenses (Continued)

During 2009, the Company recorded an expense of \$124 million under this plan; \$70 million was recorded in "Total cost of sales", \$16 million in "Selling, general and administrative expenses" and \$38 million in "Other income (expense), net". This expense consisted of \$73 million related to employee severance costs and \$48 million of estimated contract settlement, loss order and other costs and \$3 million related to inventory and long-lived asset impairments.

During 2008, the Company recorded an expense of \$67 million under this plan; \$47 million was recorded in "Total cost of sales" and \$20 million in "Selling, general and administrative expenses". This expense consisted of \$62 million related to employee severance costs and \$5 million related to inventory and long-lived asset impairments.

Liabilities associated with the Robotics reorganization consisted of the following:

| | Employee severance costs | Contract settlement, loss order and other costs | Total |
|---------------------------------------|-----------------------------|---|------------|
| | (\$ in millions) | | |
| Liability at January 1, 2008 | | | |
| Expenses | 62 | | 62 |
| Liability at December 31, 2008 | 62 | | 62 |
| Expenses | 76 | 48 | 124 |
| Cash payments | (19) | (7) | (26) |
| Exchange rate differences | 1 | | 1 |
| Change in estimates | (3) | | (3) |
| Liability at December 31, 2009 | 117 | 41 | 158 |

Downsizing the Automation Products business in France and Germany

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

During 2009, the Company recorded an expense of \$82 million under this plan; \$67 million was recorded in "Total cost of sales", \$2 million in "Selling, general and administrative expenses" and \$13 million in "Other income (expense), net". This expense consisted of \$61 million related to employee severance costs, \$15 million of estimated contract settlement, loss order and other costs and \$6 million related to inventory and long-lived asset impairments.

During 2008, the Company recorded cost of sales of \$6 million related to employee severance costs under this plan.

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Notes to the Consolidated Financial Statements (Continued)

Note 21 Restructuring and related expenses (Continued)

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

| | Employee severance costs | Contract settlement, loss order and other costs | Total |
|---------------------------------------|-----------------------------|---|-----------|
| | (\$ in millions) | | |
| Liability at January 1, 2008 | | | |
| Expenses | 6 | | 6 |
| Liability at December 31, 2008 | 6 | | 6 |
| Expenses | 61 | 15 | 76 |
| Cash payments | (3) | (3) | (6) |
| Liability at December 31, 2009 | 64 | 12 | 76 |

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

Downsizing the Power Systems business in Germany

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

During 2009, the Company recorded an expense of \$43 million under this plan; \$32 million was recorded in "Total cost of sales" and \$11 million in "Selling, general and administrative expenses". This expense consisted of \$37 million related to employee severance costs and \$6 million of estimated contract settlement, loss order and other costs.

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

| | Employee severance costs | Contract settlement, loss order and other costs | Total |
|---------------------------------------|-----------------------------|---|-----------|
| | (\$ in millions) | | |
| Liability at January 1, 2009 | | | |
| Expenses | 37 | 6 | 43 |
| Liability at December 31, 2009 | 37 | 6 | 43 |

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

As of December 31, 2009, the balance of restructuring and related liabilities is primarily included in "Provisions and other current liabilities" on the balance sheet.

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Notes to the Consolidated Financial Statements (Continued)

Note 21 Restructuring and related expenses (Continued)

Transformer business consolidation program

In 2008, the Company finalized the transformer business consolidation program and expensed a total of \$241 million between 2005 and the end of 2008.

During 2008, the Company recorded an expense of \$46 million; \$27 million was recorded in "Total cost of sales", \$16 million in "Selling, general and administrative expenses" and \$3 million in "Other income (expense), net". This expense consisted of \$16 million charges related to employee severance costs, \$26 million of estimated contract settlement, loss order and other costs and \$4 million related to inventory and long-lived asset impairments.

During 2007, the Company recorded an expense of \$34 million; \$23 million was recorded in "Total cost of sales", \$2 million in "Selling, general and administrative expenses" and \$9 million in "Other income (expense), net". This expense consisted of \$15 million charges related to employee severance costs, \$9 million of estimated contract settlement and loss order costs and \$10 million related to inventory and long-lived asset impairments.

Note 22 Operating segment and geographic data

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

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

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

Automation Products: produces low-voltage switchgear, breakers, switches, control products, DIN-rail components, enclosures, wiring accessories, instrumentation, drives, motors, generators, power electronics systems and services related to these products that help customers to increase productivity, save energy and increase safety.

Process Automation: develops and sells control, plant optimization, automation products and solutions, industry specific application knowledge and services for the oil, gas and petrochemicals, metals and minerals, marine and turbocharging, pulp and paper, and utility automation industries.

Robotics: offers robot products, systems and service for the automotive and other manufacturing industries.

