ABB LTD
Form 20-F
June 27, 2002

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 27, 2002

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

/ / REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g)
OF THE SECURITIES EXCHANGE ACT OF 1934

OR

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001

OR

/ / TRANSITION 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)

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
AMERICAN DEPOSITARY SHARES, EACH REPRESENTING ONE REGISTERED SHARE	NEW YORK STOCK EXCHANGE
REGISTERED SHARES, PAR VALUE CHF 2.50	NEW YORK STOCK EXCHANGE*

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* 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.

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.

The number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2001: 1,113,133,816 Registered Shares

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 /X/ No / /

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 / / Item 18 /X/

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INTRODUCTION

ABB Ltd is a corporation organized under the laws of Switzerland. In this annual report, "the ABB Group," "ABB," "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 1999 exchange offers 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 of our registered shares) are referred to as "ADSs." Our registered shares are referred to as "shares."

We have prepared this annual report on the basis of information that we have or that we have obtained from sources we believe to be reliable. Summary discussions of documents referred to in this annual report may not be complete and we refer you to the actual documents for more complete information.

Our principal corporate offices are located at Affolternstrasse 44, CH-8050 Zurich, Switzerland, telephone number 011-41-43-317-7111.

BUSINESS OF ABB

We are a global provider of products and systems incorporating advanced technologies and innovative applications of those products and systems, specializing in automation and power technologies for a broad range of industrial and commercial customers. We work with our customers to engineer and install networks, facilities and plants with particular emphasis on enhancing efficiency and productivity for customers that source, refine, transmit and distribute energy. We provide comprehensive market and product support services, as well as creative financing and risk management options to enable our customers to buy and use our products and services. We increasingly focus on high value-added, high return businesses that capitalize on our market and technical expertise and offer innovative products incorporating sophisticated software applications. We apply our expertise to develop creative ways of integrating our products and systems with our customers' business processes to enhance their productivity and efficiency. We refer to this integration as industrial information technology or "Industrial IT." Our commitment to Industrial IT has been supported by our recent strategic initiatives and our research and development efforts.

FINANCIAL AND OTHER INFORMATION

All references herein to "U.S. dollars," and "$" are to United States dollars. All references to "CHF" are to Swiss francs. All references to "E" are to euro.

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 noon 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 the date indicated for each amount. The noon buying rate for Swiss francs on December 31, 2001 was $1.00 = CHF 1.6598. The noon buying rate for Swiss francs on June 26, 2002 was $1.00 = CHF 1.4940.

On May 7, 2001, we effected a share split in a four-for-one ratio to reduce the nominal value of our shares from CHF 10 each to CHF 2.50 each. For more information about the share split, see "Item 10. Additional Information--The Share Split." Unless otherwise noted, all share figures in this annual report reflect the share split.

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FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements, principally in "Item 4. Information on the Company--Description of Business Divisions" and "Item 5. Operating and Financial Review and Prospects." We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting our business. These forward-looking statements are subject to risks, uncertainties and assumptions including, among other things, the factors discussed in this registration statement under "Item 3. Key Information--Risk Factors" and factors described in documents that we may furnish from time to time to the Securities and Exchange Commission.

The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect" and similar words are intended to identify forward-looking statements. In light of these risks and uncertainties, the forward-looking information, events and circumstances discussed in this annual report might not occur. Our actual results and performance could differ substantially from those anticipated in our forward-looking statements. We undertake no obligation to update publicly or revise any forward-looking statements because of new information, future events or otherwise.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

SELECTED FINANCIAL DATA

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 United States generally accepted accounting principles (U.S. GAAP). This selected information has been extracted from our consolidated financial statements. Our financial statements as of and for the year ended December 31, 2001 were audited by Ernst & Young AG, and our financial statements as of December 31, 2000 and 1999 and for the years ended December 31, 2000, 1999 and 1998 were audited by Ernst & Young AG and KPMG Klynveld Peat Marwick Goerdeler SA, which have expressed unqualified opinions thereon.

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	YEAR ENDED DECEMBER 31,			
	2001	2000	1999	1998
	(IN MILLIONS EXCEPT PER SHARE DATA)			
INCOME STATEMENT DATA(1)				
Revenues	$ 23,726	$ 22,967	$ 24,356	$ 22,944
Cost of sales(2)	(18,708)	(17,222)	(18,457)	(17,204)
Gross profit	5,018	5,745	5,899	5,740
Selling, general and administrative expenses	(4,397)	(4,417)	(4,682)	(4,297)
Amortization expense(3)	(236)	(219)	(189)	(75)
Other income (expense), net(4)	(106)	276	94	(42)
Earnings before interest and taxes	279	1,385	1,122	1,326
Interest and dividend income	568	565	608	608
Interest and other finance expense	(802)	(644)	(708)	(659)
Income from continuing operations before taxes and minority interest	45	1,306	1,022	1,275
Provision for taxes	(105)	(377)	(343)	(337)
Minority interest	(70)	(48)	(36)	(15)
Income (loss) from continuing operations	(130)	881	643	923
Income (loss) from discontinued operations, net of tax(5)	(510)	562	717	(441)
Extraordinary gain on debt extinguishment, net of tax(6)	12	--	--	--
Cumulative effect of change in accounting principles (SFAS 133), net of tax(7)	(63)	--	--	--
Net income (loss)	$ (691)	$ 1,443	$ 1,360	$ 482

Weighted average shares outstanding(8)	1,132	1,180	1,184	1,190
Dilutive potential shares(8)	3	5	3	1
Diluted weighted average shares outstanding(8)	1,135	1,185	1,187	1,191
Basic earnings (loss) per share:(8)				
Income (loss) from continuing operations	$ (0.11)	$ 0.74	$ 0.54	$ 0.77
Net income (loss)	$ (0.61)	$ 1.22	$ 1.15	$ 0.40
Diluted earnings (loss) per share:(8)				
Income (loss) from continuing operations	$ (0.11)	$ 0.74	$ 0.54	$ 0.77
Net income (loss)	$ (0.61)	$ 1.22	$ 1.15	$ 0.40

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(1) In June 1999, ABB Ltd issued approximately 1,180 million registered shares to the stockholders of ABB AB, a Swedish publicly listed company, and ABB AG, a Swiss publicly listed company. Preparatory to this transaction, ABB AG declared a special dividend such that, as a result, neither ABB AB nor ABB AG had operations or assets other than their respective 50% ownership interests in ABB Asea Brown Boveri Ltd. In exchange, the stockholders of ABB AB and ABB AG tendered all issued shares of the two companies except for 3% of total issued ABB AB stock. The stockholders of ABB AB who did not tender their shares for ABB Ltd shares received cash of $438 million in return for their shares of ABB AB and the equivalent number of registered shares of ABB Ltd (approximately 20 million) were sold to third parties, resulting in a total of approximately 1,200 million issued shares of ABB Ltd as of June 28, 1999. These transactions resulted in ABB Ltd being the single parent entity for the ABB Group.

The Consolidated Financial Statements included elsewhere in this annual report include the accounts and subsidiaries of ABB Ltd on a consolidated basis since June 28, 1999 and the accounts and subsidiaries of ABB Asea Brown Boveri Ltd on a consolidated basis for periods prior thereto. For additional information, see "Item 5. Operating and Financial Review and Prospects" and Note 1 to the Consolidated Financial Statements.

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(2) Prior to 2001, we estimated certain reserves for unpaid claims and expenses in our Insurance business by calculating the present value of funds required to pay losses at future dates. In the United States, where we underwrite many claims, the timing and amount of future claims payments have become more uncertain. Therefore, the discounted value can no longer be reliably estimated. Instead, we now show the expected future claims at full face value, resulting in a net charge of $295 million to cost of sales in the 2001 Consolidated Income Statement. This is a non-cash charge, which will be recovered through higher earnings over the life of the insurance contracts. For additional information, see "Item 5. Operating and Financial Review and Prospects" and Note 14 to the Consolidated Financial Statements.

(3) Includes goodwill amortization of $191 million, $174 million, $155 million and $74 million in 2001, 2000, 1999 and 1998, respectively. In accordance with the adoption of Statement of Financial Accounting Standards No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, after January 1, 2002, goodwill will no longer be amortized but will be charged to operations when specified tests indicate that the goodwill is impaired. For additional information, see Note 2 to the Consolidated Financial Statements.

(4) During 2001, 2000 and 1999, we incurred restructuring charges and related

asset write-downs of $231 million, $195 million and $141 million, respectively, relating to a number of restructuring initiatives throughout the world. During 1998, we incurred $278 million in restructuring costs, of which $146 million related to additional employee terminations and severance actions in conjunction with a major restructuring plan announced in 1997. These restructuring costs were accrued in the respective periods pursuant to the requirements of EITF 94-3, LIABILITY RECOGNITION FOR CERTAIN EMPLOYEE TERMINATION BENEFITS AND OTHER COSTS TO EXIT AN ACTIVITY (INCLUDING CERTAIN COSTS INCURRED IN A RESTRUCTURING).

(5) In 2001, we recorded a charge of $470 million related to the retained asbestos liability of our disposed power generation segment. During 2000, we recorded gains on the disposal of our power generation segment, which included our investment in ABB ALSTOM POWER and our nuclear business, which were partly offset by a $70 million provision related to our retained asbestos liability, a $300 million provision for estimated environmental remediation costs, $136 million of accumulated foreign currency translation losses and operating losses associated with these businesses. In 1999, we recorded a gain on the formation of a joint venture with ALSTOM, ABB ALSTOM POWER, as well as a gain on the disposal of our transportation segment, offset by a $300 million provision related to our retained asbestos liability and contract loss provisions of $560 million. As a result, our Consolidated Financial Statements present the net assets and results of operations of these segments, including charges incurred subsequent to the disposals, as discontinued operations. For additional information, see "Item 5. Operating and Financial Review and Prospects" and Notes 4 and 16 to the Consolidated Financial Statements.

(6) In 2001, we repurchased outstanding bonds which resulted in an extraordinary gain on extinguishment of debt. For additional information, see Note 13 to the Consolidated Financial Statements.

(7) We accounted for the adoption of Statement of Financial Accounting Standards No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (SFAS 133), as a change in accounting principle. Based on our outstanding derivatives at January 1, 2001, we recognized the cumulative effect of the accounting change as a loss in the Consolidated Income Statement. For additional information, see Note 2 to the Consolidated Financial Statements.

(8) The number of shares and earnings per share data in the Consolidated Financial Statements have been presented as if ABB Ltd shares had been issued for all periods presented and as if the four-for-one split of ABB Ltd shares in May 2001 had occurred as of the earliest period presented.

Basic earnings per share is calculated by dividing income by the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated by dividing income by the weighted average number of shares outstanding during the year, assuming that all potentially dilutive securities were exercised and that any proceeds from such exercises were used to acquire shares of our stock at the average market price during the year or the period the securities were outstanding, if shorter. Potentially dilutive securities comprise outstanding written put options, for which net share settlement at average market price of our stock was assumed, if dilutive, and outstanding written call options and the securities issued under our management incentive plan, to the extent the average market price of our stock exceeded the exercise prices of such instruments. For additional information, see Notes 2, 20 and 21 to the Consolidated Financial Statements.

	DECEMBER 31, 2001	2000	1999
	($ IN MILLIONS)		
BALANCE SHEET DATA(1)			
Cash and equivalents	$ 2,767	$ 1,397	$ 1,615
Total assets	32,344	30,962	30,578
Long-term borrowings	5,043	3,776	3,586
Capital stock and additional paid-in capital	2,028	2,082	2,071
Total stockholders' equity	2,014	5,171	4,271
Net operating assets(9)	13,778	14,632	13,144

	YEAR ENDED DECEMBER 31, 2001	2000	1999	1998
	($ IN MILLIONS)			
CASH FLOW DATA(1)				
Net cash provided by operating activities	$ 2,193	$ 1,022	$ 1,575	$ 80
Net cash used in investing activities	(1,218)	(1,713)	(2,036)	(1,01
Net cash provided by (used in) financing activities	677	(392)	(1,187)	58
Net cash provided by (used in) discontinued operations	(210)	949	723	74
OTHER DATA(1)				
Purchases of property, plant and equipment	$ (761)	$ (553)	$ (839)	$ (76
Depreciation and amortization(3)	787	836	795	64
Research and development	654	703	865	81
Order-related development(10)	916	985	1,212	1,12

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(9) Net operating assets is calculated based upon total assets (excluding cash and equivalents, marketable securities, current loans receivable, taxes and deferred charges) less current liabilities (excluding borrowings, taxes, provisions and pension-related liabilities).

(10) Order-related development activities 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 progress of a contract and then are reflected in cost of sales at the time revenue is recognized in accordance with our accounting policies.

DIVIDENDS AND DIVIDEND POLICY

Payment of dividends is subject to general business conditions, our current and expected financial condition and performance and other relevant factors including growth opportunities. Our ability to pay dividends is subject to a recommendation by our board of directors and a vote of our shareholders at their annual general meeting.

Because we pay cash dividends, if any, in Swiss francs, exchange rate fluctuations will affect the U.S. dollar amounts received by holders of ADSs upon conversion by Citibank, N.A., the depositary, of those cash dividends.

The following table sets forth in Swiss francs and in U.S. dollars (translated at the noon buying rate on December 31, 2001) the dividend paid per share with respect to the years ended December 31, 2001, 2000 and 1999. At our annual general meeting in March 2002, our shareholders approved the proposal of our board of directors that no dividend be paid with respect to the year ended December 31, 2001.

	DIVIDEND PER SHARE	
YEAR ENDED DECEMBER 31,	SWISS FRANCS	U.S. DOLLARS
2001	--	--
2000	0.75	0.45
1999	0.75	0.45

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RISK FACTORS

Our business, financial condition or results of operations could suffer material adverse effects due to any of the following risks.

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 several specific respects, including 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 and for products and systems provided by our Oil, Gas and Petrochemicals business), rapidly changing technology (in all of our industrial divisions) and increased competition as a result of deregulation (particularly for our power technology products and systems). For example, for a number of years power transmission and distribution providers throughout the world have been undergoing substantial deregulation and 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.

We are increasingly asked by our customers to provide an overall solution to a particular business challenge. Our success is dependent in large part on our ability to:

- anticipate our customers' needs and provide products, systems and related applications to meet those needs;

- develop new products, systems and related applications that are accepted by our customers;

- differentiate our product and service offerings from our competitors' offerings;

- enhance and upgrade our existing products and services; and

- price our products and services competitively.

The principal competitors for our automation technology products and services include Emerson, General Electric, Honeywell, Invensys and Siemens. We primarily compete with ALSTOM, Schneider and Siemens in sales of our power technology products and systems to our utilities customers. Similarly, our building automation products and services compete with Schneider and Siemens. The principal competitors with our Oil, Gas and Petrochemicals business include Bechtel, Cooper Cameron, Halliburton, Kvaerner, Samsung and Technip. All of our competitors are sophisticated companies with many 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 adequately to technological developments or customer requirements, and any delay in accomplishing these goals, could adversely affect our business, results of operations and financial condition. Our ability to maintain margins depends to a large extent on our ability to integrate products and systems with our industry and technical expertise to enhance productivity and efficiency, and therefore add value for our customers.

IF WE DO NOT SUCCESSFULLY MANAGE THE TRANSFORMATION OF OUR BUSINESS TO TECHNOLOGY INTENSIVE AREAS, WE MAY INCUR LOSSES.

We are increasingly asked by our customers and potential customers to integrate the equipment that we manufacture with our industry expertise and technical know-how to develop applications for our products and systems that address the business challenges that our customers face. We believe that the best strategy for us to pursue in response to these customer demands is to emphasize technology intensive areas in which we can apply this expertise and know-how and to focus on research and development for innovation. We have also disposed of asset intensive businesses, such as our former power generation and rail transportation businesses, which were not consistent with this strategy.

As we change our business focus to emphasize the application of our expertise, we demand more creativity and innovation from our businesses and personnel. If we cannot provide appropriate resources, training and motivation to our employees to respond to these challenges, we may not be able to provide acceptable solutions to the problems faced by our clients and we may not compete successfully in the businesses that we target. Competition for personnel with the expertise we require is intense, and if we cannot recruit and retain such personnel, it will be difficult to implement the change in our business focus.

To advance our business strategy, we have made acquisitions for total consideration (including assumed debt related to the Elsag Bailey acquisition in 1999) of $597 million, $896 million and $2,428 million in 2001, 2000 and 1999, respectively. We intend to continue to review potential acquisitions and investments in the ordinary course of our business. Acquisitions, particularly cross-border acquisitions, involve numerous risks, including:

- integration of the businesses we acquire, including new services or products, into our existing offerings;

- assimilation and retention of personnel; and

- diversion of management's attention from other business concerns.

We incurred $90 million of restructuring charges in 2000 and $38 million in fiscal 1999 in connection with restructuring certain of our operations to integrate them with the acquired Elsag Bailey operations. These charges primarily related to severance costs and early retirement payments. If we make additional acquisitions as part of the transformation of our business, we could incur similar integration costs.

IF WE ARE UNABLE TO REDUCE OUR INDEBTEDNESS, OUR FINANCIAL POSITION COULD BE ADVERSELY AFFECTED.

As of March 31, 2002 our aggregate gross indebtedness was $11,070 million and our aggregate net debt was $4,487 million. Net debt is short-, medium- and long-term debt less cash and marketable securities. In the first quarter of 2002, our level of indebtedness and the downgrading of our credit ratings limited our access to the commercial paper market. Consequently, we renegotiated our $3 billion credit facility with our lenders. In March 2002, we announced our intention to reduce our net debt by at least $1.5 billion by the end of 2002, partially through a series of disposals of non-core businesses. We cannot offer any assurance as to the timing or the successful completion of the announced dispositions or the proceeds we may receive from the dispositions. Delays in the implementation of our disposal program may adversely affect our ability to reduce our level of debt. Our elevated debt level means we must allocate more of our available cash to pay interest on the debt. It also could affect our competitiveness by limiting our ability to respond to changing market conditions, expand through acquisitions or invest in new products and technologies or other strategic investments.

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INDUSTRY CONSOLIDATION COULD RESULT IN MORE POWERFUL COMPETITORS AND FEWER CUSTOMERS.

Our competitors in all of our business divisions are consolidating. In particular, the automation and oil and gas industries are 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 among our customers' industries (such as the oil and gas industry, the marine and cruise industry and the automotive, aluminum, steel, pulp and paper and pharmaceutical industries) 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 ABB. 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.

SOME OF OUR CUSTOMERS' INDUSTRIES HAVE EXPERIENCED PERIODIC DOWNTURNS IN THE PAST. IF SUCH DOWNTURNS OCCUR, OUR RESULTS OF OPERATIONS COULD BE MATERIALLY AND ADVERSELY AFFECTED.

Several of the industries that we serve have experienced cyclical periods of slow growth or decline in the past. For example, the automotive and pulp and paper industries, the oil, gas and petrochemicals industry and the power supply industries have experienced such cyclical downturns in the past. These downturns have often been linked to general economic conditions in the markets that we serve. In periods of slow growth or decline, our customers are more likely to decrease expenditures on the types of products and systems that our businesses in these divisions supply and we are more likely to experience decreased revenues as a result. These cyclical downturns have affected our customers' industries in the past and are likely to affect them in the future.

THE REVENUES AND FINANCIAL RESULTS OF OUR UTILITIES AND POWER TECHNOLOGY PRODUCTS BUSINESSES WILL DECLINE UNLESS WE CAN EFFECTIVELY RESPOND TO DEREGULATION AND PRIVATIZATION IN THE POWER-RELATED INDUSTRIES THAT THEY SERVE.

Our Utilities and Power Technology Products businesses depend on trends in the power supply, transmission and distribution businesses that we serve. In particular, we have witnessed a trend toward deregulation and privatization in the transmission and distribution industries on a worldwide basis. This deregulation has resulted in downward pressure on the prices charged for electricity. This trend increasingly challenges us to provide products and applications for those products which address the challenges faced by our customers quickly and on a cost-effective basis. If we do not do so, our revenues and margins in these businesses will be adversely affected. In 2001, the Utilities and Power Technology Products business divisions together represented approximately 29% of external revenues; therefore, an adverse effect on the financial results of these divisions could have a material adverse effect on our consolidated results of operations.

OUR OIL, GAS AND PETROCHEMICALS BUSINESS MAY EXPERIENCE LOSSES IF THE OIL AND GAS INDUSTRY GENERALLY EXPERIENCES A DOWNTURN.

Our Oil, Gas and Petrochemicals business depends on the condition of the oil and gas industry and particularly on capital expenditure budgets of the companies engaged in the exploration, development and production of oil and gas. Our upstream oil and gas activities are substantially dependent on the condition of the offshore exploration and development market. For example, in the first half of 1999 our Oil, Gas and Petrochemicals orders were adversely affected by low oil prices. The prices of oil and gas and their uncertainty in the future, along with forecasted growth in world oil and gas demand, will strongly influence the extent of offshore exploration and

development activities. Offshore oil and gas field capital expenditures also are influenced by the sale and expiration dates of offshore leases, the discovery rate of new oil and gas reserves in offshore areas, local and international political and economic conditions, environmental regulation, coordination by the Organization of Petroleum Exporting Countries, the ability of oil and gas companies to access or generate capital and the cost of such capital. Similarly, our businesses that provide products, systems and services to the downstream refining and petrochemical industry are affected by capital expenditure budgets of our customers, which are, in turn, affected by refinery margins and prices for petrochemical products such as ethylene and polypropylene. In 2001, the Oil, Gas and Petrochemicals division represented approximately 15% of external revenues. An adverse effect on the financial results of this division could have a material adverse effect on our consolidated results of operations.

BIDDING ON LARGE, LONG-TERM FIXED-PRICE PROJECTS EXPOSES OUR INDUSTRIAL BUSINESSES TO RISK OF LOSS.

Approximately 13% of our total orders booked in 2001 were "large orders," which we define as orders from third parties involving at least $15 million worth of products or systems. Portions of our business, particularly in our Oil, Gas and Petrochemicals, Utilities and Industries divisions, involve orders related to long-term projects that can take many months or even years to complete. Additionally, such projects are typically performed on a fixed-price or turnkey basis and are awarded on a competitive bidding basis. We may expend significant resources, both in management time as well as money, on bidding for projects that we are not awarded.

Additionally, even if we do win a bid, fixed-priced contracts are inherently risky because of the possibility of underbidding and the fact that we assume substantially all of the risks associated with completing the project and the post-completion warranty obligations. We also assume 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 that we spend our own money to remedy the problem;
- changes in the cost of components, materials or labor;
- difficulties in obtaining required governmental permits or approvals;
- project modifications creating unanticipated costs;
- delays caused by local weather conditions; and
- suppliers' or subcontractors' failure to perform.

These risks are exacerbated if the duration of the project is long-term 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 long-term, fixed-price projects often make us subject to penalties if we cannot complete portions of the project in accordance with agreed-upon time limits. Therefore, losses can result from performing large, long-term projects on a fixed-price or turnkey basis. For example, in 2001 the operating income of our Oil, Gas and Petrochemicals division was adversely affected by provisions for major cost overruns and project delays, the majority of which related to two large, long-term projects.

In connection with large, long-term projects, we routinely undertake substantial customer- and project-specific development efforts. In 2001 and 2000, we incurred order-related development expenditures of approximately $916 million and $985 million, respectively. Order-related

development amounts are initially recorded in inventories as part of the work in progress of a contract and then are reflected in cost of sales at the time revenue is recognized in accordance with our accounting policies. To the extent that revenues on these projects cannot be recognized, we would not recover the order-related development expenditures. Additionally, to the extent that order-related development expenditures in a specific project exceed expectations, the profit margin on that project will be adversely affected.

WE ARE SUBJECT TO LIABILITIES ARISING OUT OF OUR DISCONTINUED OPERATIONS AND WE COULD BE REQUIRED TO MAKE PAYMENTS IN RESPECT OF THESE RETAINED LIABILITIES IN EXCESS OF ESTABLISHED RESERVES.

We retain ownership of Combustion Engineering, Inc., a subsidiary that formerly conducted part of the power generation business contributed to the ABB ALSTOM POWER joint venture in June 1999 and which now owns commercial real estate that it leases to third parties. Combustion Engineering is a co-defendant, together with third parties, in numerous lawsuits pending in the United States in which the plaintiffs claim damages for personal injury arising from exposure to or use of equipment that contained asbestos that Combustion Engineering supplied, primarily during the 1970s and before. As of December 31, 2001 and 2000, we had reserved $940 million and $590 million, respectively, in respect of asbestos claims and related defense costs. We also recorded receivables of approximately $150 million and $160 million at December 31, 2001 and 2000, respectively, for probable insurance recoveries with respect to the claims reserved against. Resolution of asbestos claims is subject to many uncertainties, including the availability of insurance, and the outcome of individual matters is not predictable. During 2001, we experienced an increase in the level of new claims and higher settlement costs as compared to recent years. It is possible that we could be required to make expenditures in excess of established reserves, in a range of amounts that cannot reasonably be estimated. For more information, see "Item 8. Financial Information--Legal Proceedings."

We retained liability for environmental remediation costs at two sites in the United States that were operated by our nuclear business, which has been sold to British Nuclear Fuels. We have retained all environmental liabilities associated with Combustion Engineering's Windsor, Connecticut facility and a portion of the liabilities associated with our ABB CE Nuclear subsidiary's Hematite, Missouri facility. The primary environmental liabilities associated with these sites relate to the costs of remediating radiological contamination upon decommissioning the facilities. Based on the information that British Nuclear Fuels has made publicly available, we believe it may take approximately 6 years for remediation at the Hematite site, from the time of decommissioning. The Windsor site was decommissioned in 2001, and we believe the remediation may take until 2008. At the Windsor site, we believe that a significant portion of such remediation costs will be the responsibility of the United States government pursuant to 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 reserve of $300 million in connection with estimated remediation costs related to these facilities. During 2001, we expended approximately $6 million on remediation of the Windsor site. It is possible that we could be required to make expenditures in excess of the reserve, in a range of amounts that cannot reasonably be estimated.

We have retained guarantees related to our divested power generation and nuclear businesses referred to above. The purchasers of these businesses have undertaken to indemnify us from and against claims that may be made against us pursuant to these guarantees. No material claims have been made against us under any of these guarantees. We are dependent, however, on the undertakings by the purchasers to indemnify us if we are ever required to fund payments under these guarantees following failures of the businesses sold to perform their obligations.

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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.

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 manufacturing facilities use and produce paint residues, solvents, metals, oils and related residues. We use petroleum-based insulation in transformers, PVC resin to manufacture PVC cable and chloroparafine as a flame retardant. We use inorganic lead as a counterweight in robots that we produce. These are considered to be hazardous substances in many jurisdictions in which we operate. We may be subject to liabilities for environmental contamination if we do not comply with applicable laws regulating such hazardous substances, and such liabilities can be substantial. All of our manufacturing operations are subject to ongoing compliance costs and 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 our 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. See "Item 5. Operating and Financial Review and Prospects--Liquidity and Capital Resources--Environmental Contingencies and Retained Liabilities."

WE MAY BE THE SUBJECT OF PRODUCT LIABILITY CLAIMS.

A malfunction in or the inadequate design of products systems and services that we design and manufacture could result in product liability claims.

Additionally, we may be subject to product liability claims for the improper installation of products and systems designed and manufactured by others. These claims are more likely to occur in our Oil, Gas and Petrochemicals, Utilities and Industries divisions, whose projects often include the installation of products and systems manufactured by third parties.

Product liability claims against us typically involve claims of 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 consequential to property damage. Because of our broad offering of products, these claims arise in different contexts, including the following:

- Our Oil, Gas and Petrochemicals division makes and installs equipment and systems used in oil and gas exploration, production and refining. These products handle petroleum-based substances which can be highly combustible and which can result in significant fires or explosions if we improperly design, manufacture or install equipment.

- If our power technology products and systems are defective, there is a substantial risk of fires, explosions and power surges and significant damage to electricity generating, transmission and distribution facilities.

- If our automation technology products and systems are defective, our customers could suffer significant damage to facilities that rely on these products and systems to properly monitor and control their manufacturing processes.

Although we maintain insurance against product liability claims in amounts that we believe to be adequate, if a very large product liability claim were sustained, 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. 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 or results of operations. 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.

OUR OPERATIONS IN EMERGING MARKETS EXPOSE US TO RISKS ASSOCIATED WITH CONDITIONS IN THOSE MARKETS.

We operate in the emerging markets of Latin America, Asia, the Middle East and Africa. In 2001, approximately 38% of external revenues of the Oil, Gas and Petrochemicals division, approximately 35% of external revenues of the Utilities division and approximately 33% of external revenues of the Power Technology Products division were generated from these emerging markets. Operations in emerging markets 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 markets;

- political instability, which makes our customers less willing to make investments in such regions and complicates our dealings with governments regarding permits or other regulatory matters;

- 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;

- significant fluctuations in interest rates and currency exchange rates;

- the imposition of unexpected taxes or other payments on our revenues in these markets; and

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

In addition, the legal and regulatory systems of the emerging markets identified above are less developed and less well enforced than in industrialized countries. Therefore, our ability to protect our contractual and other legal rights in those regions could be limited. We cannot offer any assurance that our exposure to conditions in emerging markets will not adversely affect our financial condition and results of operations.

OUR INTERNATIONAL OPERATIONS EXPOSE US TO THE RISK OF FLUCTUATIONS IN CURRENCY EXCHANGE RATES.

CURRENCY TRANSLATION RISK. The results of operations and financial position of most of our non-U.S. subsidiaries are reported in the currencies of countries in which those subsidiaries reside. That financial information is then translated into U.S. dollars at the applicable exchange rates for inclusion in our Consolidated Financial Statements. In 2001, approximately 76% of our consolidated revenues were generated in local currencies and translated into U.S. dollars. Of that amount the following percentages were reported in the following local currencies:

- Euro, approximately 32%;

- Swedish krona, approximately 9%;

- Swiss franc, approximately 5%;

- Norwegian krona, approximately 6%; and

- British pound, approximately 5%.

The exchange rate between these currencies and the U.S. dollar fluctuates substantially, which has a significant translation effect on our reported consolidated results of operations and financial

position. In 2001 and 2000, the U.S. dollar appreciated against most of the currencies in which our subsidiaries reported results of operations. In particular, in 2001 and 2000 the U.S. dollar strengthened by approximately:

- 4% in 2001 and 13% in 2000 against the Euro;

- nil in 2001 and 11% in 2000 against the Swiss franc;

- 3% in 2001 and 11% in 2000 against the Norwegian krona; and

- 11% in 2001 and 10% in 2000 against the Swedish krona.

This resulted in the reduction of reported revenues and earnings before interest and taxes when consolidated and translated into U.S. dollars, based on average annual exchange rates, of approximately 4% and 7%, respectively, in 2001 and 8% and 10%, respectively, in 2000.

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 costs are incurred. In this case, if after the time that the parties agree on a price, the value of the currency in which the purchase price is to be paid weakens relative to the currency in which we incur manufacturing 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 (the Euro, Swedish krona and Swiss franc) may distort competition between us and our competitors whose costs are incurred in other currencies. If our principal currencies appreciate in value against such other currencies, our competitiveness may be weakened.

WE MAY ENCOUNTER DIFFICULTY IN MANAGING OUR BUSINESS DUE TO THE GLOBAL NATURE OF OUR OPERATIONS.

We operate in more than 100 countries around the world, with approximately 65% of our employees located in Europe, approximately 17% in the Americas, approximately 11% in Asia and approximately 7% 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 successfully manage 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.

In 2000, our internal audit group discovered during a regular compliance follow-up that several employees in the London region of our Manufacturing and Consumer Industries division had intentionally concealed losses in 1999 and part of 2000 arising from contracts for which revenues were insufficient to cover costs. We believe that these activities were isolated in the London region of this division and did not extend to other operations. As a result of our investigation, we terminated the individuals involved and replaced the local management in the London region. If we had not discovered these activities, our net income for 1999 and 2000 would have been overstated by $30 million and $10 million, respectively. In 2001, we identified and recorded additional costs amounting to approximately $25 million relating to these activities. We cannot ensure compliance on a global basis by all of our employees with our internal control policies and procedures.

ITEM 4. INFORMATION ON THE COMPANY

INTRODUCTION

HISTORY OF THE ABB GROUP

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 and by 1980 was among the world's ten largest electrical engineering groups.

Brown Boveri & Cie. (later renamed BBC Brown Boveri AG) was formed in Switzerland in 1891 and initially specialized in power generation and turbines. In the early to mid-1900s, Brown Boveri expanded its operations throughout Europe and broadened its business operations to include a wide range of electrical engineering activities. By 1980, Brown Boveri had more than 100,000 employees.

In January 1988, Asea AB and BBC Brown Boveri AG each contributed almost all of their businesses to newly formed ABB Asea Brown Boveri Ltd, of which they each owned 50%. Between 1988 and 1990, ABB made acquisitions totaling $5.2 billion, including the purchase of Westinghouse Electric Corp.'s worldwide power transmission and distribution operations. During the 1990s, the ABB Group further expanded its operations in Central and Eastern Europe, North America, South America and Asia. 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 its 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, are now wholly owned subsidiaries of ABB Ltd and are no longer publicly traded. ABB Ltd shares are currently traded on the SWX Swiss Exchange (virt-x), the Stockholm Stock Exchange, the London Stock Exchange, the Frankfurt Stock Exchange and the New York Stock Exchange (in the form of American Depositary Shares).

In 2001, we further realigned the ABB Group, as discussed below under "--Description of Business Divisions--Organizational Realignment," to simplify the way we work and better develop our relationship with customers.

In April 2002, we announced our intention to divest the Building Systems business area, which is part of the Manufacturing and Consumer Industries division. The other three business areas comprising the Manufacturing and Consumer Industries division will be combined with the Process Industries division in a newly created Industries division.

Our principal corporate offices are located at Affolternstrasse 44, CH-8050 Zurich, Switzerland, telephone number 011-41-43-317-7111. Our agent for U.S. federal securities law purposes is ABB Holdings Inc., located at 501 Merritt 7, Norwalk, Connecticut 06851.

RECENT ACQUISITIONS AND DISPOSALS

We have engaged in acquisitions and divestitures to implement our strategy of expanding into more technology-intensive businesses. In 2001, 2000 and 1999, we made the strategic acquisitions described below to strengthen our position in the process automation industry. In addition, in those years we made other acquisitions to enhance our service and technology offerings across our business areas.

We paid aggregate consideration of $597 million in the acquisitions that we completed during 2001, $896 million in 2000 and $2,428 million in 1999. Of the 62 acquisitions we made in 2001, 11 represented acquisitions accounted for as purchases and accordingly the results of the acquired businesses have been included in our Consolidated Financial Statements from the respective acquisition dates. The aggregate purchase price of these acquisitions during 2001 was $329 million.

In 2000 and 1999, we sold the businesses that formerly constituted our power generation segment. We also divested non-core businesses and property, plant and equipment.

SIGNIFICANT ACQUISITIONS

In June 2001, we completed the acquisition of Entrelec Group, a France-based supplier of industrial automation and control products with operations in 17 countries. The acquisition diversified our product range and expanded our customer base in high growth markets.

In January 2001, we acquired Eutech Engineering Solutions Ltd., the international engineering consultancy subsidiary of ICI Group. The acquisition of Eutech, with its expertise in the chemicals, petrochemicals and pharmaceuticals industries, contributed substantially to our knowledge and market strength in these industries.

In June 2000, we acquired Umoe ASA, a Norwegian service company in the oil and gas industry with a focus on modification and maintenance services, including electrical installations. The acquisition furthered our strategy to expand our service activities in the oil and gas market.

In January 1999, we completed the acquisition of Elsag Bailey Process Automation N.V., an industrial process automation company. We purchased Elsag Bailey for cash of approximately $2,210 million (including assumed debt). Elsag Bailey has been integrated into our business and significantly complemented our automation activities in terms of geographic scope, customer base and technology. It strengthened our presence in the key automation markets of the United States, Germany, Japan, Italy, France and Canada and has enabled us to achieve a leading market position in each of our core automation products, systems and services. Elsag Bailey had approximately 11,000 employees at the time of the acquisition, of which approximately 1,000 were terminated through restructuring after the acquisition.

In 1999, we also acquired Kemper Europe Reassurances S.A., which allowed us to expand our reinsurance services beyond the Nordic region.

SIGNIFICANT DIVESTITURES

In the first quarter of 2002, we announced our intention to engage in a series of planned disposals as part of our strategy to reduce our net debt. In April 2002, we announced our intention to divest our Building Systems business area. Also in April 2002, we announced that we were in negotiations with a number of parties with respect to the sale of our Structured Finance business area, which accounts for about one-third of the assets of the Financial Services division. These negotiations are ongoing.

In January 2002, Global Air Movement (Luxembourg) SARL purchased our worldwide air handling business for approximately $225 million, which is subject to adjustment based on the balance sheet of the air handling business at the time of the closing of the sale. This divestiture reinforced our strategy to focus on our expertise in power and automation technology.

In April 2000, British Nuclear Fuels purchased our worldwide nuclear business for approximately $485 million. The divested businesses also include nuclear control systems. We have retained liability for certain specific environmental remediation costs at two sites in the United States that were operated by our nuclear business. See "Item 5. Operating and Financial Review and Prospects--Environmental Contingencies and Retained Liabilities."

In connection with the sale, one of our subsidiaries retained obligations under surety bonds relating to the performance by the nuclear business under certain contracts entered into prior to the sale to British Nuclear Fuels, and British Nuclear Fuels agreed to indemnify us against payments under those surety bonds. See "Item 5. Operating and Financial Review and Prospects--Related and Certain Other Parties."

In June 1999, we contributed substantially all of our power generation businesses to ABB ALSTOM POWER N.V., a 50-50 joint venture with ALSTOM. Subsequently, in May 2000, we sold our 50% interest in ABB ALSTOM POWER N.V. to ALSTOM. We received cash proceeds of approximately $1,197 million from ALSTOM in exchange for our 50% interest. As part of the sale, we transferred additional assets and liabilities related to our former power generation segment to ABB ALSTOM POWER N.V.

We retain ownership of Combustion Engineering, a subsidiary in the United States that conducted part of the power generation business contributed to the ABB ALSTOM POWER joint venture in June 1999, and its asbestos liabilities. See "Item 8. Financial Information--Legal Proceedings." Additionally, we continue to be obligated as a guarantor under letters of credit and other performance and financial guarantees in connection with major projects for the power generation businesses sold to ALSTOM. Upon the sale of these businesses to ALSTOM in May 2000, however, ALSTOM agreed to indemnify us against payments under those guarantees. See "Item 5. Operating and Financial Review and Prospects--Related and Certain Other Parties."

In the first quarter of 1999, we completed the sale of our 50% share in ABB Daimler-Benz Transportation GmbH (ADtranz), the rail transportation joint venture, to DaimlerChrysler.

The total level of proceeds from divestitures amounted to $283 million for

2001, $1,963 million for 2000 and $2,283 million for 1999. We have used the proceeds from these divestitures for new investments and to reduce our net debt position.

INDUSTRIAL IT

The modern industrial enterprise consists of numerous information systems--control, maintenance, procurement, production, sales and management--all full of vital information but often working in isolation. The concept behind Industrial IT is to integrate these systems into a seamless, easily navigated framework from which information can be selected, retrieved and acted upon rapidly. The integration of Industrial IT-enabled products into our customers' business processes provides our customers with increased information flow about their business systems in a useful form. Industrial IT allows our customers to make intelligent decisions based on the most current and accurate information and to react quickly to changing conditions. Additionally, by incorporating advanced technology into our products and systems, we can increase the speed of our customers' manufacturing and information processes without exceeding manufacturing constraints.

Our goal is to ensure that the products and systems that we offer across our various businesses will be easy to use, compatible with each other, and will fit within our Industrial IT concept. We are developing a common architecture across the range of our products and systems so that they can be easily combined with each other and with our customers' systems using software to link our various technical platforms together. We intend to improve compatibility in succeeding generations of each of our products and systems.

As of March 31, 2002, approximately 1,100 ABB products had been certified as meeting Industrial IT standards. Each certified product is assigned to a product suite and is named according to what it does and how it fits into the Industrial IT system.

DESCRIPTION OF BUSINESS DIVISIONS

ORGANIZATIONAL REALIGNMENT

In 2001, we realigned our worldwide business operations to increase our responsiveness to our customers' needs. Our new customer-focused structure is intended to capitalize on our extensive knowledge of our customers' industries and their business processes. It is based on the premise that our primary growth opportunity lies in our existing customer base. Our new business structure is intended to enhance our ability to expand our existing customer relationships into additional sales of products, systems and services. Our focus on customer groups should also facilitate the building of new customer relationships.

We replaced our six former business segments with seven business divisions structured along customer groups. Four end-user divisions, Utilities, Process Industries, Manufacturing and Consumer Industries and Oil, Gas and Petrochemicals, serve end-user customers with products, systems and services. Two divisions, Power Technology Products and Automation Technology Products, serve the four end-user divisions and the wholesalers, distributors, original equipment manufacturers and system integrators that we refer to as "external channel partners." The Financial Services division continues to serve the ABB Group and external customers. Additionally, the Group Processes division is responsible for shared services, common processes and infrastructure within ABB.

Dedicated account managers work with specialists, such as systems and application engineers, within our end-user divisions to provide customers with customized products and systems that meet their specific needs. The end-user divisions draw on the products, services and technical expertise offered by our two channel partner divisions. Instead of multiple ABB product units serving the same customer, our end-user customers are served by one dedicated team representing our total offering of products, systems and services on the basis of common terms and conditions.

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The following chart illustrates our current business structure:

[LOGO]

In April 2002, we announced our intention to divest our Building Systems business area and to combine the three remaining business areas in the Manufacturing and Consumer Industries division with the Process Industries division in a newly created Industries division. We are in the process of implementing this combination, and we will begin reporting our financial results to reflect this new structure starting with our June 30, 2002 results. The following discussion reflects our current business structure.

UTILITIES

OVERVIEW

The ABB Utilities division serves electric, gas and water utilities--whether state-owned or private, global or local, operating in liberalized or regulated markets--through a portfolio of capabilities, including products, services and systems.

The Utilities division's principal customers are generators of power, owners and operators of power transmission systems, energy traders and local distribution companies. Power transmission systems deliver high-voltage electricity from power plants to distribution networks, which provide electrical power to end users.

In addition, the Utilities division offers a range of products, systems and services to water and gas utilities. Gas utilities are companies engaged in the transmission, storage, distribution and trading of natural gas for sale to residential and commercial end users. Water utilities are companies engaged in the processing, distributing for sale and recycling of water. Sales to customers in the gas and water industries accounted for a minor portion of the Utilities division's revenues in 2001.

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The following table sets forth financial and other data regarding the Utilities division (see Note 23 to the Consolidated Financial Statements):

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	($ IN MILLIONS)		
Revenues (1)	5,649	5,473	5,875
Earnings before interest and taxes (operating income)	148	250	182
Operating margin (%)	2.6%	4.6%	3.1%
Capital expenditures (2)	27	26	42
Number of employees	15,745	15,826	17,390

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(1) See Note 2 to our Consolidated Financial Statements, included elsewhere in this annual report, for a description of our revenue recognition policies.

(2) Excludes purchased intangible assets.

ELECTRICITY

The portions of an electricity grid that operate at highest voltages are "transmission" systems, while those at lower voltages are "distribution" systems. Transmission systems link power generation sources to distribution systems. Distribution networks then branch out over shorter distances to carry electricity from the transmission system to end-users. These electricity networks incorporate sophisticated devices to 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. This voltage is too low to be transmitted efficiently but too high for use in households and businesses. By transmitting electricity at high-voltages, losses are minimized and the power lines can carry more power per line. Transformers are used to increase the voltage of generated electricity for long-distance transmission (up to as high as 1,100 kilovolts). Transformers are then used to decrease the voltage at the local end for distribution to consumers.

Power distribution networks carry electricity from high-voltage transmission grids to the lower voltage point of power usage such as residential, commercial or industrial consumers, stepping down the voltages along the way to meet consumers' requirements. 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 on lower voltages.

There is an accelerating global trend toward deregulation and privatization of the power industry, which is creating a more competitive environment for our customers. This trend is well-established in the United States, parts of Latin America and Western Europe, particularly in the United Kingdom and the Scandinavian countries. It is accelerating elsewhere in 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 hundreds, even thousands, of miles away within a few minutes. As more disturbance-sensitive loads (E.G., computers and telecommunications systems) have been added to a network, demand for reliable, high-quality

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electricity is increasing. 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, metering systems and communications networks to control and supervise power networks based on instantaneous access to information.

- Upgrading current technologies and introducing new technologies to improve the reliability, increase the power rating and control the flow through existing transmission and distribution assets.

- Outsourcing non-core activities, such as engineering, construction, service, maintenance and operations and giving manufacturers such as ABB greater flexibility to define the detailed specifications and design of systems.

GAS

Natural gas is extracted at the wellhead and gathered into a central collection point, where it is processed before entering a pipeline transmission system. The pipeline is composed of high strength steel pipe, which moves large amounts of gas thousands of miles from production sites to local natural gas utilities. Compressor stations located along pipelines boost pressure to move the gas through the lines. Many compressor stations are operated from a pipeline's central control room.

Pipelines are connected in a grid with other pipelines of other utility systems, which provide system operators flexibility in moving gas. Gas pressure is reduced when it reaches local gas utilities. It is metered and an odorant is added to help leak detection. The natural gas then moves into smaller distribution pipes that form a network that delivers it to residences and businesses. Regulator technologies control the flow of the distribution system, which operates at a different pressure in different segments, and is lower as it reaches the customer. The gas utility continuously monitors flow rates and pressures throughout the distribution system from a central control center.

WATER

Water comes from ground water and surface water, such as rivers and lakes. Large scale water supply systems tend to rely on surface water resources, and smaller water systems tend to use ground water. Water is pumped from its source to a water treatment plant, where it is purified and chemicals can be added.

In most water distribution systems, water is transported under pressure through a network of underground pipes. Smaller pipes, called service lines, connect end users to the main water lines. After it has been used, it travels through sewer systems to treatment plants where impurities are removed and can be returned to the water supply.

PRODUCTS AND SERVICES

For electric utilities, the Utilities division provides power equipment and power management systems based on advanced technology designed to make electricity transmission more flexible, more reliable and more profitable for our customers. We integrate our recognized industry and technical expertise with the Automation Technology Products and Power Technology Products divisions' product offerings, as well as those of third parties, to provide solutions to the technical and commercial challenges faced by our customers.

For gas utilities, the Utilities division provides automation and electrification products and systems for gas transmission and distribution companies. For water utilities, the Utilities division

provides medium and low-voltage products for plant and system power requirements. The Utilities division offers optimized solutions including process control systems and services, complete electrical equipment for water supply and wastewater treatment plants, and total electromechanical packaged systems for water pumping stations.

As an end-user division, part of the Utilities division's role within the ABB Group is to serve as a channel for products manufactured by the Power Technology Products and Automation Technology Products divisions. In 2001, approximately 38% of the revenue of the Utilities division was derived from the resale of products manufactured by the Power Technology Products and Automation Technology Products divisions, without any additional work performed by the Utilities division.

UTILITY AUTOMATION SYSTEMS

Our Utility Automation Systems business area applies its engineering expertise to the products manufactured by the Automation Technology Products division, as well as those of third parties, to provide customers with automation systems using sophisticated instrumentation, control systems and relay protection devices tailored for their generating plants or transmission and distribution networks. Its scope of supply also includes automation system architecture, control stations, data network and communication systems, and instrumentation.

Utility Automation Systems provides energy information software and systems that enable power generators to plan unit commitment strategy, schedule generation assets for optimum efficiency, forecast generation needs, and share data within their organizations. It provides software that integrates operational information covering several aspects of their business, from outage control and meter data management to billing.

Utility Automation Systems provides automation systems for water supply and treatment and gas and energy trading operations in wholesale and retail markets, as well as central markets that have access to transmission grids. It supports a wide range of products for the real-time management of energy trading, including wholesale and derivatives trading, gas and electricity retailing, customer billing and pooling and settlement systems, as well as management of network access and meter data management systems.

UTILITY PARTNER

Our Utility Partner business area offers full service and support for management of existing power transmission and distribution assets, including both ABB products and those manufactured by third parties. In addition to providing maintenance and repair services, it offers consulting services that enable customers to improve the performance of their transmission and distribution equipment and systems, to gauge how cost effectively their networks are functioning, and to find and correct problems quickly. Specifically, Utility Partner offers asset management services including technical consulting (system diagnostics, network analysis, planning and optimization), commercial consulting (cost reduction programs, investment strategies, reengineering of business processes) and execution (maintenance strategies, logistics).