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

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Notes to the Consolidated Financial Statements (Continued)

Note 22 Operating segment and geographic data (Continued)

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

The following tables summarize information for each segment:

| | 2009 | | | | | | December 31, 2009 |
|--------------------------|----------------------|-----------------------|----------------|-------------------------------|---|-------------------------------------|-----------------------------|
| | Third party revenues | Intersegment revenues | Total revenues | Depreciation and amortization | Earnings before interest and taxes ⁽¹⁾ | Capital expenditures ⁽¹⁾ | Total assets ⁽¹⁾ |
| | (\$ in millions) | | | | | | |
| Power Products | 9,370 | 1,869 | 11,239 | 185 | 1,969 | 272 | 6,918 |
| Power Systems | 6,356 | 193 | 6,549 | 46 | 388 | 131 | 4,617 |
| Automation Products | 7,897 | 1,033 | 8,930 | 165 | 1,330 | 264 | 5,768 |
| Process Automation | 7,150 | 197 | 7,347 | 72 | 685 | 90 | 4,336 |
| Robotics | 959 | 11 | 970 | 17 | (296) | 14 | 568 |
| Corporate and Other | 63 | 1,504 | 1,567 | 170 | 50 | 196 | 12,521 |
| Intersegment elimination | | (4,807) | (4,807) | | | | |
| Discontinued operations | | | | | | | |
| Consolidated | 31,795 | | 31,795 | 655 | 4,126 | 967 | 34,728 |

| | 2008 | | | | | | December 31, 2008 |
|--------------------------|----------------------|-----------------------|----------------|-------------------------------|---|-------------------------------------|-----------------------------|
| | Third party revenues | Intersegment revenues | Total revenues | Depreciation and amortization | Earnings before interest and taxes ⁽¹⁾ | Capital expenditures ⁽¹⁾ | Total assets ⁽¹⁾ |
| | (\$ in millions) | | | | | | |
| Power Products | 9,866 | 2,024 | 11,890 | 161 | 2,100 | 305 | 7,136 |
| Power Systems | 6,673 | 239 | 6,912 | 54 | 592 | 89 | 4,402 |
| Automation Products | 9,100 | 1,150 | 10,250 | 162 | 1,908 | 305 | 5,782 |
| Process Automation | 7,574 | 241 | 7,815 | 100 | 926 | 79 | 4,384 |
| Robotics | 1,612 | 30 | 1,642 | 20 | 9 | 28 | 910 |
| Corporate and Other | 87 | 1,606 | 1,693 | 164 | (983) | 365 | 10,397 |
| Intersegment elimination | | (5,290) | (5,290) | | | | |
| Discontinued operations | | | | | | | |
| Consolidated | 34,912 | | 34,912 | 661 | 4,552 | 1,171 | 33,011 |

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Notes to the Consolidated Financial Statements (Continued)

Note 22 Operating segment and geographic data (Continued)

| | 2007 | | | | | December 31, 2007 | |
|-----------------------------|----------------------------|--------------------------|-------------------|-------------------------------------|--|--|-----------------------------|
| | Third party revenues | Intersegment revenues | Total revenues | Depreciation and amortization | Earnings before interest and taxes ⁽¹⁾ | Capital expenditures ⁽¹⁾ | Total assets ⁽¹⁾ |
| (\$ in millions) | | | | | | | |
| Power Products | 8,228 | 1,549 | 9,777 | 131 | 1,596 | 209 | 5,770 |
| Power Systems | 5,604 | 228 | 5,832 | 57 | 489 | 50 | 4,167 |
| Automation Products | 7,651 | 993 | 8,644 | 150 | 1,477 | 193 | 5,371 |
| Process Automation | 6,176 | 244 | 6,420 | 109 | 683 | 91 | 4,111 |
| Robotics | 1,389 | 18 | 1,407 | 21 | 79 | 14 | 821 |
| Corporate and Other | 135 | 1,429 | 1,564 | 129 | (301) | 192 | 10,629 |
| Intersegment elimination | | (4,461) | (4,461) | | | | |
| Discontinued operations | | | | 5 | | 7 | 132 |
| Consolidated | 29,183 | | 29,183 | 602 | 4,023 | 756 | 31,001 |

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

Geographic information

| | Revenues | | | Long-lived assets at December 31, | | |
|------------------------|---------------|---------------|---------------|-----------------------------------|--------------|--------------|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| (\$ in millions) | | | | | | |
| Europe | 13,093 | 15,815 | 13,322 | 2,776 | 2,455 | 2,358 |
| The Americas | 6,049 | 6,428 | 5,247 | 327 | 328 | 258 |
| Asia | 8,684 | 8,967 | 7,480 | 808 | 663 | 522 |
| Middle East and Africa | 3,969 | 3,702 | 3,134 | 161 | 116 | 108 |
| | 31,795 | 34,912 | 29,183 | 4,072 | 3,562 | 3,246 |

Revenues have been reflected in the regions based on the location of the customer. China generated approximately 13 percent of the Company's total revenues in 2009, compared to 11 percent in both 2008 and 2007. The United States generated approximately 10 percent of the Company's total revenues in 2009, 2008 and 2007. Germany generated approximately 8 percent of the Company's total revenues in 2009, 2008 and 2007. More than 95 percent of the Company's total revenues were generated outside Switzerland in 2009, 2008 and 2007.

Long-lived assets represent property, plant and equipment, net and are shown by location of the assets. Switzerland and Germany represented approximately 20 percent and 12 percent, respectively, of the Company's long-lived assets at December 31, 2009 and approximately 19 percent and 13 percent at December 31, 2008.

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.

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Approximately 63 percent of the Company's employees are subject to collective bargaining agreements in various countries. Approximately one-third of these agreements will expire in 2010.

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ABB Ltd

Notes to the Consolidated Financial Statements (Continued)

Note 22 Operating segment and geographic data (Continued)

Collective bargaining agreements are subject to various regulatory requirements and are renegotiated on a regular basis in the normal course of business.

Realignment of automation segments

On November 27, 2009, the Company announced a reorganization of its automation segments to align their activities more closely with those of its customers.

Effective January 1, 2010, the businesses in the Automation Products and Robotics segments have been regrouped into two new segments the Discrete Automation and Motion segment, and the Low Voltage Products segment. The Process Automation segment remains unchanged except for the addition of the instrumentation business from the previous Automation Products segment.

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