UTILITY POWER SYSTEMS

Our Utility Power Systems business area undertakes turnkey contracts to install and upgrade transmission and distribution systems incorporating components manufactured by the Power Technology Products and Automation Technology Products divisions, as well as those of third parties. High-voltage direct current (HVDC) transmission is a leading technology for transporting electricity over long distances because 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 that change alternating current to direct current and then back to alternating current when it reaches the terminal point; transmission lines, which could be above or below ground; and switchgear and substations that perform functions similar to that described above.

Advances in converter and cable technology have enabled us to introduce a system called HVDC Light-TM-. Converter stations for HVDC Light-TM- are approximately one-fifth the size of conventional HVDC technology for the same rated power. HVDC Light-TM- extends the benefits of high-voltage direct current to low-power applications, down to 5 megawatts. The HVDC Light-TM- system can connect remote small power stations such as wind, hydro, solar and bio-mass plants to national grids. It can also supply electricity from a national grid to remote areas and islands, which might otherwise require local power plants. This business area also offers static var compensation, or SVC, technology, which improves power quality, voltage stability and power capacity of transmission systems.

The Utility Power Systems business area also supplies substations to interconnect electricity grids operating on different voltage levels, to sectionalize portions of the grid and to 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. This business area delivers complete alternating current 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 and cables to the lower voltages required for efficient distribution and consumption. For power distribution, this business area sells traditional custom-engineered substations as well as compact, modular substations, which require less space than a conventional substation and thus are particularly well suited for urban settings. It also offers prefabricated secondary substations that can be installed more quickly than traditional substations, and which transform electricity to consumer-level voltages.

CUSTOMERS

The Utilities division's principal customers are electric, gas and water utilities, owners and operators of power transmission systems, utilities that own or operate networks, owners and operators of power generating plants, and energy traders. Other customers include gas transmission companies, local distribution companies and multi-utilities, which are involved in the transmission or distribution of more than one commodity.

COMPETITION

The Utilities division's principal competitors in the supply of power transmission and distribution equipment and services are ALSTOM, Mitsubishi, Schneider and Siemens. In the utility automation area, the division's principal competitors are ALSTOM, Emerson, GE Harris, Honeywell, Invensys and Siemens.

RESEARCH AND DEVELOPMENT

Research and development expenses for the Utilities division amounted to approximately $53 million, or 0.9% of its revenues, for 2001. The research and development activities of the division during 2001 were primarily related to developing information technology systems for network management and systems for optimization of power plant operations.

CAPITAL EXPENDITURES

The Utilities division's capital expenditures for property, plant and equipment were $27 million, $26 million and $42 million in 2001, 2000 and 1999, respectively. In 2001, ABB sold the division's railway project business, primarily located in Italy. In 2000, ABB divested the nuclear automation business located in the United States, Sweden and Germany, and land and buildings, primarily in Sweden and Italy. As the division is not involved in manufacturing, capital expenditures are not related to major investments and are geographically dispersed.

PROCESS INDUSTRIES

OVERVIEW

The Process Industries division serves the chemical, life sciences, marine, turbocharging, metals, minerals, mining, cement, paper, petroleum and printing industries with process-specific products and services combined with ABB's power and automation technology. The division creates industry-specific products and services that help to improve the efficiency and competitive strength of our customers.

In April 2002, we announced our intention to divest the Building Systems business area, which currently is part of the Manufacturing and Consumer Industries division. The other three business areas comprising the Manufacturing and Consumer Industries division will be combined with the Process Industries division in a newly created Industries division.

The following table sets forth financial and other data regarding the Process Industries division (see Note 23 to the Consolidated Financial Statements):

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	($ IN MILLIONS)		
Revenues (1)	3,377	3,339	3,485
Earnings before interest and taxes (operating income)	116	88	123
Operating margin (%)	3.4%	2.6%	3.5%
Capital expenditures (2)	24	27	40
Number of employees	15,937	15,997	16,237

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(1) See Note 2 to our Consolidated Financial Statements, included elsewhere in this annual report, for a description of our revenue recognition policies.

(2) Excludes purchased intangible assets.

The customers of the Process Industries division have been affected by a number of trends over the past several years, including the following:

- increased concentration on improving shareholder return through better asset management rather than relying on increased production;

- stronger focus on energy management;

- ongoing sustainable development regulation and awareness;

- slow, stable growth in North America and Europe, with high Asian growth possibilities, especially in chemicals and steel;

- a stable oil and chemical market, and a growing pharmaceuticals market;

- consolidating metal industry, with strong demand in Asia and Eastern Europe;

- a stable pulp and paper market as a result of better inventory management by producers; and

- in 2001, continued high demand for oil and gas vessels due to continued new field exploration and a depressed cruise industry partially resulting from the acts of terrorism on September 11, 2001.

The Process Industries division addresses these trends by providing products and services that increase production efficiency, improve product quality, optimize assets, and minimize raw material and energy use.

PRODUCTS AND SERVICES

Most businesses served by the Process Industries division use batch and continuous production, such as chemicals and paper. The division also serves the marine industry, including oil and gas vessels and cruise ships. Offerings to these customers include standard power and automation technologies developed by the Automation Technology Products and Power Technology Products divisions, as well as value-added systems, software and services designed, manufactured and delivered by Process Industries.

The Process Industries division also focuses on developing synergies and efficiencies among its units, such as common marketing, software re-use, and streamlined geographic sales and service networks. Synergies exist in the marine and petroleum businesses, as many vessels are also floating oil and gas production units. Additionally, product tracking software can be applied both to rolls of paper and steel and common sales and service personnel can interface with customers with diverse petroleum, metals, mining and/or paper holdings.

As an end-user division, part of the Process Industries division's role within the ABB Group is to serve as a channel for products manufactured by the Power Technology Products and Automation Technology Products divisions. In 2001, approximately 20% of the gross revenue of the Process Industries division was derived from the resale of products manufactured by the Power Technology Products and Automation Technology Products divisions, without any additional work performed by the Process Industries division.

PETROLEUM, CHEMICAL AND LIFE SCIENCES

The Petroleum, Chemical and Life Sciences business area provides products and services to enhance efficiency, safety, reliability, environmental compliance and flexibility in operations where a few basic elements may yield hundreds of varied end products. In the petroleum sector, this business area provides onshore, offshore and subsea production technology, gas gathering and processing, refining, transportation and distribution applications. At the oil wellhead, it monitors and controls production from Alaska's North Slope to the Middle East to the North Sea. Its technologies manage the movement of hydrocarbons through the world's network of pipelines, tankers and terminals, eliminating losses and meeting strict government regulations. This business area's specific value-added offerings, which it designs, develops and delivers, include oilfield production enhancement software, chemical process plant design services, and pharmaceutical production validation services. Our Full Service offering, in which we take over in-house maintenance activities for customers and apply strategies to reduce overall maintenance costs, helps optimize these investments.

PAPER, PRINTING, METALS AND MINERALS

The Paper, Printing, Metals and Minerals business area supplies power and automation technologies that improve quality and reduce costs in cement, metals, minerals, mining, pulp, paper and printing operations. Its offerings include quality control systems; drive systems; online sensors, analyzers and actuators; machine health monitoring; production planning and product tracking software; drying systems; induction furnaces; and mine hoists. Online sensors, analyzers and actuators measure and control production processes by measuring product parameters, analyzing data and providing instantaneous input to automatic control systems. Online actuators make automatic adjustments during production to improve product quality and consistency. Online machine health monitoring measures production machinery parameters and alerts operators to impending failures while helping them maximize maintenance scheduling. Collaborative production management software provides web-enabled interaction between producers and customers to optimize production planning, quality management and product tracking. Drying systems provide technology to dry pulp and paper more quickly and evenly. This business area's induction furnaces and inductive heating systems bring new capacity to foundry and melt shop operations. Extensive domain expertise in these industries allows it to provide a variety of asset optimization services. Because of the process industries-specific aspects of these products, all of these products and systems are developed, manufactured and delivered by the Process Industries division.

MARINE AND TURBOCHARGING

The Marine and Turbocharging business area provides global shipbuilders with power and automation technologies for luxury cruise liners, ferries, tankers, offshore oilrigs and special purpose vessels. It designs, engineers, builds, supplies and commissions electrical systems and software for marine power generation, power distribution and diesel electric propulsion, as well as turbocharging products and services for diesel and gasoline engines. A key value-added product is the Azipod-Registered Trademark- (azimuthing podded) propulsion system, developed by ABB along with leading shipbuilders. The Azipod-Registered Trademark- system improves vessel maneuverability at low speeds, resulting in faster docking and embarkation, lower operating costs and increased vessel capacity. The Azipod-Registered Trademark- system has proven very attractive for cruise liners and offshore supply ships. As a result of its success, in 2001 this business area introduced a Compact Azipod product for use on smaller vessels. Other applications include propulsion control, power management, cargo and ballast control and dynamic positioning. This business area particularly focuses on providing turbocharging products and services for diesel and gas engines in the 500 kW-plus power range. These products are developed in close cooperation with the world's top diesel engine makers. A global network of more than 70 ABB service stations ensures close proximity to customers as well as fast service.

CUSTOMERS

The Process Industries division's customers are primarily companies in the chemical, life sciences, marine, turbocharging, metals, minerals, mining, cement, paper, petroleum and printing industries.

COMPETITION

The Process Industries division's principal competitors are Aspentech, Emerson Electric, GE, Honeywell, Invensys, Metso Automation, Rockwell, Siemens, Voith Automation and Yokogawa.

RESEARCH AND DEVELOPMENT

Research and development expenses for the division amounted to approximately $40 million, or 1.2% of its revenues, for 2001. The research and development activities of the division in 2001 primarily related to developing specific products and software to control the customer processes of the industries served by the division, including new online measurement instruments for quality parameters of paper, software to control the flow of oil through pipelines and new forms of propulsion systems for large ocean-going vessels such as oil tankers.

CAPITAL EXPENDITURES

The Process Industries division's capital expenditures for property, plant and equipment were $24 million, $27 million and $40 million in 2001, 2000 and 1999, respectively. Principal investments in 2001 included several types of equipment for a turbocharger plant in Germany.

MANUFACTURING AND CONSUMER INDUSTRIES

OVERVIEW

The Manufacturing and Consumer Industries division sells products and services to improve customer productivity and competitiveness in areas such as automotive industries, telecom, product manufacturing, electronics manufacturing, airports, parcel and cargo distribution as well as public, industrial and commercial buildings.

In April 2002, we announced our intention to divest the Building Systems business area, which currently is part of the Manufacturing and Consumer Industries division. The other three business areas comprising the Manufacturing and Consumer Industries division will be combined with the Process Industries division in a newly created Industries Division.

The following table sets forth financial and other data for the Manufacturing and Consumer Industries division (see Note 23 to the Consolidated Financial Statements):

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	($ IN MILLIONS)		
Revenues (1)	4,780	5,225	5,697
Earnings before interest and taxes (operating income)	87	205	147
Operating margin (%)	1.8%	3.9%	2.6%
Capital expenditures (2)	27	33	43
Number of employees	29,455	33,449	34,027

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(1) See Note 2 to our Consolidated Financial Statements, included elsewhere in this annual report, for a description of our revenue recognition policies.

(2) Excludes purchased intangible assets.

Our customers are increasingly under pressure to deliver their products more quickly to their customers and to respond rapidly to changing customer preferences. At the same time, constant price pressure requires them to find ways to decrease production costs. Furthermore, as the quality of products becomes more equalized among our customers' competitors, our customers increasingly focus on design and branding to distinguish their products from those of their competitors. This change in focus means that much of the manufacturing and production activities are outsourced to sub-suppliers, which may manufacture products for a number of different companies in a given industry. The consolidation in the manufacturing role enables the

sub-suppliers to provide products at a lower cost and presents further opportunities for ABB to provide flexible solutions for automation, financing and energy supply.

PRODUCTS AND SERVICES

The Manufacturing and Consumer Industries division works to maximize flexibility and efficiency in the entire value chain, which includes product design, engineering, production, storage and distribution, to help our customers identify and satisfy customer demands. The division provides to its customers the full range of ABB's products on a stand-alone basis, or as part of systems involving conceptual design, detailed engineering, project management, installation and commissioning, as well as after sales services and system optimization during the full life span of the system to ensure optimal benefits for its customers.

As an end-user division, part of the Manufacturing and Consumer Industries division's role within the ABB Group is to serve as a channel for products manufactured by the Power Technology Products and Automation Technology Products divisions. In 2001, approximately 5% of the gross revenue of the Manufacturing and Consumer Industries division was derived from the resale of products manufactured by the Power Technology Products and Automation Technology Products divisions, without any additional work performed by the Manufacturing and Consumer Industries division.

In January 2002, this division sold its air handling equipment business to Global Air Movement (Luxembourg) for approximately $225 million, reinforcing the ABB Group's strategy to focus on its expertise in power and automation technology.

AUTOMOTIVE INDUSTRIES

The Automotive Industries business area designs, installs and commissions automation systems for customers in the automotive industry and their sub-suppliers, incorporating software developed by its engineers into the range of products manufactured by the Power Technology Products and Automation Technology Products divisions. The products and systems are used in such areas as press shop, body shop, paint shop, power train assembly, trim and final assembly.

TELECOM AND PRODUCT MANUFACTURING INDUSTRIES

The Telecom and Product Manufacturing Industries business area provides life-cycle services and automation systems, including products and services to maximize energy efficiency and provide a secure power supply as well as process automation and robot-based manufacturing, painting, packing, palletizing and picking, for customers in the telecom and manufacturing industries. The business area incorporates software developed by its engineers into the power and automation products manufactured by the Power Technology Products and Automation Technology Products divisions. For example, it provides painting systems for mobile phones, as well as robot cells to produce base stations for telecom companies. For food and beverage companies, it provides robotized picking and packing systems. It also provides systems for handling material in the glass industry.

LOGISTICS SYSTEMS

The Logistics Systems business area provides information technology packages and automation services to airports for baggage and material handling and air traffic management, as well as turnkey electromechanical systems and airfield lighting systems. It provides power and automation systems for crane manufacturers for container terminals and harbors. The business area

also delivers software and automation systems to optimize the flow of inventory in warehouses, from receiving to shipping.

BUILDING SYSTEMS

The Building Systems business area designs, builds and maintains complete installations for industrial, infrastructure and commercial facilities integrating products manufactured by the Power Technology Products and Automation Technology Products divisions as well as those from third-party suppliers.

Customers increasingly demand complete systems and related applications that cover a wide range of essential functions, from lighting and ventilation systems to monitoring, control and communication systems that ensure the most efficient use of electricity throughout an entire building. This business area has developed a "Total Technical Solutions" concept that bundles together electrical, mechanical and other technical installations, eliminating the need to coordinate the work of several suppliers with specific applications for facilities with high technical content such as arenas, hospitals, data centers and "clean rooms." Building Systems incorporates software and voice and data communications networks into building systems that monitor their own performance to achieve the best balance between energy consumption on the one hand and comfort and security on the other.

In April 2002, we announced our intention to divest the building systems business area.

CUSTOMERS

The Manufacturing and Consumer Industries division serves a wide range of customers, primarily engaged in discrete manufacturing in areas such as automotive industries, telecom, electronics manufacturing, food and beverages, and home and personal care. In addition, the division serves customers requiring technical infrastructure and management within commercial, public or industrial buildings ranging from public authorities to real estate developers and industrial clients.

COMPETITION

The competitive landscape for this business division is fragmented, with each market segment having a separate set of competitors. Examples of our principal competitors include Cegelec, Fluor Daniel, GE Fanuc, KUKA, Siemens, Skanska, Suez/Groupe Fabricom and Vivendi.

RESEARCH AND DEVELOPMENT

Research and development expenses for the division amounted to approximately $17 million, or 0.4% of its revenues, for 2001. The research and development activities of the division in 2001 primarily related to the further development of fans within the air handling equipment business area and research into the integration of systems for people movement, energy consumption and communication in buildings.

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CAPITAL EXPENDITURES

The Manufacturing and Consumer Industries division's capital expenditures for property, plant and equipment were $27 million, $33 million and $43 million in 2001, 2000 and 1999, respectively. Principal investments in 2001 included equipment for the Building Systems business area.

OIL, GAS AND PETROCHEMICALS

OVERVIEW

The Oil, Gas and Petrochemicals division supplies a comprehensive range of products, systems and services to the global oil, gas and petrochemicals industries, from the development of onshore and offshore exploration technologies to the design and supply of production facilities, refineries and petrochemicals plants.

The following table sets forth financial and other data regarding the Oil, Gas and Petrochemicals division (see Note 23 to the Consolidated Financial Statements):

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	($ IN MILLIONS)		
Revenues (1)	3,489	2,796	3,086
Earnings before interest and taxes (operating income)	79	157	165
Operating margin (%)	2.3%	5.6%	5.3%
Capital expenditures (2)	38	30	48
Number of employees	13,471	11,549	8,941

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(1) See Note 2 to our Consolidated Financial Statements, included elsewhere in this annual report, for a description of our revenue recognition policies.

(2) Excludes purchased intangible assets.

The oil, gas and petrochemicals industry is typically divided into two markets:

- UPSTREAM MARKETS: Equipment, systems and services for onshore and offshore oil and gas exploration and production, including our areas of principal focus, subsea production and floating production systems.

- DOWNSTREAM MARKETS: Processing of hydrocarbon raw materials, including: refineries; petrochemical and chemical plants; gas processing; and pipelines.

Our activities in this business division are relatively evenly split between the upstream market and the downstream market, although large projects may shift the balance from year to year. Our upstream business focuses principally on the subsea and floating production market. Our activities in the downstream markets range from engineering, procurement and construction (or EPC) projects, engineering and project management services to licensing of technology to the refining and petrochemical industries.

One of the division's strengths is its ability to access the research and development capabilities of the ABB Group. Upstream, the division continues to focus on making oil and gas exploration and production more economical, no matter where the natural resources are found. Downstream, it is improving oil and gas conversion technology so refineries can manufacture fuels to stringent environmental specifications.

PRODUCTS AND SERVICES

The Oil, Gas and Petrochemicals division's services, products and systems to the global oil, gas, refinery and petrochemicals industry include:

- engineering, procurement and construction projects: refineries and petrochemical plants; subsea and floating production; compressor stations;

- production and assembly of offshore production equipment, including specialized subsea equipment for production, controls and power distribution;

- production of onshore and offshore pressure-containing equipment;

- assembly of gas treatment and processing systems and heat transfer equipment;

- provision of project management and procurement services;

- licensing of process technologies; and

- modification and maintenance services for both offshore and onshore facilities.

In the upstream market, the division is a global producer of equipment and services for oil and gas exploration and production.

The division designs and develops subsea oil and gas production equipment for conventional subsea development as well as for development in difficult conditions such as deep waters. It offers a broad range of services, with particular expertise in offshore production, including:

- front-end engineering and design studies, employing the division's technical and market expertise to develop a plan for building all or a portion of a production facility;

- procurement of materials and equipment to be used in oil and gas production facilities, including equipment from the Oil, Gas and Petrochemicals division and other ABB business divisions;

- management of projects for the development of a production facility; and

- modification and maintenance, in which we apply our expertise to troubleshoot and make repairs and/or make proposals about enhancing productivity and efficiency.

The division has particular expertise in turnkey engineering, procurement and construction projects in which it is responsible for managing all aspects of the development of a production facility.

In the downstream market, the Oil, Gas and Petrochemicals division is a full service engineering company. In addition to expertise in engineering, procurement and construction projects, it licenses more than 40 process technologies in the refining, chemical, petrochemical and polymer fields. It has particular expertise in ethylene process technologies through ABB Lummus Global, which is part of the ABB Group. Ethylene is used as a raw material in a wide variety of plastics. The division also provides modernization and maintenance services for refining and petrochemical facilities in the downstream market.

Contracts for the Oil, Gas and Petrochemicals division's products and projects in both the upstream and downstream markets include both turnkey contracts and contracts providing for reimbursement of design, procurement, project management, construction management and commissioning. The division seeks to integrate its planning and project management expertise with the equipment that it produces, particularly in the turnkey engineering, procurement and construction projects. Almost all of the projects to which the division provides design, engineering, procurement, management or maintenance services include the division's products and systems.

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The division, therefore, is able to leverage its industry and technical expertise to sell both its own products and those of other ABB divisions.

The Oil, Gas and Petrochemicals division works with other ABB divisions to provide products and services tailored to its customers' needs. For example, the Power Technology Products and Utilities divisions worked closely with the Oil, Gas and Petrochemicals division to solve the problem of transporting power to equipment in deep water far away from offshore facilities. Unlike the other end-user divisions, however, the Oil, Gas and Petrochemicals division does not resell products manufactured by other divisions without any additional work performed within the division.

In 2001, ABB and Schlumberger created Syntheseas, a new joint venture company targeted at improving the efficiencies and economics of subsea oil and gas development. The company combines the expertise of ABB and Schlumberger to create upstream solutions that integrate reservoir management and development, from subsea production to topside facilities. ABB holds a 50% interest in the joint venture. Also in 2001, the Oil, Gas and Petrochemicals division established a new service business in Macae, the principal hub for oil and gas business in Brazil. Additionally, ABB and Petroleum Equipment Industries Company (PEIC) established a new company in Iran, with ABB holding a 60% interest. ABB acquired FIP S.A. in August 2001. In addition to being a leading supplier of pressure containing equipment for oil and gas production in Mexico, FIP supplies wellheads and gate valves used in oil and gas wells to customers around the world.

In 2000, ABB acquired an 80% interest in a company jointly owned with Equistar Chemicals to purchase the Novolen-Registered Trademark- polypropylene technology from Targor GmbH and to acquire the rights to market Targor's metallocene polypropylene technology, used in the production of a new generation of high performance plastics. In 2000, ABB also acquired the oil and gas activities of Umoe ASA, a Norwegian service company in the oil and gas industry, to support the division's further growth in that market.

The Oil, Gas and Petrochemicals division is also active in the design and fabrication of a wide variety of gas treatment systems. It produces equipment that cleanses (tail gas clean-up) and neutralizes (acid gas sweetening) the hazardous components of gasses that result from the petrochemical refining process before those gasses are released into the atmosphere. The division's services in this area and in the area of gas processing for producing products such as ethylene and propane include project definition, installation, training and technical assistance.

CUSTOMERS

The Oil, Gas and Petrochemicals division serves a range of customers, including multinational integrated oil and gas companies, national oil companies and independent exploration and production companies, as well as petrochemical companies.

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COMPETITION

The Oil, Gas and Petrochemicals division's competitors include the following:

UPSTREAM MARKET	DOWNSTREAM MARKET
- Cooper Cameron	- Bechtel Group
- FMC Technologies	- Fluor
- Halliburton	- Foster Wheeler
- Kvaerner	- Haldor Topsoe
- Technip-Coflexip	- IFP
	- Kellog Brown & Root (KBR) (Halliburton)
	- Snamprogetti
	- Technip
	- UOP

RESEARCH AND DEVELOPMENT

Research and development expenses for the Oil, Gas and Petrochemicals division amounted to approximately $41 million, or 1.2% of the division's revenues, for 2001.

In the upstream market, the division launched SEPDIS, the world's first full size subsea electrical power distribution system, in 2001. The project combined ABB's extensive knowledge and experience in electrical systems and total subsea solutions with external specialist knowledge. Additionally, the division was awarded the engineering, procurement and construction contract for the Kizomba deep-water floater for ExxonMobil. The contract is based on a new floater technology concept that is expected to substantially increase the payload of a deep-water tension leg platform. In the downstream market, Avantium Technologies of Amsterdam and ABB Lummus Global have entered into a research agreement to exploit the opportunity to use combinatorial techniques and high-throughput experimentation for catalyst synthesis. The Chevron Lummus Global partnership, a 50-50 owned joint venture between Chevron Research and Technology Company and ABB Lummus Global, has expanded the scope of cooperation to include a wider range of hydroprocessing technologies and catalysts. Chevron Lummus Global commercialized a new zeolite hydrocracking catalyst at Petrocanada. The first cracking furnaces designed by the ABB and China Petrochemical Technology Company (SINOPEC TECH) strategic alliance were successfully commissioned at the Beijing Yanshan Petrochemical Group Co. ethylene complex in Beijing, China in 2001. The two new 100,000 metric ton per annum furnaces were started up in record time.

CAPITAL EXPENDITURES

The Oil, Gas and Petrochemicals division's capital expenditures for property, plant and equipment were $38 million, $30 million and $48 million in 2001, 2000 and 1999, respectively. The capital expenditures during these periods related primarily to purchases of machinery and equipment in the United States, Great Britain, Italy and Norway.

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POWER TECHNOLOGY PRODUCTS

OVERVIEW

The Power Technology Products division produces transformers, switchgear, breakers, capacitors, cables and other products and technologies for high and medium-voltage applications. The products are used in industrial, commercial and utility applications and are sold through the end-user divisions as well as through external channel partners such as wholesalers, distributors, original equipment manufacturers and system integrators.

The following table sets forth financial and other data regarding the Power Technology Products division (see Note 23 to the Consolidated Financial Statements):

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	($ IN MILLIONS)		
Revenues (1)	4,042	3,662	3,862
Earnings before interest and taxes (operating income)	234	244	282
Operating margin (%)	5.8%	6.7%	7.3%
Capital expenditures (2)	105	105	162
Number of employees	27,555	27,785	27,871

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(1) See Note 2 to our Consolidated Financial Statements, included elsewhere in this annual report, for a description of our revenue recognition policies.

(2) Excludes purchased intangible assets.

PRODUCTS AND SERVICES

HIGH-VOLTAGE TECHNOLOGY

The High-Voltage Technology business area manufactures the principal components of power transmission systems, including transmission switchgear products in air- and gas-insulated technology, cables, capacitors, high-voltage and generator circuit breakers, disconnectors, grounding switches, instrument transformers, surge arrestors, power lines and transmission towers. Its products and components also include polymer insulators for lines and switchgear, circuit breaker drives, cable accessories and fittings for overhead lines. Its products follow a modular platform design to achieve maximum flexibility at a low cost. In particular, the High-Voltage Technology business area has focused on developing Industrial IT-enabled products that can be seamlessly integrated into complete automation systems.

MEDIUM-VOLTAGE TECHNOLOGY

The Medium-Voltage Technology business area supplies switching equipment for utilities and industrial customers both directly and through distributors and original equipment manufacturers. It produces a comprehensive line of medium-voltage equipment, 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, modular solutions for specific applications, compact substations and power distribution centers. Most of these products provide connections between higher voltage substations and lower voltage uses. The Medium-Voltage Technology business area has developed products and systems that reduce outage times and improve power quality and control.

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POWER TRANSFORMERS

The transformers manufactured by the Power Transformers business area are based on a modular set of common technologies for its factories and provide a competitive advantage in terms of reliability and efficiency. Its products cover most applications from standard to highly complex and customized. In 1999, this business area launched a new high-voltage transformer that uses advanced cable technology and does not require oil to cool and insulate the transformer. The new product, called the Dryformer-TM-, is safer and better suited to urban areas because it eliminates the hazards of oil fires. This advanced cable technology is also used in the Powerformer-TM-, a new type of generator feeding directly into the transmission grid without step-up transformers.

DISTRIBUTION TRANSFORMERS

Distribution transformers are used in industrial facilities, commercial buildings and utility distribution networks to step down electrical voltage to the levels needed by end users. The Distribution Transformers business area manufactures and sells a full range of power distribution transformers, including oil-type, dry-type and special application distribution transformers. While 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, nuclear power plants, offshore drilling platforms, naval vessels and high-volume industrial plants.

CUSTOMERS

The Power Technology Products division supplies power transmission and distribution products to external channel partners, as well as to the end-user divisions for resale to end-user customers or for integration into a system. In 2001, approximately 59% of the division's gross revenues were attributable to sales to ABB end-user divisions, primarily the Utilities division.

COMPETITION

On a global basis, the Power Technology Products division's principal competitors are ALSTOM, Schneider and Siemens. In North American markets, the division's principal competitors are Cooper Industries and General Electric. In

Asia, the division's competitors include Hitachi, Mitsubishi Electric and Toshiba. In niche markets such as distribution transformers, the division also competes with companies such as Howard Industries.

RESEARCH AND DEVELOPMENT

Research and development expenses for the Power Technology Products division amounted to approximately $103 million, or 2.6% of its revenues, for 2001. The division's research and development activities in 2001 primarily related to the ongoing renewal of technology platforms and the implementation of the Industrial IT concept into the division's products and production processes. The new technology platforms enable the creation of streamlined product portfolios, mass customization of products and production in fewer factories. The division's research and development activities in electric arc physics led to the creation in 2001 of a new generation of generator breakers for use with high currents at a lower cost.

CAPITAL EXPENDITURES

The Power Technology Products division's capital expenditures for property, plant and equipment were $105 million in each of 2001 and 2000 and $162 million in 1999. Principal investments in 2001 included investments to replace existing equipment, particularly in Europe and the United States, as well as expansion investments in the Distribution Transformers and Power Transformers business areas.

AUTOMATION TECHNOLOGY PRODUCTS

OVERVIEW

The Automation Technology Products division provides products, systems, software and services for the automation and optimization of industrial and commercial processes. Key technologies include measurement and control, instrumentation, process analysis, drives and motors, power electronics, robots, and low-voltage products. These technologies are sold to customers through the end-user divisions as well as through external channel partners such as wholesalers, distributors, original equipment manufacturers and system integrators.

The following table sets forth financial and other data regarding the Automation Technology Products division (see Note 23 to the Consolidated Financial Statements):

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	($ IN MILLIONS)		
Revenues (1)	5,246	5,175	5,550
Earnings before interest and taxes (operating income)	380	464	392
Operating margin (%)	7.2%	9.0%	7.1%
Capital expenditures (2)	126	139	190
Number of employees	39,834	41,332	43,874

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(1) See Note 2 to our Consolidated Financial Statements, included elsewhere in this annual report, for a description of our revenue recognition policies.

(2) Excludes purchased intangible assets.

ABB customers use automation technologies primarily to improve product quality, productivity and consistency in industrial and manufacturing applications. The automation market can be divided into three sectors:

- FACTORY AUTOMATION refers to discrete operations, manufacturing individual items used mainly within the automotive, packaging and consumer goods industries. Product lines for this market include robots and robot cells which include standardized and tailored systems for discrete applications such as painting, picking, packing and palletizing. ABB provides a comprehensive set of systems using these technologies. For example, the Automation Technology Products division works with the Manufacturing and Consumer Industries division to supply complete production systems for the consumer products industry as well as software applications for warehouse and supply chain management and other business processes.

- PROCESS AUTOMATION refers to control systems applied in processes where the main objective is continuous production, such as oil and gas, electricity, chemicals and pulp and paper. Product lines for this market include instrumentation, analytical measurement and control products and systems, as well as motors and drives. This division offers complete process automation systems that incorporate medium and low-voltage switchgear, synchronized drive systems, instrument and control and advanced diagnostic packages. Its products also include software to optimize the manufacturing and business processes.

- BUILDING AUTOMATION comprises product lines and applications particularly targeted at the building industry. Product lines for this market include heating, ventilating, air handling and access control systems. Customers also require software for optimal management of the energy cost of buildings.

The Automation Technology Products division manufactures products relating to all three areas, primarily focusing on process automation products and systems, as well as robotics technologies for factory automation.

The Automation Technology Products offering has been enhanced through a number of strategic acquisitions in recent years. In early 1999, ABB acquired Elsag Bailey Process Automation, a leading global provider of control, instrumentation and process analytical products whose offering significantly extended our reach both in terms of automation technology and geography. In mid-2001, we acquired Entrelec, a French supplier of industrial automation and control products, including electrical connecting devices, time relays, signaling and safety devices and wiring accessories for the housing market. This acquisition further diversified our product range and expanded our customer base in European and American markets.

In mid-2001, this division entered into a ten-year strategic alliance (in cooperation with the Manufacturing and Consumer Industries division) with Dow Chemical Company in which Dow agreed to use its Industrial IT automation systems in nearly all of its new automation projects, as well as in retrofits of existing systems. Another significant strategic cooperation was forged in 2001 through a framework agreement with the original equipment manufacturer York International, a long-time customer, for simplified account service, pricing and joint development spanning multiple product lines.

In keeping with the Automation Technology Products division's implementation of the Industrial IT concept, the division has sought in 2001 to simplify and streamline its product portfolio by eliminating product overlaps, which often resulted from the acquisition of new automation businesses, and to certify an increasing number of automation products as Industrial IT compliant.

PRODUCTS AND SERVICES

We are a recognized market leader in our core automation products and systems, with particular strength in process automation systems (including supervisory control and data acquisition, or SCADA, systems), quality control systems, advanced robotics, process instrumentation (including analytical measurement devices) and alternating current, or AC, drives.

INSTRUMENTATION AND METERING

The process instrumentation products manufactured by the Instrumentation and Metering business area interact with the division's Open Control System products 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 business area form an important part of the instrumentation and control system. These devices measure chemical characteristics while process instrumentation products measure physical characteristics. This business area's analytical product offerings include gas analyzers, chromatographs, spectrometers and paper quality control systems which perform either sample based or continuous measurement of properties such as chemical or physical composition (for example, the water and fiber content of paper or the composition of gas), energy content and environmental emissions. These products are sold separately or through the end-user divisions as part of complete systems.

The Instrumentation and Metering business area's metering products include electricity, water, energy, and gas meters, metering systems and load control systems. The innovative products and systems produced by this business area reflect the wealth of knowledge and experience gained from more than a century of dedication to the electricity, water, energy, and gas industries.

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CONTROL AND FORCE MEASUREMENT

The Control and Force Measurement business area develops, markets and sells products and systems within the Industrial IT architecture. The business area emphasizes Open Control Systems, including batch control systems, supervisory control and data acquisition systems, and, to a lesser but increasing extent, programmable logic controls (known as "PLCs") and remote terminal units (known as "RTUs"). Control systems are the hubs that link instrumentation, devices and systems for control and supervision of an industrial process. One primary advantage of using products and systems that conform to the Industrial IT architecture (which we refer to as Industrial IT Control Systems) instead of traditional Open Control Systems is that information is rendered accessible by parties across an organization at any point in the manufacturing process.

Control systems also enable customers to integrate their production systems with their enterprise, resource and planning systems, providing a link to ordering, billing and shipping. This linkage combined with the connection of Open Control Systems to field instrumentation and automation power products allows customers to manage their entire manufacturing and business process based on instantaneous access to useful information. Additionally, this coordination allows customers to employ information received from instrumentation and measurement products to increase production efficiency, optimize their assets and reduce environmental waste. These features of Industrial IT Control Systems enable customers to react quickly to changing circumstances based on accurate information while decreasing the possibility of errors, human or otherwise.

The Control and Force Measurement business area also offers batch control and supervisory control and data acquisition systems. Batch control systems control the production of a variety of products in shorter runs based on recipes such as pharmaceuticals. Supervisory control and data acquisition systems are used for supervision and data acquisition needs over wide areas or long distances.

In 2000 and 2001 we introduced new control products based on the Industrial IT architecture. These products take full advantage of the ABB Aspect Integrator-TM---a powerful, object-based platform which allows organization of plant devices in easy-to-navigate structures tailored to the needs of operations, maintenance or management personnel--for configuration, support or evaluation of each component within the context of its larger system. The Aspect Integrator facilitates real-time interaction between the characteristics (Aspects) of system components and allows easy "copy-and-paste" configuration of new systems by moving or adding components in the same way that users can manipulate the file structure on a personal computer.

This business area also provides a comprehensive range of force measurement products designed to improve control, productivity and quality in a wide variety of processes and industries--including measurement of flatness, roll force, strip and web tension, strip width, position, and torque. These technologies are sold to the metal fabrication, paper, and other industries.

ELECTRICAL MACHINES

The Electrical Machines business area supplies a comprehensive range of AC and DC 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 business area manufactures synchronous motors for the most demanding applications, and a full range of low and high-voltage induction motors. Each motor is designed individually to meet all requirements of the specific application.

DRIVES AND POWER ELECTRONICS

The Drives and Power Electronics business area focuses on the ongoing development of low-voltage and medium-voltage AC drive products and systems for industrial, commercial and residential applications for the pulp and paper, metals, marine, water, food and beverage, chemical, oil and gas and heating, ventilation and air conditioning industries. Drives provide motion and torque, and they control equipment such as fans, pumps, compressors, conveyors, kilns, centrifuges, mixers, hoists, cranes, extruders, printing machinery and textile machines.

This business area also covers several areas of power electronics products. It produces 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 business area also manufactures frequency converters that use state-of-the-art semiconductor technology to convert electrical power into the correct type and frequency required by individual customers.

ROBOTICS

Manufacturers use the Robotics business area's flexible automation and advanced robotics products for applications involving multiple tasks such as welding, material handling, painting, picking, packing and palletizing. The business area provides complex, multi-axis robots used in advanced manufacturing and service applications, including a heavy-duty robot capable of precision lifting of loads up to 500 kilograms, which was introduced in 2001. The ABB end-user divisions provide complete production automation systems for industry segments ranging from automotive, metal fabrication and plastics to food products, pharmaceuticals and consumer goods. Services, including design and project management, engineering, installation, training and life-cycle care of the complete production line, are also provided, typically in cooperation with the Manufacturing and Consumer Industries division.

LOW-VOLTAGE PRODUCTS

The Low-Voltage Products business area manufactures circuit breakers, controls, switches and fuse gear that are used in industrial electrical applications to protect, switch and control industrial equipment. In addition, our acquisition of Entrelec provided us with a range of connectors, terminal blocks and protection and monitoring devices that are used primarily in industrial applications. The business area also makes line protection products, wiring accessories and enclosures and cable systems that are primarily used for control and protection in building installations.

Customers increasingly require low-voltage products with built-in intelligence, self-regulation and energy efficiency capabilities. To meet these requirements, we have recently launched a number of product families, such as INSUM, a motor protection, monitoring and communication system that uses advanced electronic sensoring and feedback systems to control power distribution to industrial motors, ensuring that they run at optimal efficiency with minimal downtime. We also introduced the European Installation Bus/Powernet system, which integrates and automates a building's electrical installations, ventilation, security and data communications networks. The Powernet system can be built into existing electrical installations without installing new communication busses.

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The world market for low-voltage products and systems can be divided according to which standard is used. The products made by the Low-Voltage Products business area follow the IEC (International Electrotechnical Committee) standard, a leading global standard.

CUSTOMERS

The Automation Technology Products division sells its products to ABB's end-user divisions for resale or for integration into a system, as well as to external channel partners. In 2001, approximately 40% of the division's gross revenues were attributable to sales to ABB end-user divisions, primarily the Utilities and Process Industries divisions.

COMPETITION

The Automation Technology Products division's principal competitors vary by product line. For most businesses, they include Emerson Electric, Fanuc, General Electric, Honeywell, Invensys, KUKA Roboter, Metso, Rockwell, Siemens and Yokogawa. In the low-voltage products area, the division's principal competitors include General Electric, Legrand, Schneider and Siemens.

RESEARCH AND DEVELOPMENT

Research and development expenses for the division amounted to approximately $269 million, or 5.1% of its revenues, for 2001. Research and development in the Automation Technology Products division in 2001 focused on innovations that improve customer productivity, coupled with a strong awareness of ABB's large installed base and the need to evolve the division's technologies while protecting the customer's installed investment. In the control systems area, for example, an estimated 30,000 systems produced by ABB and our predecessor companies are installed worldwide. Recognizing the value of supporting this installed base, the division adheres to a philosophy of forward and backward compatibility, allowing incremental enhancements to be added to installed systems without making existing components obsolete.

An important focus of the division's research programs is the group-wide commitment to Industrial IT. The Automation Technology Products division is responsible for the development of the Industrial IT architecture and the base Industrial IT control products and systems. As a result, the division's research is heavily focused on intelligent, "information enabled" products and devices that may be integrated easily to provide better access to real-time information across the business enterprise. Increasing "productization" of automation technologies is intended to yield a growing portfolio of reusable building blocks that may be easily deployed and bundled by customers, channel partners and the ABB end-user divisions.

CAPITAL EXPENDITURES

The Automation Technology Products division's capital expenditures for property, plant and equipment were $126 million, $139 million and $190 million in 2001, 2000 and 1999, respectively. Approximately 65% of the expenditures in 2001 were related to replacement of existing investments, geared toward maintaining and improving productivity, and the remainder represented investments in new products and businesses.

FINANCIAL SERVICES

OVERVIEW

The Financial Services division supports the ABB Group's businesses and customers with innovative financial solutions in structured finance, leasing, project development and ownership,

financial consulting and insurance. The following table sets forth certain financial and other data regarding the Financial Services business division for each of the years indicated (see Note 23 to the Consolidated Financial Statements):

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	($ IN MILLIONS)		
Revenues (1)	2,133	1,966	1,687
Earnings (loss) before interest and taxes (operating income)	(32)	349	337
Number of employees	1,120	1,125	1,049

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(1) Financial Services' revenues include interest income, trading income, fee income, insurance premiums, dividends and capital gains.

PRODUCTS AND SERVICES

The Financial Services business division is comprised of four business areas:

- Structured Finance;
- Equity Ventures;
- Insurance; and
- Treasury Centers.

STRUCTURED FINANCE

The Structured Finance business area provides debt capital for projects and equipment. It also provides asset-based financing such as leasing to customers, as well as financial advisory services. Leasing is a flexible finance option that can benefit a client through competitive pricing, long-term financing, off-balance sheet financing and flexible rental arrangements to optimize cash flows. By combining leasing with other financing options, such as hire purchase (which allows a lessor to purchase the equipment at a later stage), lending, securitization or other capital market products, this business area can tailor financing to each client's requirements.

The Structured Finance business area generates stand-alone profits through four business lines: medium to large transactions on its own account; asset-based sales support financing for ABB customers and other clients; advisory services for cross-border leasing and other asset-based financing options; vendor leasing for "small ticket" investments such as office equipment, personal computers and vending machines.

ABB Export Bank, a Swiss commercial bank with extensive experience in export, trade and project finance, is a key part of the Structured Finance business area. It arranges medium-term export financing for capital goods. Covered by national export credit agencies or bilateral and multilateral institutions such as the World Bank, ABB Export Bank grants buyer's credits in all currencies accepted by the agency involved. In support of ABB equipment supply, ABB Export Bank has financed exports from all countries with an ABB manufacturing base, using those countries' export credit agencies.

Structured Finance also acts as financial advisor and lender for infrastructure and industrial projects to expedite the closing process. This financing is often structured as trade, export or limited recourse project financing. Structured Finance has relationships with a wide range of multilateral, bilateral and export credit agencies, local and global capital market financing sources, government support programs and various forms of financial structures based on commodity

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trading. Structured Finance also provides debt financing and underwriting capacity to projects, focusing on global infrastructure and industrial projects. Financing options can include senior debt, subordinated debt, bridge financing and special tailored financing structures.

In June 2000, ABB Financial Services acquired a 35% share of the Swedish Export Credit Corporation for aggregate consideration of approximately $136 million, thereby strengthening our position in structured finance and leasing. The remaining 65% share of the Swedish Export Credit Corporation is owned by the Government of Sweden. The Swedish Export Credit Corporation, with assets of approximately $20 billion, specializes in long-term export finance to sectors such as telecommunications, automotive, transportation, energy, and process industries like pulp and paper and petrochemicals.

In 2001, ABB Financial Services acquired Xerox's small ticket leasing portfolio in Northern Europe. The total volume comprised some $362 million in lease assets and 15,000 customers who will be integrated into Structured Finance's existing leasing activities.

In April 2002, we announced that we were in negotiations with a number of parties with respect to the sale of our Structured Finance business area, which accounts for about one-third of the assets of the Financial Services division. The negotiations are ongoing.

EQUITY VENTURES

Our Equity Ventures business area originates, develops, finances, owns and operates infrastructure projects on a global basis. We invest equity in these projects and manage the portfolio of equity investments.

Equity Ventures currently focuses on the following main areas where ABB has domain competence and a strong market presence: private power generation (power projects that are not government sponsored); renewable power; power and gas transmission and distribution; water; airport and logistic systems; oil, gas and petrochemicals; and selected telecommunication industries.

At the end of 2001, Equity Ventures' portfolio consisted of investments in power generation and transmission projects and an airport development project.

Our Equity Ventures business area combines commercial, technical, financial and legal expertise. A commercial group sets the goals for the project and ensures that they are followed through to financial closing and commercial operation. The technical group consists of experienced engineers who can help the project fit into the big picture, using advanced technology to interface with existing infrastructure. Our financial experts determine the appropriate means of financing projects, ranging from public and private, local and international, equity and debt funding sources. Our legal professionals balance the legal demands of infrastructure construction, technology and financing.

INSURANCE

Our Insurance business area provides international reinsurance and insurance underwriting through Sirius International, financial reinsurance and insurance through Scandinavian Re and Sirius International, and specialized program insurance in the United States through Sirius America. In reinsurance, the reinsurer, in return for a premium payment, provides coverage to a primary insurance company for all or a specific portion of the primary insurer's obligation to its customer. The business area's brokerage companies Komposit in Germany and ABB Insurance Brokers in Switzerland provide services to ABB companies and third-party clients. Our network of branches

and local companies comprises locations in Sweden, Germany, Belgium, Switzerland, Singapore and the United States.

An important and growing part of the reinsurance portfolio are the excess of loss accounts, mainly in the property, marine, aviation, oil and energy sectors. This type of insurance provides coverage against all or a specified portion of losses on underlying insurance contracts to the extent they exceed an agreed level of losses.

Our Financial Risks unit applies sophisticated techniques to handling risk in commercial contracts, larger export projects and other complex risks within a company's operations. For example, the unit structures, prices and underwrites certain credit risk portfolios, whose benefit can include increased return on capital for customers. It also structures complex insurance and reinsurance deals for reinsurance customers.

Investment income provides a substantial amount of insurance and reinsurance business profits. We pursue prudent policies in managing our own funds and cooperate with investment managers to maximize returns within set guidelines.

TREASURY CENTERS

ABB's Treasury Centers manage the ABB Group's liquid assets and borrowings, execute foreign exchange transactions, borrow funds and offer financial consulting services. Each year, Treasury Centers raise the equivalent of several billion U.S. dollars for ABB Group companies through medium-term debt and commercial paper programs.

A primary task for the Treasury Centers is to assist in managing the financial risk arising in the companies within the ABB Group. The ABB companies rely on Treasury Centers for cash pooling, netting of intercompany payments, foreign exchange and interest rate management services, borrowing and investment of excess liquidity and financial advisory services.

Effective June 19, 2002, the Treasury Centers halted proprietary trading activities. Subsequent to that date, treasury operations will focus primarily on treasury services and execution for companies within the ABB Group.

The Treasury Centers are incorporating the rapid development of eBusiness into our operations. We provide treasury services online, including a web-based cash management process for our subsidiaries and real-time, 24-hour access to financial data.

SIGNIFICANT SUBSIDIARIES

ABB Ltd is the parent company of the ABB Group. The ABB Group is comprised of over 800 subsidiaries worldwide.

The following table sets forth, as of May 31, 2002, the name, jurisdiction of incorporation and ownership interest held in our significant subsidiaries:

NAME	JURISDICTION	OWNERSHIP INTEREST (%)
ABB Australia Pty Limited	Australia	100
ABB AG	Austria	100
ABB Ltda	Brazil	100
ABB Inc	Canada	100
ABB (China) Ltd	China	100
ABB s.r.o	Czech Republic	100
ABB A/S	Denmark	100

Asea Brown Boveri S.A.E..............	Egypt	100
ABB Oy...............................	Finland	100
ABB S.A..............................	France	100
Asea Brown Boveri Aktiengesellschaft..................	Germany	98.5
ABB Engineering Trading and Service Ltd........................	Hungary	100
Asea Brown Boveri Ltd................	India	59.3
ABB S.p.A............................	Italy	100
ABB K.K..............................	Japan	100
ABB Holdings Sdn. Bhd................	Malaysia	100
Asea Brown Boveri S.A. de C.V.........	Mexico	100
ABB BV...............................	Netherlands	100
ABB Holdings BV......................	Netherlands	100
ABB Holdings AS......................	Norway	100
ABB Sp.zo.o..........................	Poland	100
ABB S.G.P.S., S.A....................	Portugal	100
Asea Brown Boveri Ltd................	Russia	100
ABB Contracting Company Ltd...........	Saudi Arabia	49
ABB Holdings (Pty) Ltd...............	South Africa	100
Asea Brown Boveri S.A................	Spain	100
ABB AB...............................	Sweden	100
ABB Asea Brown Boveri Ltd............	Switzerland	100
ABB Ltd..............................	United Kingdom	100
Asea Brown Boveri Inc................	United States	100
ABB Holdings Inc.....................	United States	100
Asea Brown Boveri S.A................	Venezuela	100

SUPPLIES AND RAW MATERIALS

We purchase a variety of raw materials for use in our production processes. We enter into long-term supply agreements with selected key suppliers for the purchase of significant raw materials and components required in our operations.

We operate a worldwide Supply Chain Management network with employees dedicated to this function in key countries. The Supply Chain Management network uses the scale of the ABB Group to maximize the efficiency of supply networks. In 2001, we expanded our eBusiness activities, including e-procurement for materials and services, and further developed advanced supplier collaboration tools and a supplier information system.

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A strong increase in demand for specialty steel beyond industry capacity caused the price of this material to increase by approximately 4% in 2001. In addition, aluminum, copper and oil prices rose by approximately 2% in 2001 due to cost pressures and refining and capacity constraints. Capacity constraints in non-ferrous metals fabrication and specialty steel production led to minor material shortages and delays in delivery during the first half of 2001.

Prices on electronic components rose between 3% and 4% in 2001. Shortages in supplies, such as those for memories and capacitors, caused extended lead times during the first three quarters of 2001. Lead times and prices for electronic components returned to normal levels during the fourth quarter of 2001.

There can be no assurance that our ability to obtain sufficient raw materials will not be adversely affected by unforeseen developments. In addition, the price of raw materials may vary, perhaps substantially, from year to year.

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 2001, 2000 and 1999, we invested $654 million, $703 million and $865 million, or approximately 2.8%, 3.1% and 3.6% of annual revenues, respectively, on research and development activities. We also had expenditures of $916 million, $985 million and $1,212 million, respectively, or approximately 3.9%, 4.3% and 5.0%, respectively, of annual revenues in 2001, 2000 and 1999, 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 progress 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, our research and development program also engages in high-impact projects which are market-specific projects with more ambitious payback goals but which face more challenges on the technical side in commercialization than conventional product development. Through active management of these investments, we seek to maintain a balance between short-term and long-term research and development programs and optimize our return on investment.

Our global computer network links our engineers and scientists to facilitate the exchange of ideas and foster the development of new products and systems. A significant part of our research and development activities is carried out in our ten research and development centers in the United States and Europe.

In 2001, we streamlined our portfolio of projects and sharpened the focus of our corporate research programs considerably, by shifting resources toward new technologies such as Industrial IT and wireless applications. We estimate that this new focus will lead to a reduction in the number of employees working in corporate research and development by approximately 135.

We are building up new research and development activities in the United States and Asia, while moving away from mature technologies in Europe.

We created four networked laboratories in 2001, which we call global virtual laboratories. The global virtual laboratories are strategically focused on four key areas of research: automation, power, engineering and manufacturing, and oil and gas technologies. The four focal points were chosen to better support our core areas of expertise in power and automation technologies. They

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coordinate their research and link up--in a fully networked, online environment--our scientists and engineers with one another, and with universities, research institutes and partner organizations.

Recent developments include:

- a broad campaign to introduce more distributed control and communication in ABB products in order to integrate them into the Industrial IT architecture;

- a set of innovations relating to robots, software for easy programming of robot applications as well as high precision robots for consumer products and manufacturing applications;

- comprehensive software packages to serve the deregulated energy markets, design optimized grids and facilitate the business processes of energy providers;

- new products for the electrical power market to increase the efficiency, power quality and safety of the power transmission and distribution systems;

- applications of power electronics in powerful drives for use in marine vessels together with innovative propulsion concepts;

- subsea technology such as separation systems and electrical distribution systems that we believe will contribute to significant cost savings in subsea oil and gas production; and

- exploration of nanotechnologies, the design of material on a molecular base, for a variety of applications in our industry as well as micro-electromechanical systems in automation and power applications.

ENVIRONMENTAL ACTIVITIES

We have based our environmental policy directly on the principles of the ICC Business Charter for Sustainable Development, a set of principles for environmental management based on the idea that sustained economic growth should be achieved on a basis consistent with protection of the environment. Our commitment to sustainable development comprises five key elements:

- to develop and design ecoefficient products and systems;

- to share state-of-the-art technologies with emerging markets;

- to contribute to common efforts;

- to apply our social policy, including occupational health and safety policy, throughout the Group and to develop procedures and indicators to improve social performance continuously; and

- to continuously improve our own environmental performance.

Our research and development program includes significant efforts related to improving the environmental impact of our products and systems. Through the development and application of advanced technologies, we seek to improve the operating efficiency of our products, reduce their emissions, and minimize their use of resources and energy. For example, our drive systems significantly reduce energy consumption and ensure optimum operation of customers' equipment. In the Oil, Gas and Petrochemicals division, we have fully integrated environmental controls into our subsea systems, resulting in less need for materials and energy, reduced pollution and easy decommissioning.

To continuously improve the environmental performance of our own operations, we are implementing environmental management systems according to the ISO 14001 standard on all our sites. We have implemented the ISO 14001 standard at almost all of our manufacturing facilities and service workshops (approximately 550 sites). We are now expanding our scope by

implementing an adapted environmental management system in our non-manufacturing organizations.

Commencing in 1999, we introduced the concept of Environmental Product Declarations to improve the environmental performance of our core products. These describe the salient environmental aspects and impacts of a product line, viewed over its complete life cycle, and include relevant environmental goals and improvement programs. Declarations are based on Life Cycle Assessment studies, created according to the international standard ISO 14025. To date, 43 declarations have been produced for major product lines, 9 of which have been externally certified.

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 British Nuclear Fuels. The primary environmental liabilities associated with these sites relate to the costs of remediating radiological contamination upon decommissioning the facilities. In connection with the sale of the nuclear business, in April 2000 we established a reserve of $300 million in connection with estimated remediation costs related to these facilities. For further information, see "Item 3. Key Information--Risk Factors--We are subject to liabilities from discontinued operations and we could be required to make payments in respect of these retained liabilities in excess of established reserves" and "Item 5. Operating and Financial Review and Prospects--Environmental Contingencies and Retained Liabilities."

PATENTS AND TRADEMARKS

We believe that intellectual property has become 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 over 10,000 patent registrations and approximately 8,000 pending applications. In 2001, we filed patent applications for more than 600 inventions. Based on our existing intellectual property strategy, we believe that we have adequate control over our core technologies.

The ABB trademark and trade name is well known throughout the world and represents a very significant value for the ABB Group. The ABB trademark is registered in more than 200 countries. We have protection for over 900 product marks.

REGULATORY MATTERS

Our operations are also subject to numerous other governmental laws and regulations including those governing 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 U.S. Foreign Corrupt Practices Act's antibribery provisions with respect to our conduct around the world.

Our operations are also subject to the 1997 Organization of Economic Cooperation and Development Convention on Combating Bribery of Foreign Public Officials in International Business Transactions as implemented by the 34 signatory countries. The 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions obliges signatories to adopt national legislation that makes it a crime to bribe foreign public officials. As of December 31, 2001, those countries which have adopted implementing legislation and have ratified the OECD Convention include the United States, Switzerland and several European nations in which we have significant operations.

We and our subsidiaries conduct business in certain countries known to experience governmental corruption. While we and our subsidiaries are committed to conducting business in a legal and ethical manner, there is a risk that our employees or agents may take actions that violate either the U.S. Foreign Corrupt Practices Act or legislation promulgated pursuant to the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. These actions could result in monetary penalties against us or our subsidiaries and could damage our reputation and, therefore, our ability to do business.

DESCRIPTION OF PROPERTY

As of December 31, 2001, the ABB Group had approximately 100 manufacturing, production and development facilities of over 10,000 square meters each throughout the world. A substantial portion of our production and development activities is conducted in Germany, the United States, Sweden, Switzerland, Finland, Norway and Italy. We also own or lease other properties, including office buildings, warehouses, research and development facilities and sales offices in approximately 96 countries. We own approximately 60% of the properties on which our facilities are located and lease the remainder.

We own most of the properties on which our production is conducted and essentially all of the machinery and equipment used in the manufacturing operations. In certain countries, we have entered into sale-leaseback agreements, notably in Sweden and Switzerland. Those arrangements mainly pertain to administrative buildings and partly to manufacturing facilities. 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 or, to a lesser extent, lease it to third parties.

It is our general policy to maintain facilities and equipment at quality levels assuring continuous production at good efficiency and safety standards. The net book value of our property, plant and equipment at December 31, 2001, was $3,003 million of which machinery and equipment represented $1,377 million and land and buildings represented $1,438 million. We believe that our current facilities are in good condition and are adequate to meet the requirements of our present and foreseeable future operations.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

PLEASE REFER TO "FORWARD-LOOKING STATEMENTS" AND "ITEM 3. KEY INFORMATION--RISK FACTORS" FOR A DISCUSSION OF THE FACTORS RELEVANT TO THIS DISCUSSION AND OTHER FORWARD-LOOKING STATEMENTS IN THIS ANNUAL REPORT.

OVERVIEW

We are a global provider of power and automation technologies that enable utility and industry customers to improve performance while lowering environmental impact. In January 2001, we announced the transformation of our worldwide enterprise around customer groups, aiming to boost growth by helping our customers become more successful in a business environment of accelerating globalization, deregulation, consolidation and eBusiness.

We replaced our former business segments with seven business divisions structured along customer groups. Four end-user divisions--Utilities, Process Industries, Manufacturing and Consumer Industries and Oil, Gas and Petrochemicals--serve end-user customers with products, systems and services. Two channel partner divisions, Power Technology Products and Automation Technology Products, serve external channel partners such as wholesalers, distributors, original equipment manufacturers and system integrators directly and end-user customers indirectly through

the end-user divisions. The Financial Services division provides services and project support for the ABB Group as well as for external customers.

The ABB Utilities division serves electric, gas and water utilities--whether state-owned or private, global or local, operating in liberalized or regulated markets--with a portfolio of products, services and systems. Our principal customers are generators of power, owners and operators of power transmission systems, energy traders and local distribution companies. The division has approximately 16,000 employees.

The ABB Process Industries division serves the chemical, life sciences, oil and gas, refining, petrochemicals, marine, turbocharging, metals, minerals, mining, cement, pulp, paper and printing industries with process-specific products and services combined with ABB's power and automation technologies. ABB is the leading supplier in many of these markets, and we use our industry and process knowledge to create Industrial IT solutions that improve the efficiency and competitive strength of customers. The division has approximately 16,000 employees.

The ABB Manufacturing and Consumer Industries division sells products, systems and services that improve customer productivity and competitiveness in areas such as automotive industries, telecommunications, consumer goods, food and beverage, product and electronics manufacturing, airports, parcel and cargo distribution, and public, industrial and commercial buildings. In April 2002, we announced our intention to divest our Building Systems business area and to combine the three remaining business areas in the Manufacturing and Consumer Industries division with the Process Industries division in a newly created Industries division. The division has approximately 25,000 employees.

The ABB Oil, Gas and Petrochemicals division supplies a comprehensive range of products, systems and services to the global oil, gas and petrochemicals industries, from the development of onshore and offshore exploration technologies to the design and supply of production facilities, refineries and petrochemicals plants. The division has approximately 13,000 employees.

The ABB Power Technology Products division covers the entire spectrum of technology for power transmission and power distribution. It includes transformers, switchgear, breakers, capacitors, cables, as well as other products, platforms and technologies for high and medium-voltage applications. Power technology products are used in industrial, commercial and utility applications. They are sold through the end-user divisions, as well as through external channel partners such as distributors, contractors, original equipment manufacturers and system integrators. The division has approximately 28,000 employees.

The ABB Automation Technology Products division provides products, systems, software and services for the automation and optimization of industrial and commercial processes. Key technologies include measurement and control, instrumentation, process analysis, drives and motors, power electronics, robots, and low-voltage products. These technologies are sold to customers through the end-user divisions as well as through external channel partners such as wholesalers, distributors, original equipment manufacturers and system integrators. The division has approximately 39,000 employees.

The ABB Financial Services division supports the ABB Group's businesses and customers with innovative financial solutions in structured finance, leasing, project development and ownership, financial consulting, insurance and treasury activities. The division has approximately 1,200 employees.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

GENERAL

Our discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements included elsewhere in this annual report, which have been prepared in accordance with accounting principles generally accepted in the United States. As described in Note 2 to the Consolidated Financial Statements, 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 related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to costs expected to be incurred to complete projects, product guarantees and warranties, bad debts, inventories, investments, intangible assets, income taxes, financing operations, restructuring, long-term service contracts, pensions and other post-retirement benefits, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe changes in the following judgments, assumptions and estimates involved in the application of our most critical accounting policies could materially affect the amounts reported in our consolidated financial statements.

REVENUE AND COST OF SALES RECOGNITION

Short-term contract revenues are generally recognized upon completion of services or delivery of goods. These revenue recognition methods assume collectibility of the revenues recognized. When recording the respective accounts receivable, loss reserves 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. There remains the risk that greater defaults will occur than estimated. As such, revenues recognized might exceed that which will be collected, resulting in a deterioration of earnings in the future. This risk is likely to increase in a period of significant negative industry or economic trends.

Long-term contract revenues are generally recognized under the percentage of completion method. The percentage of completion method of accounting involves the use of various assumptions and projections, including future material costs, overhead costs and labor performance and rates. As a result there remains the risk that total contract costs will exceed those which have been originally estimated. These risks are exacerbated if the duration of the project is long-term, because there is a higher probability that the circumstances upon which we originally developed the estimates will change in a manner that increases our costs. Factors that could cause costs to increase include:

- delays caused by unexpected conditions or events;

- unanticipated technical problems with the equipment being supplied or developed by us which may require that we spend our own money to remedy the problem;

- changes in the cost of components, materials or labor;

- difficulties in obtaining required governmental permits or approvals;

- project modifications creating unanticipated costs;

- suppliers' or subcontractors' failure to perform; and

- penalties incurred as a result of not completing portions of the project in accordance with agreed upon time limits.

Changes in the initial assumptions may result in revisions to total estimated costs, current income and anticipated income. These changes are recognized in the period in which the information is determined. We believe, that this approach, referred to as the catch-up approach, produces more relevant information because the cumulative revenue-to-date reflects the current estimates of the stage of completion. Additionally, at any time an overall loss on a contract becomes known, the full amount of the loss is recognized within the calculations as an excess on contract costs over related contract sales and reflected as such on the income statement.

Anticipated costs for warranties on products are accrued upon sales recognition on the related contracts. Warranty costs include calculated costs arising from design imperfections, material and workmanship, performance guarantees (technical risks) and delays in contract fulfillment. General assessment is made on an overall, statistical basis whereas orders with risks resulting from order-specific conditions/guarantees, E.G. plants/installations, are assessed individually. There remains the risk that actual warranty costs will exceed that which has been provided, the result of which would be a deterioration of earnings in the future when these actual costs are determined.

GOODWILL AND OTHER INTANGIBLE ASSETS IMPAIRMENT

We have assessed the impairment of goodwill and other identifiable intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Some factors we consider important which could trigger an impairment review include the following:

- significant underperformance relative to historical or projected future operating results;

- significant changes in the manner of our use of the acquired assets or the strategy for our overall business; and

- significant negative industry or economic trends.

When we have determined the carrying value of goodwill and other identified intangible assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measured any impairment based on a projected discounted cash flow method using a discount rate commensurate with the risk inherent in our current business model. In assessing the recoverability of our goodwill and other intangible assets we must make assumptions regarding estimated future cash flows, discount rates and other factors to determine the fair value of the respective assets. If our experience results in decreases to our forecasted cash flows or increases to the discount rate used, we may be required to record impairment charges for these assets.

Our accounting policies for accounting for goodwill and other intangible assets changed on January 1, 2002. In accordance with Statement of Financial Accounting Standards No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, we ceased to amortize goodwill on that date. In lieu of amortization, we are required to perform an initial impairment review of our goodwill in 2002 and an annual impairment review thereafter. This impairment review requires a fair value estimate applied to the reporting entity to which the goodwill is applicable, as opposed to the respective assets of the acquired company as before. This expands the impairment analysis to include the future cash flows of the business owned before an acquisition that has benefited from an acquisition. As in the previous impairment model, if we determine through the impairment review process that goodwill has been impaired, we will record the impairment charge in our Consolidated Income Statement.

RESTRUCTURING

During fiscal year 2001, we recorded significant reserves in connection with our restructuring program. These reserves include estimates pertaining to employee separation costs and the settlements of contractual obligations resulting from our actions. Although we do not anticipate significant changes, the actual costs may differ from these estimates.

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. They 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 we determine that 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 establish a valuation allowance or increase this allowance in a period, we must expense the allowance within the tax provision in the Consolidated Income Statement. Unforeseen changes in tax rates and tax laws may impact these estimates, as well as differences in the projected taxable income versus the actual taxable income.

CONTINGENCIES

We are subject to proceedings, lawsuits and other claims related to environmental, labor, product and other matters. We are required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies is made after careful analysis of each individual issue often with assistance from both internal and external counsel and technical experts. The required reserves may change in the future due to new developments in each matter or changes in approach such as a change in settlement strategy in dealing with these matters.

PENSION AND POSTRETIREMENT BENEFITS

We have significant pension and postretirement benefit costs and credits that are determined from actuarial valuations. Inherent in these valuations are key assumptions including discount rates and expected return on plan assets. We are required to consider current market conditions, including changes in interest rates, in selecting these assumptions. The discount rate is adjusted annually based on changes in long-term, highly rated corporate bond yields. Decreases in the discount rate result in an increase in the projected benefit obligation and to pension costs (as shown in Note 19 to the Consolidated Financial Statements). The expected return on plan assets represents a long-term rate and is not often adjusted. Decreases in the expected return on plan assets result in an increase to pension costs.

At December 31, 2001, the unfunded balance of the pension benefits was $1,825 million. In accordance with Statement of Financial Accounting Standards No. 87 (SFAS 87), EMPLOYERS' ACCOUNTING FOR PENSIONS, we have recorded only a net liability of $908 million on the balance sheet. The difference is primarily due to an unrecognized actuarial loss of $835 million, which is amortized using the "minimum corridor" approach as defined by SFAS 87. The unfunded balance can increase or decrease based on the performance of the financial markets or changes in our assumption rates and the unfunded amount does not represent a mandatory short-term cash obligation. We are in full compliance with all appropriate statutory funding requirements.

INSURANCE

Premiums are generally recognized in earnings on a pro rata basis over the period coverage is provided. Premiums earned include estimates of certain premiums not yet paid. These premium receivables include premiums relating to retrospectively rated contracts. For such contracts, a provisional premium is paid that will eventually be adjusted. An estimated value of the actual premium is included in receivables. Unearned premiums represent the portion of premiums written that is applicable to the unexpired terms of reinsurance contracts or certificates in force. These unearned premiums are calculated by the monthly pro rata method or are based on reports from ceding companies.

Insurance liabilities are reflected in accrued liabilities and other, on the Consolidated Balance Sheet and are determined on the basis of reports from ceding companies and underwriting associations, as well as on management's, including in-house actuaries', estimates including those for incurred but not reported losses, salvage and subrogation recoveries. Changes to these estimated liabilities are recognized as an increase or decrease to cost of sales in the period in which they are identified. Inherent in the estimates of losses are expected trends of frequency, severity and other factors that could vary significantly as claims are settled. Accordingly, ultimate losses could vary significantly from the amounts currently provided for.

We seek to reduce the loss from our underwriting liabilities by reinsuring certain levels of risks with other insurance enterprises or reinsurers. Recoverable amounts are recorded for both paid and unpaid losses and are estimated in a manner consistent with the claim liability associated with the reinsurance policy. The risk of collectibility of these reinsurance receivables arises from disputes relating to the policy terms and the ability of the reinsurer to pay.

NEW ACCOUNTING STANDARDS

On January 1, 2001, we adopted Statement of Financial Accounting Standards No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, as amended by the Statement of Financial Accounting Standards No. 137, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES--DEFERRAL OF THE EFFECTIVE DATE OF FASB STATEMENT NO. 133 and the Statement of Financial Accounting Standards No. 138, ACCOUNTING FOR CERTAIN DERIVATIVE INSTRUMENTS AND CERTAIN HEDGING ACTIVITIES, collectively referred to as SFAS 133. These Statements require the recognition of all derivatives, other than certain derivatives indexed to our own stock, on the balance sheet at fair value. Derivatives that are not designated as hedges must be adjusted to fair value through income. If the derivative is designated as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in accumulated other comprehensive loss until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. Based on our outstanding derivatives on January 1, 2001, we recognized a loss in the consolidated income statement of approximately $63 million, net of tax, and a reduction to equity of $41 million, net of tax, in accumulated other comprehensive loss.

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 143, ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS, which modifies the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. We will adopt this Statement effective January 1, 2003. We have not yet determined the impact, if any, that this Statement will have on our financial position or results of operations.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 141, BUSINESS COMBINATIONS, and Statement of Financial Accounting Standards No. 142, GOODWILL AND OTHER

INTANGIBLE ASSETS, which modify the accounting for business combinations, goodwill and identifiable intangible assets. All business combinations initiated after June 30, 2001 must be accounted for by the purchase method. Goodwill from acquisitions completed after that date will not be amortized, but will be charged to operations when specified tests indicate that the goodwill is impaired, that is, when the goodwill's fair value is lower than its carrying value. Certain intangible assets will be recognized separately from goodwill, and will be amortized over their useful lives. During 2002, all goodwill must be tested for impairment as of January 1, 2002, and a transition adjustment must be recognized for any impairment found. All goodwill amortization also ceased at that date. We recognized goodwill amortization expense of $191 million, $174 million and $155 million in 2001, 2000 and 1999, respectively. We do not expect to record a material transition adjustment in connection with such impairment testing in 2002.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 (SFAS 144), ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED Assets. This Statement modifies the discontinued operations guidance of Accounting Principles Board Opinion 30, REPORTING THE RESULTS OF OPERATIONS--REPORTING THE EFFECTS OF DISPOSAL OF A SEGMENT OF A BUSINESS, AND EXTRAORDINARY, UNUSUAL AND INFREQUENTLY OCCURRING EVENTS AND TRANSACTIONS, and supersedes Statement of Financial Accounting Standards No. 121 (SFAS 121), ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF, while retaining certain requirements of SFAS No. 121 regarding impairment loss recognition and measurement. In addition, SFAS 144 provides additional accounting and reporting guidance for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions. We adopted this statement on January 1, 2002, and we expect to present more disposals as discontinued operations subsequent to adoption of SFAS 144.

On April 30, 2002, the FASB issued Statement No. 145, RESCISSION OF FASB STATEMENTS NO. 4, 44, AND 64, AMENDMENT OF FASB STATEMENT NO. 13, AND TECHNICAL CORRECTIONS, which rescinds previous requirements to reflect all gains and losses from debt extinguishment as extraordinary. We have elected to adopt the new standard effective April 1, 2002 and, as a result, the gains from extinguishment of debt recorded prior to that date will be reclassified and will not be presented as extraordinary items when these historical periods are presented for purposes of comparison with later periods. Therefore, when results for 2001 are presented for purposes of comparison with 2002 results, income from continuing operations will include the gain on debt extinguishment currently reflected as extraordinary.

RESTRUCTURING EXPENSES

During the first quarter of 1999, we acquired Elsag Bailey Process

Automation N.V. in a business combination accounted for as a purchase. We implemented a restructuring plan in connection with the acquisition that included reorganizing operations predominantly in Germany and the United States and called for workforce reductions of approximately 1,500 salaried employees, of which approximately 1,000 were Elsag Bailey employees. In conjunction with our completed assessment of our post-merger strategy related to the Elsag Bailey acquisition, we recorded a $141 million restructuring liability in our purchase price allocation, principally related to employee terminations and severance. In conjunction with the acquisition of Elsag Bailey, a $38 million expense charge was incurred in 1999 related to restructuring activities of ABB's businesses primarily related to employee termination and severance costs associated with the integration of the Elsag Bailey businesses.

Restructuring charges of $195 million were included in other income (expense), net, during 2000, of which approximately $90 million related to the continued integration of Elsag Bailey. The Elsag Bailey restructuring was substantially complete at the end of 2000. The remainder related

primarily to the consolidation of manufacturing operations in our former Power Transmission segment and other actions to improve efficiency throughout the ABB Group.

In July 2001, we announced a restructuring program anticipated to extend over 18 months. This initiative is expected to lead to one-time costs of $500 million over the 18-month period and, when completed, to produce cost benefits amounting to $500 million annually. The primary component of the restructuring, and the cost benefit, will be a reduction in headcount of approximately 12,000 employees, including through natural attrition. This restructuring program was initiated in an effort to simplify product lines, reduce multiple location activities and respond to the economic conditions in our major markets.

As of December 31, 2001, we recorded charges of $114 million relating to workforce reductions and $73 million relating to lease terminations and other exit costs associated with the restructuring program. These costs are included in other income (expense), net. Termination benefits of $35 million were paid in 2001 to approximately 2,300 employees and $33 million was paid to cover costs associated with lease terminations and other exit costs. Workforce reductions include production, managerial and administrative employees. At December 31, 2001, accrued liabilities include $79 million for termination benefits and $40 million for lease terminations and other exit costs.

As a result of the restructuring, certain assets have been identified as impaired or will no longer be used in continuing operations. We have recorded $44 million to write down these assets to fair value. These costs are included in other income (expense), net.

ACQUISITIONS, INVESTMENTS AND DIVESTITURES

In 2001, 2000 and 1999, we paid aggregate consideration of $597 million, $896 million and $2,428 million, respectively, related to acquisitions and investments in joint ventures and affiliated companies completed in those years. In 2001, we completed the acquisition of Entrelec Group, a France-based supplier of automation and control products, for a total aggregate consideration of $284 million. In 2000, we acquired for aggregate consideration of $130 million the oil and gas service activities of Umoe ASA, a Norwegian service company in the oil and gas industry, to support our further growth in that market. In 1999, we acquired Kemper Europe Reassurances for aggregate considerations of $120 million. We also completed the acquisition of Elsag Bailey for total consideration of $2,210 million (including assumed debt of $648 million).

In June 2000, we entered into a share subscription agreement to acquire a 42% interest in b-business partners B.V. Pursuant to the terms of the agreement, we committed to invest a total of $278 million, of which $69 million was paid in 2000 and $134 million was paid during the first half of 2001. In December 2001, Investor AB acquired 90% of our investment and capital commitments for approximately book value, or $166 million in cash. After this initial transaction, b-business partners B.V. repurchased 50% of its outstanding shares, which resulted in a return of capital to us of $10 million. After these transactions, we retain a 4% investment in b-business partners B.V. and we are committed to provide additional capital to b-business partners B.V. of $3 million. Further, b-business partners B.V. retains a put right to cause us to repurchase 150,000 shares of b-business partners B.V. at a cost of approximately $13 million. The 2001 transactions are reflected in the Consolidated Statements of Cash Flows and included in the aggregate total amounts of investments ($578 million net of cash acquired) and divestment ($283 million net of cash disposed).

In 2001, 2000 and 1999, we received aggregate cash consideration of $283 million, $1,963 million and $2,283 million, respectively, from dispositions and recognized net gains of $34 million, $931 million and $1,935 million, respectively. The material dispositions are described below. In addition, we received cash consideration of $77 million in 1999 from the disposition of our two standard power cable businesses in Norway and Sweden.

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In 2000, we disposed of our power generation businesses, which included our investment in the ABB ALSTOM POWER joint venture described below and our nuclear power business. We received cash proceeds of $1,197 million from ALSTOM in exchange for our joint venture interest and recognized a net gain of $713 million. We received proceeds of $485 million from the sale of the nuclear power business and recognized a net gain of $17 million. Our Consolidated Financial Statements reflect our former power generation segment as discontinued operations.

Effective June 30, 1999, we formed the ABB ALSTOM POWER joint venture with ALSTOM by contributing our power generation business and assets. Upon the formation of the joint venture, we received $1,500 million cash boot and recognized a corresponding net gain of $1,339 million.

In the first quarter of 1999, we sold our 50% interest in the ABB Daimler-Benz Transportation GmbH joint venture to DaimlerChrysler AG for cash consideration of $472 million. Upon the disposal of our investment, we realized a net gain of $464 million. Our Consolidated Financial Statements reflect our equity in the earnings of this joint venture, together with the gain from its sale, as a discontinued operation.

SUMMARY FINANCIAL DATA

The following table demonstrates the amount and percentage of ABB Group revenues derived from each of our business divisions (see Note 23 to the Consolidated Financial Statements):

	REVENUES			PERCENT OF RE	
	YEAR ENDED DECEMBER 31,			YEAR ENDED DECE	
	2001	2000	1999	2001	2000

	($ IN MILLIONS)			(%)	
Utilities	5,649	5,473	5,875	19.7	19.8
Process Industries	3,377	3,339	3,485	11.8	12.1
Manufacturing and Consumer Industries	4,780	5,225	5,697	16.6	18.9
Oil, Gas and Petrochemicals	3,489	2,796	3,086	12.1	10.1
Power Technology Products	4,042	3,662	3,862	14.1	13.3
Automation Technology Products	5,246	5,175	5,550	18.3	18.7
Financial Services	2,133	1,966	1,687	7.4	7.1
Subtotal	28,716	27,636	29,242	100.0	100.0
Corporate and Eliminations	(4,990)	(4,669)	(4,886)		
Consolidated Revenues	23,726	22,967	24,356		

We conduct business in more than 100 countries around the world. The following table demonstrates the amount and percentage of our consolidated revenues derived from each geographic region (based on the location of the customer) in which we operate:

	REVENUES			PERCENT OF RE	
	YEAR ENDED DECEMBER 31,			YEAR ENDED DECE	
	2001	2000	1999	2001	2000
	($ IN MILLIONS)			(%)	
Europe	12,780	12,570	13,893	53.9	54.7
The Americas	5,944	5,702	5,675	25.0	24.8
Asia	2,686	2,770	2,763	11.3	12.1
Middle East and Africa	2,316	1,925	2,025	9.8	8.4
Total	23,726	22,967	24,356	100.0	100.0

ORDERS AND PERCENTAGE OF COMPLETION ACCOUNTING

We book an order when a binding contractual agreement has been concluded with the customer covering, at a minimum, the price and the scope of products or services to be supplied. Approximately 13% of our total orders booked in 2001 were large orders. We define large orders as orders from third parties involving at least $15 million worth of products or systems. Portions of our business, particularly in our Oil, Gas and Petrochemicals, Utilities and Power Technology Products divisions, involve orders related to long-term projects which can take many months or even years to complete. Revenues related to these orders are typically recognized on a percentage of completion basis over a period, ranging from several months to several years.

The level of orders can fluctuate from year-to-year. Arrangements included in particular orders can be extremely complex and non-recurring. Some contracts do not provide for a fixed amount of work to be performed and are subject to modification or termination by the customer. Although large orders are more likely to result in revenues in future periods, the level of large orders, and orders generally, cannot be used to predict accurately future revenues or operating performance. Orders that are placed can be cancelled, delayed or modified by the customer. These actions can have the effect of reducing or eliminating the level of expected revenues or delaying the realization of revenues. Both the Utilities and the Oil, Gas and Petrochemicals divisions' total orders contain a significant number of large orders. The Utilities division often receives large third party orders and in turn places internal orders for products with the Power Technology Products division. Internal orders may be considerably larger than $15 million.

Orders for the ABB Group decreased $1,661 million, or 7%, to $23,779 million in 2001 from a high order intake level in 2000 of $25,440 million. As reported in local currencies, orders declined by 2% in 2001 compared to 2000. The level of orders declined significantly in the Manufacturing and Consumer Industries, Oil, Gas and Petrochemicals, and Automation Technology Products divisions.

Large orders often arise in connection with long-term, fixed price projects. When we undertake a long-term, fixed-price project, we recognize costs, revenues and profit margin from that project in each period based on the percentage of the project completed. Profit margin is based on our estimate of the amount by which total contract revenues will exceed total contract costs at completion. The nature of this accounting method is such that refinements of the estimating process for changing conditions and new developments are continuous. Accordingly, as work progresses or as change orders are approved and estimates are revised, contract margins may be increased, reduced or, on contracts for which a loss has become apparent, eliminated. In addition to the elimination of previously recognized margins, expected losses on loss contracts are recognized in full immediately.

ANALYSIS OF RESULTS OF OPERATIONS

CONSOLIDATED

YEAR ENDED DECEMBER 31, 2001 COMPARED WITH YEAR ENDED DECEMBER 31, 2000

REVENUES

Revenues for the ABB Group increased by $759 million, or 3%, to $23,726 million in 2001 from $22,967 million in 2000. As reported in local currencies, revenues increased 8% in 2001 compared to 2000. This reflects the significant effect of translating revenues generated in local currencies into the U.S. dollar, which strengthened against most of our local currencies.

Revenues for the Utilities division increased by $176 million, or 3%, in 2001 compared to 2000 (a 7% increase as reported in local currencies). The increase in revenues was primarily due to revenue increases in our Power Systems and Modular Substations business areas. The Process Industries division increased revenues by $38 million, or 1%, in 2001 compared to 2000 (a 5% increase as reported in local currencies). Our Marine and Turbocharging business area was the primary contributor to this revenue increase. Manufacturing and Consumer Industries experienced a $445 million, or 9%, decrease in revenues for 2001 compared to 2000 (a 4% decrease as reported in local currencies), due primarily to the negative impact of the economic slowdown in the automotive industry. Revenues from Oil, Gas and Petrochemicals increased by $693 million, or 25%, in 2001 compared to 2000 (a 28% increase as reported in local currencies). The increase primarily reflected the large order intake of 2000, a significant portion of which was converted into revenues in 2001, and a full year of revenues from Umoe ASA, the oil and gas company acquired in the second half of 2000. This improvement was driven by upstream exploration markets, while downstream ended flat. Power Technology Products revenues increased by $380 million, or 10%, in 2001 compared to 2000 (a 15% increase as reported in local currencies). Revenues increased in most of the business areas, with our High-Voltage Products business area being the main contributor to the revenue increase. Revenues for the Automation Technology Products division increased by $71 million, or 1%, in 2001 compared to 2000 (a 6% increase as reported in local currencies). Revenue growth was strongest in our Drives and Power Electronics business area, offset in part by declines in our Robotics business area. Revenues from Financial Services increased by $167 million, or 8%, in 2001 compared to 2000 (a 13% increase as reported in local currencies). This increase primarily reflected improved revenues from our Insurance business area, primarily from acquisitions, and our Structured Finance business area.

For a more detailed discussion of the individual divisions, see "Business Divisions" below.

COST OF SALES

Cost of sales for the ABB Group increased by $1,486 million, or 9%, to $18,708 million in 2001 from $17,222 million in 2000. As a percentage of revenues, cost of sales increased from 75.0% in 2000 to 78.9% in 2001. The increase in actual cost of sales was primarily attributable to the increase in revenues from the divisions, in particular the Utilities and the Oil, Gas and Petrochemicals divisions. Cost of sales increased in the Financial Services division mainly reflecting a $295 million non-cash charge from a change in accounting estimate for reinsurance reserves. Prior to 2001, we presented a portion of our insurance reserves on a discounted basis, which estimated the present value of funds required to pay losses at future dates. During 2001, the timing and amount of claims payments being ceded to us in respect of prior years' finite risk reinsurance contracts has changed and cannot be reliably determined at December 31, 2001. Therefore, we have not discounted our loss reserves, resulting in a charge to losses and loss adjustment expenses in 2001 of $295 million. In addition, our Insurance business area booked provisions for $138 million in underwriting losses, including $48 million in provisions for expected claims arising from the events of September 11, 2001. Additionally, costs and provisions for alternative energy projects of $55 million in New Ventures business area and project cost overruns in Oil, Gas and

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Petrochemicals division of $140 million also contributed to the higher cost of sales during 2001. Our cost of sales consists primarily of labor, raw materials and related components. Cost of sales also includes provisions for warranty claims, contract losses and project penalties, as well as order-related development expenses related to projects for which we have recognized corresponding revenues. Order-related development expenditures amounted to $916 million and $985 million, in 2001 and 2000, respectively. In these periods, $499 million and $423 million, respectively, of order-related development expenditures were related to the Oil, Gas and Petrochemicals division. Order-related development amounts are initially recorded in inventories as part of the work in progress of a contract, and then reflected in cost of sales at the time revenue is recognized.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses decreased by $20 million, to $4,397 million in 2001 from $4,417 million in 2000. The decrease reflects group-wide cost reduction and efficiency improvement initiatives. As a percentage of revenues, selling, general and administrative expenses declined to 18.5% in 2001 from 19.2% in 2000. Selling, general and administrative expenses included research and development costs of $654 million in 2001 and $703 million in 2000. For the year 2001, the Automation Technology Products and the Power Technology Products divisions incurred research and development costs of $269 million and $103 million, respectively. The other industrial divisions shared the remaining cost in approximately equal proportions.

AMORTIZATION EXPENSE

Amortization expense increased by $17 million, or 8%, to $236 million in 2001 from $219 million in 2000, attributable to slightly higher amortization of purchased goodwill and intangibles, in particular from the Umoe acquisition completed in June 2000 and the acquisition of Entrelec Group in June 2001. In accordance with Statement of Financial Accounting Standards No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, goodwill is no longer amortized as of January 1, 2002.

OTHER INCOME (EXPENSE), NET

Other income (expense), net, typically consists of our share of income or loss on investments, principally from our Equity Ventures business area, as well as gains or losses from sales of businesses, investments and property, plant and equipment, license income and restructuring charges. Other income (expense), net, decreased by $382 million, to an expense of $106 million in 2001 from an income of $276 million in 2000. The change was primarily related to the benefit in 2000 of $447 million from capital gains, which was not repeated, as against $57 million in 2001. The significant capital gains in 2000 primarily resulted from the sale of non-core property and businesses. Also included were asset write-downs of mainly intangible assets ($93 million in 2001, $17 million in 2000), and income from equity accounted companies, license income and other of $161 million in 2001 and $41 million in 2000.

EARNINGS BEFORE INTEREST AND TAXES

Earnings before interest and taxes, or operating income, decreased $1,106 million, or 80%, to $279 million in 2001 from $1,385 million in 2000. As reported in local currencies, earnings before interest and taxes declined by 78% in 2001 compared to 2000. The decrease is primarily attributable to the higher cost of sales in 2001, and the significantly lower capital gains recorded in 2001 compared to 2000. When adjusted for capital gains of $57 million in 2001 and $447 million in 2000, operating income decreased by 76% in 2001 compared to 2000. As a percentage of revenues, reported operating income decreased from 6.0% in 2000 to 1.2% in 2001.

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NET INTEREST AND OTHER FINANCE EXPENSE

Interest and other finance expense increased by $158 million, or 25%, to $802 million in 2001 from $644 million in 2000. Net interest expense was primarily affected by a higher net debt position, which arose to fund our share repurchases in 2001, as well as costs associated with the listing of our shares in the United States and costs to hedge our management incentive plan. See Note 20 to the Consolidated Financial Statements. Interest expense reflects fluctuations, which may be substantial, in the level of borrowings throughout the year as required by the operating needs of our business. The level of interest and dividend income earned remained flat at $568 million in 2001 from $565 million in 2000.

PROVISION FOR TAXES

Provision for taxes decreased by $272 million, or 72%, to $105 million in 2001 from $377 million in 2000. The decrease in the provision reflects primarily the reduction in income from continuing operations before taxes and minority interests, which declined from $1,306 million to $45 million. As a percentage of income from continuing operations before taxes and minority interest, the development led to a higher tax rate of 234% in 2001 compared to 28.9% in 2000. The higher effective rate reflects the inclusion of the provision for our reinsurance business located in a low tax jurisdiction. The tax rate applicable for income from continuing operations without the insurance provision would have been 30.9%. We generally conduct our tax planning activities to achieve a tax structure for ABB that provides for an effective tax rate of approximately 30% on our operations.

INCOME (LOSS) FROM CONTINUING OPERATIONS

Income (loss) from continuing operations decreased $1,011 million to a loss of $130 million in 2001 from an income of $881 million in 2000. The decrease reflects the impact of the items discussed above.

INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX

Loss from discontinued operations, net of tax, was $510 million in 2001, compared to an income, net of tax, of $562 million in 2000. The loss from discontinued operations reflects significant reduction in gains from the sale of discontinued operations and an additional provision taken for the asbestos liabilities relating to our discontinued power generation business. In 2000, we recorded gains on the sale of our interest in the ABB ALSTOM POWER joint venture and our nuclear power business, which were not repeated in 2001. During 2001, we experienced a substantial increase in the level of new asbestos claims as well as an increase in settlement costs per claim. In light of this, we recorded a charge of $470 million. See "--Environmental Contingencies and Retained Liabilities."

NET INCOME (LOSS)

As a result of the factors discussed above, net income decreased to a loss of $691 million in 2001 from an income of $1,443 million in 2000. The net loss in 2001 primarily reflects the significantly lower level of gains from sales of businesses, including discontinued business, and higher cost of sales, which includes the non-cash charge related to our reinsurance business. We also recorded a $12 million extraordinary gain on the repurchase of our own bonds and a one-time after tax charge of $63 million, due to cumulative effect of change in accounting principles upon adoption of the Statement of Financial Accounting Standards No. 133 (SFAS 133) ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. See "New accounting standards" above.

EARNINGS (LOSS) PER SHARE

Diluted earnings (loss) per share was a loss per share of $0.61 in 2001 compared to an income per share of $1.22 in 2000, largely resulting from the factors mentioned above which negatively impacted net income. Diluted loss per share from discontinued operations were $0.45 compared to diluted earnings per share of $0.48 in 2000, reflecting the loss from discontinued operations discussed above as opposed to a gain in 2000. Diluted earnings (loss) per share from continuing operations decreased to a loss of $0.11 in 2001 from earnings of $0.74 per share in 2000, primarily as a result of the decreases in the gross margin and in capital gains and higher interest expense in 2001.

YEAR ENDED DECEMBER 31, 2000 COMPARED WITH YEAR ENDED DECEMBER 31, 1999

REVENUES

Revenues for the ABB Group decreased by $1,389 million, or 6%, to $22,967 million in 2000 from $24,356 million in 1999. This includes the significant effect of translating revenues generated in local currencies into the U.S. dollar, which strengthened against most of our local currencies. As reported in local currencies, revenues increased by 2% in 2000 compared to 1999. The divisional revenues were also impacted by this translation effect. In four of our divisions the translation effect changed the local currency revenue increases into revenue decreases.

Utilities revenues decreased by $402 million, or 7%, in 2000 compared to 1999 (a 2% decrease as reported in local currencies). The decrease in revenues was primarily due to reductions in Power Systems. Orders for the division, however, increased by 4%, as compared to 1999. Process Industries division decreased revenues by $146 million, or 4%, in 2000 compared to 1999 (a 2% increase as reported in local currencies). The revenues performance reflected weakness in our Petroleum, Chemical and Life Sciences business area, which was affected by the low backlog from year-end 1999. Manufacturing and Consumer Industries experienced a $472 million, or 8%, decrease in revenues for 2000 compared to 1999 (a flat development as reported in local currencies). The reported reduction primarily arose from our Building Systems business area. Revenues from Oil, Gas and Petrochemicals decreased by $290 million, or 9%, in 2000 compared to 1999 (a 3% decrease as reported in local currencies). The decrease in 2000 primarily reflected both a strong order backlog at the end of 1998, which positively affected early 1999 revenues, and generally weak market conditions in 1999. Power Technology Products revenues decreased by $200 million, or 5%, in 2000 compared to 1999 (a 2% increase as reported in local currencies). Our High-Voltage Products business area experienced a considerable reduction in 2000 as a result of lower volumes from a low order intake in 1999. Automation Technology Products division revenues decreased by $375 million, or 7%, in 2000 compared to 1999 (a 2% increase as reported in local currencies). The reported decrease primarily reflected weakness in sales of larger automation systems. Revenues from Financial Services increased by $279 million, or 17%, in 2000 compared to 1999. This increase primarily reflected increased revenues from our Insurance business area mainly through acquisitions.

For a more detailed discussion on the individual divisions, see "Business Divisions" below.

COST OF SALES

Cost of sales for the ABB Group decreased $1,235 million, or 7%, to $17,222 million in 2000 from $18,457 million in 1999. As a percentage of revenues, cost of sales was 75.0% in 2000 compared to 75.8% in 1999. The reduction in actual cost of sales was primarily attributable to the reduced level of revenues and the improvement in the gross margin was mainly a result of cost reduction efforts. Order-related development expenses amounted to $985 million and $1,212 million in 2000 and 1999 respectively. The reduction in these costs was mainly a result of the streamlining of research and development activities. This streamlining reflects the significant progress that we

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made towards common ABB platforms and products. Order-related development amounts are initially recorded in inventories as part of the work in progress of a contract, and then reflected in cost of sales at the time revenue is recognized, in accordance with our accounting policies.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses decreased by $265 million, or 6%, to $4,417 million in 2000 from $4,682 million in 1999. The decreased selling, general and administrative costs reflect reductions resulting from the restructuring in connection with the integration of the Elsag Bailey operations, which initially had higher selling, general and administrative expenses than our existing related businesses. The decrease also reflects group-wide cost reduction and efficiency improvement initiatives as well as expenditures to prepare for the Year 2000 issues in 1999, which were not repeated in 2000. Selling, general and administrative expenses included $703 million and $865 million of research and development costs in 2000 and 1999 respectively.

AMORTIZATION EXPENSE

Amortization expense was $219 million in 2000 and $189 million in 1999. There were no material acquisitions that affected the level of amortization expense in 2000.

OTHER INCOME (EXPENSE), NET

Other income, net, increased by $182 million to $276 million in 2000 from $94 million in 1999. The improvement was primarily attributable to an increase in net gains from sales of non-core property, plant and equipment and improved earnings from investments made by Equity Ventures, offset by an increase in restructuring costs.

EARNINGS BEFORE INTEREST AND TAXES

Earnings before interest and taxes, or operating income, increased by $263 million, or 23%, to $1,385 million in 2000 from $1,122 million in 1999. As reported in local currencies, earnings before interest and taxes increased 38% in 2000 compared to 1999. As a percentage of revenues, operating income increased to 6.0% in 2000 from 4.6% in 1999. The increase is primarily attributable to the benefit from the 6% reduction in selling, general and administrative expenses and the increased level of other income, net. The improvements in other income, net, reflected primarily significant capital gains in 2000 of $447 million as compared to $180 million in 1999. As adjusted for capital gains, operating income remained flat for 2000 compared to 1999. Significant capital gains in 1999 relate to gains from the sale of shares and participations and from the sale of non-core property.

NET INTEREST AND OTHER FINANCE EXPENSE

Interest expense decreased by $64 million, or 9%, to $644 million in 2000 from $708 million in 1999. The decrease primarily reflects a lower level of borrowings during 2000 compared to 1999, resulting from the use of cash generated by operations and divestitures to reduce borrowings during the period. The level of interest and dividend income earned decreased by $43 million, to $565 million in 2000 from $608 million in 1999.

PROVISION FOR TAXES

Provision for taxes increased by $34 million, or 10%, to $377 million in 2000 from $343 million in 1999, primarily reflecting taxes on an increased level of income from continuing operations. As a percentage of income from continuing operations before taxes and minority interest, however, we incurred a lower effective tax rate of 28.9% in 2000 compared to 33.6% in 1999. The lower effective tax rate can be attributed to a change in the financing of our operations in a number of

countries throughout 2000, including financing related to the Elsag Bailey operations, as well as earnings in countries with tax rates lower than the weighted average rate.

INCOME FROM CONTINUING OPERATIONS

Income from continuing operations increased by $238 million, or 37%, to $881 million in 2000 from $643 million in 1999. As a percentage of revenues, income from continuing operations increased to 3.8% in 2000 from 2.6% in 1999. The increase reflects the impact of the items discussed above.

INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX

Income from discontinued operations, net of tax, decreased by $155 million, or 22%, to $562 million in 2000 from $717 million in 1999. The 1999 amount reflected both the net gain on the contribution of our power generation business to the ABB ALSTOM POWER joint venture of $1,339 million and the gain on the sale of ADtranz of $464 million, partially offset by operating losses from the divested businesses. The 2000 amount includes a net gain of $713 million on the sale of our remaining 50% share in ABB ALSTOM POWER and a net gain of $17 million on the sale of our nuclear power business. The net gain from the sale of our nuclear power business includes a $300 million provision for estimated environmental remediation.

NET INCOME

As a result of the factors discussed above, net income increased by $83 million, or 6%, to $1,443 million in 2000 from $1,360 million in 1999. The increase in net income reflects the 37% improvement in income from continuing operations. This improvement more than offset the 22% decrease in income from discontinued operations resulting from the lower level of gains on sales of non-core businesses.

EARNINGS PER SHARE

Diluted earnings per share increased by $0.07 to $1.22 in 2000 from $1.15 in 1999. The increase primarily reflected the significant increase in income from continuing operations. Diluted earnings per share from continuing operations increased by $0.20 to $0.74 in 2000, from $0.54 in 1999, reflecting the increase in income from continuing operations discussed above. This increase was only partially offset by a decrease in diluted earnings per share from discontinued operations of $0.13 to $0.48 in 2000 from $0.61 in 1999. This decrease reflected the lower level of income from discontinued operations discussed above.

BUSINESS DIVISIONS

In April 2002, we announced our intention to divest our Building Systems business area, which is part of the Manufacturing and Consumer Industries division, and to combine the three remaining business areas in the Manufacturing and Consumer Industries division with the Process Industries division in a newly created Industries division. We are in the process of implementing this combination, and we will begin reporting our financial results to reflect this new structure starting with our June 30, 2002 financial results. The discussion of the various divisions set forth below does not reflect this new division reporting.

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OVERVIEW

Revenues, earnings before interest and taxes (or operating income) and operating margins by division for the fiscal year 2001, 2000 and 1999 and net operating assets as of December 31, 2001, 2000 and 1999 are as follows (see Note 23 to the Consolidated Financial Statements):

	REVENUES			NET OPERATI	
	YEAR ENDED DECEMBER 31,			DECEMBE	
	2001	2000	1999	2001	200
	($ IN MILLIONS)			($ IN MIL	
Utilities	5,649	5,473	5,875	795	1,0
Process Industries	3,377	3,339	3,485	738	8
Manufacturing and Consumer Industries	4,780	5,225	5,697	249	4
Oil, Gas and Petrochemicals	3,489	2,796	3,086	315	8
Power Technology Products	4,042	3,662	3,862	1,311	1,3
Automation Technology Products	5,246	5,175	5,550	2,558	3,2
Financial Services	2,133	1,966	1,687	10,926	9,0
Corporate and Eliminations	(4,990)	(4,669)	(4,886)	(3,114)	(2,1
Consolidated figures	23,726	22,967	24,356	13,778	14,6

	EARNINGS BEFORE INTEREST AND TAXES			OPERATING	
	YEAR ENDED DECEMBER 31,			YEAR ENDED DE	
	2001	2000	1999	2001	200
	($ IN MILLIONS)				(%)
Utilities	148	250	182	2.6	4
Process Industries	116	88	123	3.4	2
Manufacturing and Consumer Industries	87	205	147	1.8	3
Oil, Gas and Petrochemicals	79	157	165	2.3	5
Power Technology Products	234	244	282	5.8	6
Automation Technology Products	380	464	392	7.2	9
Financial Services	(32)	349	337	n/a	n
Corporate and Eliminations	(733)	(372)	(506)	n/a	n
Consolidated operating income/margins	279	1,385	1,122	1.2	6

DIVISION COSTS

Cost of sales and selling, general and administrative expenses comprise the most significant part of operating expenses for all divisions. Cost of sales includes costs related to the sale of products and services, which comprise, among other things, the cost of raw materials, components, order-related research and development and procurement costs. Cost of sales for the Financial Services division includes insurance claims, acquisition costs and direct costs incurred to obtain revenues and income from third parties and related parties. Selling, general and administrative expenses include the overhead related to the sales force and all costs related to general management, human resources, financial control, corporate finance and non order-related research and development. As a percentage of revenues, cost of sales is approximately equal for all industrial divisions, except that it is slightly lower for the Automation Technology Products division as a result of the higher gross margins typical in the automation industry. Selling, general and administrative expenses as a percentage of revenues are typically higher in the Automation Technology

Products division compared to our other industrial divisions, due to relatively higher volumes attributable to smaller units of sales. The Oil, Gas and Petrochemicals division, in contrast, has a higher level of cost of sales (a lower gross margin) than the other industrial divisions but significantly lower selling, general and administrative expenses as a percentage of revenues, due to relatively higher volumes attributable to large projects.

UTILITIES

Demand in the Americas remained strong throughout 2001. The slowdown in the U.S. economy and the events of September 11, 2001, did not significantly affect utilities markets in 2001, as utility investments primarily are infrastructure-related and generally have long lead times. Market activities in the United States and Europe were stable while in China and Brazil, the positive market trend from large project investments continued from the year 2000. In the Middle East and Africa, political instability has slowed investments in large projects. The Utilities division strengthened its focus on core utility customers through the sale of its railway electrification project business to Balfour Beatty in the fourth quarter of 2001. The divested business employed approximately 350 people. A shift in customer investments from power sources to power networks continues to drive the market. Driven by need for reliable power, demand for new systems and improvements in existing systems are foreseen.

YEAR ENDED DECEMBER 31, 2001 COMPARED WITH YEAR ENDED DECEMBER 31, 2000

Orders increased by $201 million, or 3%, to $6,436 million in 2001 from $6,235 million in 2000. As reported in local currencies, orders increased 7% in 2001 compared to 2000. This order improvement included a $360 million order in China for the Power Systems business area, announced in the fourth quarter of 2001. This order relates to a project involving the construction of a HVDC power transmission system linking hydropower plants in central China to the Guangdong province. In 2001, large orders represented approximately 17% of the division's total orders.

Revenues increased by $176 million, or 3%, to $5,649 million in 2001 from $5,473 million in 2000. As reported in local currencies, revenues increased 7% in 2001 compared to 2000. All business areas reported higher revenues in 2001 compared to 2000 due to strong order intake in 2000, with the exception of the Utility Services business area, where the 2000 results reflected a period of heightened revenues from the invoicing of the ComEd project in Chicago.

Earnings before interest and taxes, or operating income, decreased by $102 million, or 41%, to $148 million in 2001 from $250 million in 2000. There was no significant effect from translating local currency earnings into U.S. dollars. Operating income included capital gains of $54 million in 2000. When adjusted for capital gains, earnings before interest and taxes decreased by 24%. The reduction primarily related to the Power Systems business area, where competition-driven price deterioration reduced margins, and fixed costs related to projects that were deferred negatively impacted profitability.

YEAR ENDED DECEMBER 31, 2000 COMPARED WITH YEAR ENDED DECEMBER 31, 1999

Orders increased $254 million, or 4%, to $6,235 million in 2000 from $5,981 million in 1999. As reported in local currencies, orders increased 10% in 2000 compared to 1999. A number of significant orders were received by the Power Systems business area for an interconnection between Brazil and Argentina and HVDC projects in the United States and Australia. The strongest improvement came from the Modular Substations business area, which improved orders significantly through the booking of large projects, primarily in western Europe.

Revenues decreased $402 million, or 7%, to $5,473 million in 2000 from $5,875 million in 1999. As reported in local currencies, revenues decreased 2% in 2000 compared to 1999. All business areas contributed to the negative revenue development, except our Utility Services business area, which increased revenues significantly by invoicing several large projects and benefited from full service contracts signed in 1999 and early 2000. Full service contracts typically last for several years and revenue is recognized throughout the contract period. The decrease in revenues primarily resulted from investment uncertainty in Latin America in 1999, which resulted in order deferrals, particularly in our Power Systems business area.

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Earnings before interest and taxes, or operating income, increased by $68 million, or 37%, to $250 million in 2000 from $182 million in 1999. As reported in local currencies, operating income increased by 46% in 2000 compared to 1999. Operating income included capital gains of $54 million in 2000. Adjusted for capital gains, earnings before interest and taxes increased $14 million, or 8%. In general, the improvement reflected the benefits of cost base reduction and improved internal efficiency, productivity and quality management on a global basis. These efforts included the restructuring of our Utility Automation business area. For our Utility Services business area, the higher volumes largely contributed to the strong increase in earnings before interest and taxes.

PROCESS INDUSTRIES

Throughout 2001, many industries served by the Process Industries division consolidated, in particular the paper, aluminum and steel industries. Consolidation has diverted attention toward integration and has led to reduced capital spending by customers in those industries. The overall economic slowdown in the United States, exacerbated by the events of September 11, 2001, negatively affected the cruise industry, and contributed to a consolidation trend in the marine industry. The poor economic environment also had a negative effect on the metal, pulp and paper and mining businesses. In contrast, oil and gas vessel demand remained high in 2001 due to the continued exploration of new oil fields. The chemical and life sciences industries experienced growth in 2001.

YEAR ENDED DECEMBER 31, 2001 COMPARED WITH YEAR ENDED DECEMBER 31, 2000

Orders decreased by $121 million, or 3%, to $3,376 million in 2001 from $3,497 million in 2000. As reported in local currencies, orders remained flat. Orders increased significantly in the Petroleum, Chemical and Life Sciences business area offsetting decreases in our Paper, Printing, Metals and Minerals and Marine and Turbocharging business areas.

Revenues increased by $38 million, or 1%, to $3,377 million in 2001 from $3,339 million in 2000. As reported in local currencies, revenues increased 5% in 2001 compared to 2000. Revenue increases were primarily attributable to increased volumes in our Marine and Turbocharging business area as a result of the high order backlog from 2000. Additionally, our Petroleum, Chemical and Life Sciences business area contributed to the revenue improvement.

Earnings before interest and taxes, or operating income, increased by $28 million, or 32%, to $116 million in 2001 from $88 million in 2000. As reported in local currencies, earnings before interest and taxes rose 35% in 2001 compared to 2000. This increase primarily resulted from improvements in cost controls and project management in our Petroleum, Chemical and Life Sciences business area, as well as revenue growth in our Marine and Turbocharging business area.

YEAR ENDED DECEMBER 31, 2000 COMPARED WITH YEAR ENDED DECEMBER 31, 1999

Orders decreased slightly by $28 million, or 1%, to $3,497 million in 2000 from orders of $3,525 million in 1999. As reported in local currencies, however, orders increased by 6% in 2000 compared to 1999. The reported decrease primarily reflects the impact of translating local currencies into U.S. dollars for reporting purposes. Our Petroleum, Chemical and Life Sciences business area experienced decreased orders, while orders improved in our Marine and Turbocharging business area.

Revenues decreased by $146 million, or 4%, to $3,339 million in 2000 from $3,485 million in 1999. As reported in local currencies, however, revenues increased by 2% in 2000 compared to 1999. The reported decrease reflects the significant effect of translating revenues generated in local currencies into U.S. dollars for reporting purposes. Revenues in our Paper, Printing, Metals and Minerals and our Marine and Turbocharging business areas declined due to adverse market

conditions. Revenues from our Petroleum, Chemical and Life Sciences business area decreased significantly due primarily to the low order backlog from the end of 1999 in the oil and gas industry.

Earnings before interest and taxes, or operating income, in 2000 decreased by $35 million, or 28%, to $88 million from $123 million in 1999. As reported in local currencies, operating income decreased 17% in 2000 compared to 1999. Operating income in our Paper, Printing, Metals and Minerals business area remained unchanged from 1999, but operating income in our Marine and Turbocharging and Petroleum, Chemical and Life Sciences business areas experienced significant decreases from the 1999 levels. These two business areas were both negatively affected by significant losses from large projects due to cost overruns.

MANUFACTURING AND CONSUMER INDUSTRIES

Most of our markets--automotive, telecom, air handling and building construction--were negatively influenced by general economic uncertainty in 2001. In the second half of 2000, automotive industry customers reduced spending and postponed investments. As this continued in 2001, large order intake decreased and toward the middle of 2001, base orders also slowed significantly. In the telecom industry, the repositioning of the major operators and the uncertainty about new UMTS mobile communication network technology postponed rollout projects, while investments in traditional GSM communication networks have been at a minimum. After the events of September 11, 2001, a number of airport expansion projects have been delayed and scaled back. The European construction market for buildings weakened in 2001 with a marked drop in applications for building permits, whereas the retrofit and building service market is expected to improve.

YEAR ENDED DECEMBER 31, 2001 COMPARED WITH YEAR ENDED DECEMBER 31, 2000

Orders decreased by $1,097 million, or 20%, to $4,388 million in 2001 from $5,485 million in 2000. As reported in local currencies, orders decreased by 16% in 2001 compared to 2000. The reduction in orders was primarily attributed to our Automotive Industries and Building Systems business areas, particularly in the United States, Germany and Sweden. Additionally, large order intake decreased, as well as orders for standard products, primarily robots supplied by the Automation Technology Products division.

Revenues decreased by $445 million, or 9%, to $4,780 million in 2001 from $5,225 million in 2000. As reported in local currencies, revenues declined 4% in

2001 compared to 2000. The decrease in revenues mainly arose from the impact of the global economic slowdown in our Automotive Industries business area. This was partly offset by moderate revenue increases in our Building Systems business area, due to good order backlog carried over from 2000.

Earnings before interest and taxes, or operating income, decreased by $118 million, or 58%, to $87 million in 2001 from $205 million in 2000. As reported in local currencies, earnings before interest and taxes decreased 56% in 2001 compared to 2000. Operating income includes capital gains of $41 million in 2000. Adjusted for capital gains, earnings before interest and taxes decreased 47%. Our cost cutting efforts, although significant, lagged behind the sharp downturn in our markets. Our Automotive Industries business area in Germany was impacted by a number of project losses and initiated restructuring to improve the efficiency of project execution. In the United States, repositioning of selected activities within our Telecom and Product Manufacturing Industries business area led to lower operating margins. In addition, our Building Systems business area experienced project losses and higher costs related to over-capacity in the United Kingdom, Australia, Poland and Germany. Our Logistics Systems business area also experienced lower volumes in 2001. The division reduced the number of employees by more than 10% during 2001.

YEAR ENDED DECEMBER 31, 2000 COMPARED WITH YEAR ENDED DECEMBER 31, 1999

Orders decreased by $561 million, or 9%, to $5,485 million in 2000 from $6,046 million in 1999. As reported in local currencies, orders decreased by 1% in 2000 compared to 1999. A large order was booked in 2000 in our Telecom and Product Manufacturing Industries business area for the maintenance and upgrade of a telecommunications access network. This improvement was, however, more than offset by reductions in other business areas, primarily in our Building Systems business area.

Revenues decreased by $472 million, or 8%, to $5,225 million in 2000 from $5,697 million in 1999. As reported in local currencies, however, revenues increased by 1% in 2000 compared to 1999. Increased revenues in our Telecom and Product Manufacturing Industries business area resulted from higher volumes in our full service business. This improvement was offset by reductions in other business areas, primarily in our Building Systems business area as a result of the discontinuation of the rail service and contracting business in Australia.

Earnings before interest and taxes, or operating income, increased by $58 million, or 39%, to $205 million in 2000 from $147 million in 1999. As reported in local currencies, operating income increased by 51% in 2000 compared to 1999. Operating income includes capital gains of $41 million in 2000. Adjusted for capital gains, earnings before interest and taxes increased 12%. The increase was driven by improvements in our Automotive Industries and Telecom and Product Manufacturing business areas, particularly in the United States, reflecting the favorable market conditions at the end of 1999 and the beginning of 2000. Additionally, the earnings improvement can be attributed to efficient execution of projects, favorable product mix and savings in general and administration costs following active cost management. Operating income in our Building Systems business area remained relatively unchanged as losses in the United Kingdom offset operational improvements achieved in other markets.

OIL, GAS AND PETROCHEMICALS

Capital expenditures by customers of the Oil, Gas and Petrochemicals division are influenced by oil company expectations about the supply and demand for crude oil and natural gas products, the energy price environment that results from supply and demand imbalances and consolidation of the oil and gas markets. Key factors that may influence the worldwide oil and gas market include production restraint of OPEC nations and other oil-producing countries, global economic growth, technological progress in oil exploration and production and the maturity of the resource base. The downstream markets are influenced by factors such as economic growth, substitution of products and demand for more environmentally friendly products.

Crude oil prices dropped in the fourth quarter of 2001 to below the OPEC band of $22 to $28 per barrel, with the average price for 2001 below that of 2000. The upstream business (from the well or bore hole to the refinery) continued to see high activity levels in 2001. The activity in West Africa continued its strong 2000 level throughout 2001, with some softening of demand in the fourth quarter due to the economic slowdown. Oil exploration activities in the Gulf of Mexico were robust while there was a shortfall in the gas exploration and production market, due to lower gas prices in the United States. The high order levels in the downstream market in 2000 did not continue through 2001. Demand in the petrochemicals industry decreased, subsequently leading to reduced investments in new capacity, while investments in refineries and gas-processing plants remained stable, driven by environmental regulations. The deterioration of the world economy had a negative impact on the downstream business, resulting in reduced activities in the process technology market in 2001. We expect this challenging downstream environment to continue in 2002.

YEAR ENDED DECEMBER 31, 2001 COMPARED WITH YEAR ENDED DECEMBER 31, 2000

Orders decreased by $520 million, or 13%, to $3,403 million in 2001 from $3,923 million in 2000. As reported in local currencies, orders decreased 12% in 2001 compared to 2000. In 2001, approximately half of the total order volume in the Oil, Gas and Petrochemicals division was composed of large orders. From the particularly high level of large orders in 2000, the upstream business continued to grow, but was offset by reductions in the downstream business. We experienced high tendering activity in the Oil, Gas and Petrochemicals division in 2001. This is expected to affect orders positively going into 2002.

Revenues increased by $693 million, or 25%, to $3,489 million in 2001 from $2,796 million for 2000. As reported in local currencies, revenues increased 28% in 2001 compared to 2000. This growth was primarily generated by the large order intake in 2000 and also by a full year of revenues from Umoe, the oil and gas company acquired in the second half of 2000. Revenues improved in our Upstream business area, but the Downstream business area remained flat in 2001 compared to 2000.

Earnings before interest and taxes, or operating income, decreased by $78 million, or 50%, to $79 million in 2001 from $157 million in 2000. As reported in local currencies, earnings before interest and taxes decreased 49% in 2001 compared to 2000. Earnings before interest and taxes were adversely affected by provisions for major cost overruns and project delays, the majority of which related to two large projects. The remaining underlying business developed positively, benefiting from the higher level of revenues.

YEAR ENDED DECEMBER 31, 2000 COMPARED WITH YEAR ENDED DECEMBER 31, 1999

As oil prices recovered during 2000, demand in both the upstream market and the downstream markets increased in 2000, reflecting renewed investments by companies in the oil, gas and petrochemical-related industries. This resulted in an increase in orders of $893 million, or 29%, to $3,923 million in 2000 from $3,030 million in 1999. As reported in local currencies, orders increased by 40% in 2000 compared to 1999. A considerable part of the increase in orders was attributable to additional large orders booked in 2000. Large orders are by nature longer-term and do not immediately affect revenues.

Revenues decreased by $290 million, or 9%, to $2,796 million in 2000 from $3,086 million in 1999. As reported in local currencies, revenues decreased 3% in 2000 compared to 1999. The decrease resulted from the low level of orders in 1999 reflecting the drop in overall market volume, both upstream and downstream, in 1999. Additionally, the improved levels of orders in late 1999 and 2000 were only reflected in revenues in late 2000.

Earnings before interest and taxes, or operating income, decreased by $8 million, or 5%, to $157 million in 2000 from $165 million in 1999. As reported in local currencies, earnings before interest and taxes remained flat in 2000 compared to 1999. A capital gain of $15 million arising from non-core divestitures was included in 2000 operating income. Cost of sales showed a favorable development, but was offset by selling, general and administrative expenses, which did not keep pace with the revenue decrease.

POWER TECHNOLOGY PRODUCTS

Demand in the Americas remained high during 2001, particularly for power transmission products. The U.S. market in particular showed good demand and a higher level of investments in our High-Voltage Technology business area, which primarily serves the utilities market. The market in China continued to grow with a strong fourth quarter of 2001, while the majority of the Southeast Asian market remained stable with respect to infrastructure and industrial investments. Markets in Europe were mixed, with moderate growth in the German, Italian and Swedish markets, offset by flat or declining investments in other European countries. Demand in Middle Eastern and African

markets, in particular Saudi Arabia and the United Arab Emirates, showed improved momentum during the second half of 2001. Generally, we expect the positive developments to continue and weaker markets to recover during 2002.

YEAR ENDED DECEMBER 31, 2001 COMPARED WITH YEAR ENDED DECEMBER 31, 2000

Orders increased by $150 million, or 4%, to $4,221 million in 2001 from $4,071 million in 2000. As reported in local currencies, orders increased 9% in 2001 compared to 2000. Our Power Transformers business area recorded strong order growth mainly due to a considerable large order booked for the Chinese power link project. Our High-Voltage Technology business area increased orders substantially in the United States, Brazil, China and Russia. Orders in our Distribution Transformers and Medium-Voltage Technology business areas showed more modest growth as a result of the economic slowdown in North America, which affected the building and infrastructure markets.

Revenues increased by $380 million, or 10%, to $4,042 million in 2001 from $3,662 million in 2000. As reported in local currencies, revenues increased 15% in 2001 compared to 2000. Our High-Voltage Technology business area showed a substantial revenue increase, generated in the Americas and Europe through increased volumes in high-voltage breakers and systems activities. Other distribution and transmission products recorded high single-digit or low double-digit growth in local currencies.

Earnings before interest and taxes, or operating income, decreased by $10 million, or 4%, to $234 million in 2001 from $244 million in 2000. As reported in local currencies, earnings before interest and taxes remained unchanged in 2001 compared to 2000. Excluding the effect of increased restructuring charges in 2001, earnings before interest and taxes showed a slight improvement as a result of revenue growth and operational improvements. The higher level of revenues and operational improvements, however, were offset in part by lower product prices and the postponement of certain orders.

YEAR ENDED DECEMBER 31, 2000 COMPARED WITH YEAR ENDED DECEMBER 31, 1999

Orders increased by $230 million, or 6%, to $4,071 million in 2000 from $3,841 million in 1999. As reported in local currencies, orders increased by 14% in 2000 compared to 1999. The main contributor was our High-Voltage Technology business area, which represented approximately one third of total division orders. In particular, significant orders were received from the Utilities division for an interconnection between Brazil and Argentina and HVDC projects in the United States and Australia.

Revenues decreased $200 million, or 5%, to $3,662 million in 2000 from $3,862 million in 1999. As reported in local currencies, however, revenues increased by 2% in 2000 compared to 1999. The level of revenues reflected the weakness of orders from Latin America in 1999 that affected revenues in 2000, particularly in our High-Voltage Technology business area, which experienced a significant revenue decrease. The Latin American market has been an important market for this business area. The decrease was offset by an improvement in revenues from our Power Transformers business area. Revenues from our Distribution Transformers business area increased as a result of an improved business climate, primarily in North America, where the business area performed well.

Earnings before interest and taxes, or operating income, decreased by $38 million, or 13%, to $244 million in 2000 from $282 million in 1999. As reported in local currencies, however, operating income decreased by 9% in 2000 compared to 1999. Excluding capital gains of $30 million in 1999, operating income decreased 3% in 2000. The decrease in operating income was mainly the result of weak revenues and higher costs associated with restructuring charges in our Power Transformers and High-Voltage Technology business areas. Efforts to increase production efficiency include

reducing product overlaps and increasing the standardization of products where appropriate. Particularly in our Medium-Voltage Technology business area these efforts have lowered our cost base and improved the level of operating income already in 2000. These positive developments were offset by added development costs for the new technology within the area of distributed generation.

AUTOMATION TECHNOLOGY PRODUCTS

The 2001 economic downturn, first in the United States and later in Europe, negatively impacted demand. Asia generally remained stable. The automotive industry experienced significant reductions in investments due to generally weaker economic conditions across our major markets. The events of September 11, 2001, negatively affected the cruise industry in particular. Continuing consolidation in the pulp and paper industry depressed demand as customers focused on integration issues. The weakened construction market, especially in Germany, adversely affected our Low-Voltage Products business area.

YEAR ENDED DECEMBER 31, 2001 COMPARED WITH YEAR ENDED DECEMBER 31, 2000

Orders decreased by $251 million, or 5%, to $5,170 million in 2001 from $5,421 million in 2000. As reported in local currencies, orders were flat in 2001 compared to 2000. Our Drives and Power Electronics business area increased orders in 2001 and improved market share, while our Robotics business area was negatively affected by the decline in the automotive industry. Order levels in all other business areas decreased as they were impacted by increasingly difficult market conditions. Despite difficult conditions, our Instrumentation and Metering and Low-Voltage Products business areas maintained their market shares.

Revenues increased by $71 million, or 1%, to $5,246 million in 2001 from $5,175 million in 2000. As reported in local currencies, revenues increased by 6% in 2001 compared to 2000. Revenue growth was especially strong in our Drives and Power Electronics business area. Supported by the strong order backlog at the end of 2000, our Electrical Machines and Low-Voltage Products business areas increased revenues. Offsetting in part the revenue increase were a significant decline in our Robotics and Control and Force Measurement business areas due to the downturn in the automotive industry and ongoing consolidation in the pulp, paper and metals industries, respectively.

Earnings before interest and taxes, or operating income, decreased by $84 million, or 18%, to $380 million in 2001 from $464 million in 2000. As reported in local currencies, earnings before interest and taxes decreased 14% in 2001 compared to 2000. In our Robotics business area, reduced revenues resulted in significantly reduced operating income. Operating income in our Low-Voltage Products business area declined in 2001 reflecting the divestiture of certain profitable, but non-core, businesses. Earnings before interest and taxes in our Drives and Power Electronics business area increased due to good volume development; however, this development did not fully offset reductions in other business areas. Ongoing efforts to simplify product lines and multiple manufacturing locations should help to counteract the difficult market conditions going forward. Additionally, the division reduced personnel by approximately 3,000 in the second half of 2001.

YEAR ENDED DECEMBER 31, 2000 COMPARED WITH YEAR ENDED DECEMBER 31, 1999

Orders decreased by $201 million, or 4%, to $5,421 million in 2000 from $5,622 million in 1999. As reported in local currencies, however, orders increased by 6% in 2000 compared to 1999. Growth was especially strong in our Drives and Power Electronics, Electrical Machines, Robotics and Low-Voltage Products business areas, due to strong markets.

Revenues decreased by $375 million, or 7%, to $5,175 million in 2000 from revenues of $5,550 million in 1999. As reported in local currencies, however, revenues increased by 2% in 2000

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compared to 1999. The revenue level reflected the weakness in sales of larger automation systems sold through the Manufacturing and Consumer Industries division. Increased sales volumes, particularly in Europe, Asia and Latin America, partially offset pricing pressure on our automation products. Our Robotics business area significantly increased revenues, largely as a result of higher volumes from large automotive orders.

Earnings before interest and taxes, or operating income, in 2000 increased by $72 million, or 18%, to $464 million in 2000 from $392 million in 1999. As reported in local currencies, earnings before interest and taxes increased by 32% in 2000 compared to 1999. In general, the improvement in earnings before interest and taxes reflects the division's substantial efforts to reduce its cost base and improve internal efficiency, productivity and quality management. In particular, our Drives and Power Electronics business area experienced operational improvements and healthy market conditions. Increased sales volumes and improved efficiency moderately increased operating income in the Low-Voltage Products business area. Our Robotics business area significantly increased operating income due to higher volumes. Efficiency improvements in our Electrical Machines business area also contributed to significantly higher operating income.

FINANCIAL SERVICES

The Financial Services division is impacted by interest rate movements in various currencies, mainly the U.S. dollar, the Euro and the Swiss franc, as well as exchange rate movements. The level of investment income generated from the investments in our Insurance business area and the income from the division's lease portfolio are affected by movements in interest rates, while the trading results of the Treasury Centers have been affected by movements in interest rates and exchange rates. Effective June 19, 2002, the Treasury Centers halted proprietary trading activities. Additionally, movements in the equity markets affect the ability to realize investment results in our Insurance business area.

The events of September 11, 2001 negatively affected financial markets but had a mixed impact on the global insurance market. As a consequence, the worldwide insurance business is experiencing rising demand for insurance and reinsurance while facing reduced capacity, substantially higher premium rates, a flight to quality, rethinking of risk assessments, and more restrictive terms and conditions. At the same time the insurance industry was impacted by lower investment results, reflecting generally declining equity markets compared to the beginning of 2001. During 2001, there was a global trend toward lower interest rates, resulting in higher market values of bond portfolios.

YEAR ENDED DECEMBER 31, 2001 COMPARED WITH YEAR ENDED DECEMBER 31, 2000

Revenues increased by $167 million, or 8%, to $2,133 million in 2001 from $1,966 million in 2000. As reported in local currencies, revenues increased 13% in 2001 compared to 2000. The main contributors to the increase in revenues were our Insurance business area, due to a higher level of insurance premiums resulting from increased volumes, and our Structured Finance business area, resulting from the acquisition of a portfolio of small, mainly standardized leases and increased revenues from its growing financial receivables portfolio. The majority of income in our Equity Ventures business area derives from equity-accounted investments, which do not appear as revenue but are instead recognized in other income.

Earnings before interest and taxes, or operating income, decreased by $381 million, to a loss of $32 million in 2001 from $349 million in 2000. The reduction in operating income is principally the result of a $295 million non-cash charge in 2001 relating to our reinsurance business. Prior to 2001, we presented a portion of our insurance reserves on a discounted basis, which estimated the present value of funds required to pay losses at future dates. During 2001, the timing and amount of claims payments being ceded to us in respect of prior years' finite risk reinsurance contracts has changed and cannot be reliably determined at December 31, 2001. Therefore, we have not

discounted our loss reserves resulting in a charge to losses and loss adjustment expenses in 2001 of $295 million. For further information, see Note 14 to the Consolidated Financial Statements.

Our Structured Finance business area reported an increase in profitability as a consequence of higher income from its expanded financial receivables portfolio, and also due to its 35% stake in Swedish Export Credit Corporation, which was acquired in June 2000. Our Structured Finance business area successfully sold various lease transactions during 2001.

Our Equity Ventures business area achieved higher earnings before interest and taxes through successful refinancing, improved performance and achievement of milestones in infrastructure projects. During 2001, our Equity Ventures business area reduced its stakes in certain projects.

Results for our Insurance business area were negatively impacted by insurance losses, mainly through a non-cash charge of $295 million following the change in estimation of insurance loss reserves described above. In addition, our Insurance business area recorded provisions for $138 million in underwriting losses, including provisions totaling $48 million relating to the events of September 11, 2001, leading to substantial additional negative insurance results. A lower level of capital gains on the equity investment portfolio was realized during 2001, which was partly offset by realized gains in the bond portfolio due to lower interest rates, particularly in the United States.

Weakened economic conditions and the monetary policy following the events of September 11, 2001 exacerbated the trend of lower U.S. interest rates. Benefiting from such trends and other price movements, our Treasury Centers business area increased earnings mainly by improvements in its trading results in financial markets.

Total assets of Financial Services amounted to approximately $15 billion as of December 31, 2001, representing marketable securities held by Treasury Centers and Insurance, financial leases held by Structured Finance, equity participations held by Equity Ventures, lending to infrastructure projects by Structured Finance and to ABB companies by Treasury Centers.

YEAR ENDED DECEMBER 31, 2000 COMPARED WITH YEAR ENDED DECEMBER 31, 1999

Financial Services revenues increased by $279 million, or 17%, to $1,966 million in 2000 from $1,687 million in 1999. As reported in local currencies, revenues increased 23% in 2000 compared to 1999. The revenue increase primarily related to improved revenues in our Insurance business area, which arose mainly from the acquisition of Kemper Europe Reassurances and a higher level of insurance premiums.

Earnings before interest and taxes, or operating income, increased by $12 million, or 4%, to $349 million in 2000 from $337 million in 1999. As reported in local currencies, operating income increased 12% in 2000 compared to 1999.

Our Structured Finance business area posted higher earnings for 2000, mainly reflecting higher net interest income from the growing lease and loan portfolio. Structured Finance earnings also included ABB's share in the results of Swedish Export Credit Corporation amounting to $16 million following our acquisition of a 35% interest in that institution in June 2000.

Our Equity Ventures business area increased its earnings as a result of higher income from its investment in special purpose infrastructure companies. New investments during 2000 included a stake in a high-voltage power transmission line in Australia.

Earnings in our Insurance business area decreased in 2000 compared to 1999 as a consequence of reduced investment and underwriting results. The reduced investment income reflects both the unusually strong equity markets in 1999 and the volatile markets in 2000. The decrease also reflected the costs of integrating Kemper Europe Reassurances into our Insurance business area.

Treasury Centers posted earnings higher in 2000 than in 1999, mainly due to a stronger trading result.

Total assets of Financial Services amounted to approximately $12 billion as of December 31, 2000, representing marketable securities held by Treasury Centers and Insurance, financial leases held by Structured Finance, equity participations held by Equity Ventures, lending to infrastructure projects by

Structured Finance and to ABB companies by Treasury Centers.

CORPORATE

The corporate and elimination line item includes our New Venture activities, Corporate Research and Development, the Group Processes Division, costs for other corporate functions such as for our holding companies, and elimination of intra-company interest from the Financial Services division. Total operating cost from corporate and elimination increased by $361 million, to $733 million in 2001 from $372 million in 2000. The loss in our New Venture activities increased by $107 million to a loss of $119 million, from a loss of $12 million in 2000, and reflects both the negative operating results of consolidated or equity accounted units, as well as the write-down of intangible assets and some participations in non consolidated New Venture units. Corporate research and development cost increased by $7 million to $103 million in 2001, from $96 million in 2000, due to higher research activities during 2001, mainly in the area of Industrial IT. Expenses for our Group Processes division decreased slightly by $2 million to $55 million, from $57 million in 2000. Intra-company elimination of interest income of our Financial Services division increased by $20 million to $171 million, from $151 million in 2000, due to higher corporate borrowings in the market through the Financial Services division, mainly to finance treasury shares purchases and corporate acquisitions. Costs for other corporate decreased by $50 million to $315 million, from $365 million in 2000, mainly due to cost reduction activities in the context of the new organizational structure. The main reason for the lower result in 2001 was the significant drop in capital gains of $279 million to $30 million, down from $309 million in 2000.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and capital resources have been drawn from three primary sources: cash from operations, proceeds from the issuance of debt securities, and bank borrowings.

We believe that our ability to generate cash flow through our operating activities, our access to both domestic and international capital markets, as well as our credit lines with banks, will continue to provide the cash flows necessary to satisfy our working capital requirements as well as meet our financial commitments for at least the next 12 months. Due to the nature of our operations, our cash flow from operations generally tends to be weaker in the first half of the year than in the second half of the year.

On April 23, 2002, Standard & Poor's Rating Services lowered our short-term debt rating to A-2 and affirmed our long-term debt rating at A, with a negative outlook. On April 26, 2002, Moody's Investors Service confirmed our short-term debt rating at Prime-3 and our long-term debt rating at Baa2, also with a negative outlook. Any further ratings change will affect our funding cost.

ABB Ltd and certain finance subsidiaries serve as the primary vehicles for the issuance of publicly traded and privately placed debt securities and bank borrowings. Debt securities are issued within amount, maturity, currency and price guidelines set each year and reviewed periodically by ABB Ltd. We have a number of commercial paper programs giving us access to short-term liquidity throughout the world. Our current short-term debt ratings, however, significantly limit our success in issuing new commercial paper.

Our commercial paper programs are reflected in the table below:

	PROGRAM SIZE (IN LOCAL	PROGRAM SIZE ($ IN

PROGRAM DESCRIPTION	CURRENCY MILLIONS)	MILLIONS)(1)
Nordic and Baltic commercial paper program........	SEK 6,000	568
European commercial paper program................	USD 3,000	3,000
German commercial paper program..................	EUR 1,000	880
U.S. commercial paper program....................	USD 2,000	2,000
Australian commercial paper program..............	AUD 250	127

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(1) Translated using year-end exchange rates.

At March 31, 2002, December 31, 2001 and 2000, a total of $1,760 million, $3,297 million and $1,923 million respectively, was outstanding under these programs with a weighted average interest rate of 3.2%, 2.7% and 5.9%, respectively. The weighted average interest rate on our other short-term debt of $983 million and $1,163 million was 4.6% and 6.0% at December 31, 2001 and 2000, respectively. Other short-term debt amounted to $4,295 million at March 31, 2002.

We have access to long-term funding through both public debt issuances and private placements. These debt securities are issued both under our existing medium term note program (with a program size of $5,250 million) and as separate issuances outside of the program. At March 31, 2002, December 31, 2001 and 2000, $3,381 million, $3,575 million and $2,502 million, respectively, was outstanding under our medium term note program and $1,693 million, $1,768 million and $1,405 million, respectively, outside of the program.

Depending on market opportunities, we fund ourselves in a range of currencies and maturities and on various interest rate terms. We use derivatives to reduce the exposures created by such debt issuances. For example, to reduce our exposure to interest rates, we use interest rate swaps to effectively convert fixed rate borrowings into floating rate liabilities and we use cross currency swaps to effectively convert foreign currency denominated bonds into U.S. dollar liabilities. After considering the effect of interest rate swaps, the effective average interest rate on our floating rate long-term borrowings of $4,422 million and our fixed rate long-term borrowings of $1,017 million at December 31, 2001 was 2.7% and 5.3%, respectively. This compares with an effective rate of 5.4% for floating rate long-term borrowings and 4.6% for fixed rate long-term borrowings as of December 31, 2000.

In mid-December 2001, as support for our commercial paper issuance, as well as for general corporate purposes, we entered into a syndicated $3,000 million, 364-day unsecured revolving credit facility, with the option to convert up to $1,000 million of any outstanding amounts at the end of the period into a one-year term facility.

During the first three months in 2002, we experienced increased difficulties in issuing new commercial paper, which partly was due to the increased negative sentiment of investors against corporate borrowers as well as a series of rating downgrades by Moody's Investors Service and Standard & Poor's Rating Services during the same period. In March 2002, we drew down $2,845 million under the credit facility to ensure that we would satisfy our commercial paper obligations maturing during 2002. In April 2002, we amended the credit facility to remove terms that required renegotiation of the credit facility if our credit ratings fell below specified levels. Instead, certain covenants were introduced. At the same time, we reduced our outstanding amount under the credit facility to $2,750 million. The interest rate on amounts borrowed under the credit agreement will range between 0.60% and 2.50% over LIBOR, depending on our credit ratings. For further information regarding the credit facility, see "Item 10. Additional

Information" and Note 24 to the Consolidated Financial Statements.

During 2001, we succeeded in broadening our sources of funding. We raised the equivalent of $417 million through the first Japanese yen denominated bond by a Swiss corporate and a further equivalent of $215 million resulted from an overnight index-linked bond targeted at the French investor base. Both of these bonds were issued under our medium term note program. Furthermore, we raised $350 million through our first Rule 144A private placement into the United States market.

In May 2002, we issued $968 million aggregate principal amount of convertible unsubordinated bonds due 2007. The bonds pay interest semi-annually in arrears at a fixed annual rate of 4.625% and are convertible into ABB shares at a conversion price of CHF 18.48 (converted into U.S. dollars at a fixed conversion rate of 1.6216 Swiss francs per U.S. dollar). The conversion price is subject to adjustment provisions to protect against dilution or a change in control. Based upon the conversion price in effect at issuance, conversion of the bonds would enable the holders to receive an aggregate of approximately 85 million of our shares. The bonds may be converted into ABB shares at any time on or after June 26, 2002, up to and including May 2, 2007. We may elect to deliver a cash payment in lieu of delivering some or all of the shares otherwise deliverable on conversion. We may redeem the bonds, in whole, but not in part, (1) from and after May 16, 2005, if the trading price of the shares on the SWX Swiss Exchange exceeds certain thresholds or (2) at any time, if at least 85% in aggregate principal amount of the bonds originally issued have been exchanged, redeemed or purchased and cancelled. Unless previously redeemed, converted or purchased and cancelled, we will redeem the bonds at par value on May 16, 2007. We may elect to redeem the bonds in cash, shares, or by a combination of cash and shares.

In May 2002, we issued bonds with an aggregate principal amount of L200 million, or approximately $292 million, which pay interest semi-annually in arrears at 10% per annum and mature on May 29, 2009. Also in May 2002, we issued bonds with an aggregate principal amount of E500 million, or approximately $466 million, which pay interest annually in arrears at 9.5% per annum and mature on January 15, 2008. The annual rate of interest on both of these bonds will increase by 150 basis points if our credit rating decreases to a level below Baa3 by Moody's or below BBB- by Standards & Poor's. As of May 31, 2002, our credit rating was Baa2 by Moody's and A by Standard & Poor's. Aggregate proceeds from issuance of these bonds, before commissions and other issue costs, was approximately $747 million.

Pursuant to the terms of our amended revolving credit facility, the issuance of the convertible bonds, the euro-denominated bonds and the sterling-denominated bonds reduced the amount available under the credit facility to $1,315 million. As a result, on May 29, 2002, we utilized a portion of the proceeds from these bond offerings to reduce our borrowings under the credit facility to $1,315 million. Proceeds from future disposals of assets or certain other offerings in the capital markets may further reduce the amount available under the credit facility to a minimum of $1,000 million.

In addition to the aforementioned primary sources of liquidity and capital resources, we also sold certain trade receivables to Qualifying Special Purpose Entities (QSPEs) unrelated to us, in revolving-period securitizations during 2001 and 2000. The net cash received from QSPEs during 2001 and 2000 was $86 million and $208 million, respectively. We retain servicing responsibility relating to the sold receivables.

Solely for the purpose of credit enhancement from the perspective of the QSPEs, we retained an interest in the sold receivables. Pursuant to the requirements of the revolving-period securitization, we effectively bear the risk of potential delinquency or default associated with trade receivables sold or interests retained. The fair value of the retained interests at December 31, 2001, and December 31, 2000, was approximately $264 million and $214 million, respectively.

Cash settlement with the QSPEs takes place monthly on a net basis. The total cost of $33 million and $26 million in 2001 and 2000, respectively, related to the securitization of trade receivables, is included in the determination of current earnings.

At December 31, 2001 and 2000, of the gross trade receivables sold, the total outstanding trade receivables amounted to $1,058 million and $918 million, respectively. At December 31, 2001 and 2000, an amount of $65 million and $49 million, respectively, was more than 90 days past due, which according to the terms of the programs, is deemed to be delinquent. For more information regarding our securitization programs, see Note 7 to the Consolidated Financial Statements.

Our debt and operating lease obligations as of December 31, 2001 are summarized in the table below:

OBLIGATIONS

	PAYMENTS DUE BY PERIOD ($ IN MILLIONS)			
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS
Long-term debt	5,510	467	2,679	1,815
Commercial paper	3,297	3,297	--	--
Short-term loans and repurchase agreements	983	983	--	--
Operating leases	1,340	269	414	293

It is industry practice to use letters of credit, surety bonds and other performance guarantees on major projects, including long-term operation and maintenance contracts. Such guarantees may include guarantees that a project will be completed or that a project or particular equipment will achieve defined performance criteria. The guarantors may include subsidiaries of ABB Ltd and/or ABB Ltd. Because such guarantees may not state a fixed or maximum amount, the aggregate amount of our potential exposure under the guarantees cannot reasonably be estimated. Provisions are recorded in the consolidated financial statements at the time it becomes probable we will incur losses pursuant to a performance guarantee. We do not expect to incur significant losses under these guarantees in excess of our provisions. However, such losses, if incurred, could have a material impact on our consolidated financial position, liquidity or results of operations.

Our financial services business has guaranteed the obligations of certain third parties in return for a commission. These financial guarantees represent irrevocable assurances that we will make payment in the event that the third party fails to fulfill its obligations and the beneficiary under the guarantee records a loss under the terms of the guarantee agreement. The commissions collected are recognized as income over the life of the guarantee and we record a provision when we become aware of an event of default or a potential event of default occurs. At December 31, 2001, we had issued approximately $270 million of financial guarantees with maturity dates ranging from one to nineteen years. We do not expect to incur significant losses under these contracts.

FINANCIAL POSITION

Our operating assets, excluding cash and equivalents, decreased to $16,747 million at December 31, 2001, from $17,314 million at December 31, 2000. Operating assets include marketable securities, receivables, inventories and prepaid expenses. The decrease in 2001 partially reflects the impact of translating balance sheet amounts from local currencies to U.S. dollars for reporting purposes. The decrease also reflects a $1,263 million decrease in marketable securities and a reduction in inventories of $117 million, partially offset by a $773 million increase in prepaid expenses. This increase is mainly due to increases in the fair value of derivatives recorded on the balance sheet as required by SFAS 133.

Current operating liabilities include accounts payable, short-term borrowings, accrued liabilities and insurance reserves (which form part of the normal operations of our insurance business), among other items. The $3,583 million increase in current operating liabilities from December 31, 2000 to December 31, 2001 is principally the result of the increase of trade and other accounts payable of $963 million, of short-term borrowings of $1,160 million and accrued liabilities and other of $1,460 million. This increase is due to an increase in insurance reserve, as well as the application of SFAS 133, which requires derivative assets and liabilities to be reported on the balance sheet.

Financing receivables, which includes receivables from leases and loans receivable, increased to $4,263 million at December 31, 2001, from $3,875 million at December 31, 2000. The increase is principally due to a higher level of project financing activity throughout the year that was only partially offset by our cash generation activity late in the year.

Property, plant and equipment decreased to $3,003 million at December 31, 2001, from $3,243 million at December 31, 2000, primarily reflecting the effect of translating balance sheet amounts into U.S. dollars and normal levels of depreciation and disposition of non-core property, plant and equipment.

Intangible assets increased to $3,299 million at December 31, 2001, from $3,155 million at December 31, 2000 reflecting an increase in software capitalization and goodwill from acquisitions, which was only partially offset by the amortization expense.

Investments and other assets increased to $2,265 million at December 31, 2001, from $1,978 million at December 31, 2000. The increase primarily resulted from a higher amount of prepaid pension assets ($162 million contribution to our U.S. pension plan), improved returns on investments in projects with ABB equity participation and a higher amount of deferred tax assets. This increase was partially offset by the sale of most of our interest in b-business partners.

Our net debt position (defined as borrowings minus cash and equivalents and marketable securities) amounted to $4,077 million at December 31, 2001, compared to $1,757 million at December 31, 2000. The increase in net debt during the year arose due to the need to fund the acquisition of Entrelec, significant investments in Financial Services assets and the purchase of treasury shares.

At December 31, 2001 and 2000, we had total borrowings, including short-, medium- and long-term borrowings, outstanding of $9,790 million and $7,363 million, respectively. During 2001, our level of borrowings increased significantly during the first nine months mainly due to the financing of the repurchase of our own shares as well as a higher level of activity in project financing. Toward year-end, we decreased our borrowings significantly through a strong increase in our operating cash flow.

Short-term borrowings, including current maturities of long-term debt, increased by $1,160 million, or 32%, to $4,747 million outstanding at December 31, 2001 from $3,587 million outstanding at December 31, 2000. Long-term borrowings increased by $1,267 million, or 34%, in 2001 to $5,043 million at December 31, 2001 from $3,776 million at December 31, 2000.

The consolidated statement of cash flows can be summarized into main activities as follows:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	($ IN MILLIONS)		
Cash flows provided by (used in):			
Operations	$ 2,193	$1,022	$ 1,575
Acquisitions, investments, divestitures and discontinued operations, net	(505)	331	(641)
Asset purchases, net of disposals	(609)	(315)	(351)
Other investing activities	(314)	(780)	(321)
Borrowings, net of repayments	2,639	(44)	(525)
Treasury and capital stock transactions	(1,393)	244	(165)
Other financing activities	(569)	(592)	(497)
Effects of exchange rate changes	(72)	(84)	(100)
Increase (decrease) in cash	$ 1,370	$ (218)	$(1,025)

CASH FLOW FROM OPERATING ACTIVITIES

Net cash provided by operating activities in 2001 increased by $1,171 million to $2,193 million from $1,022 million in 2000. Income from continuing operations, net of adjustments for non-cash items, decreased by $623 million in 2001, from $1,323 million in 2000 to $700 million in 2001. This was more than offset by net cash provided related to the decrease in net operating assets of $1,493 million in 2001 as compared to the cash outflow related to the increase in net operating assets and liabilities of $301 million in 2000. The increase in net cash provided by operating activities in 2001 was primarily due to the increase in trade payables and non-trade payables. The increase also reflected an increase in insurance reserves (which is a non-cash charge to the income statement), related to our re-insurance business (which form part of the normal operations of our insurance business). Net operating assets include marketable securities held for trading purposes, receivables, inventories, payables and other assets and liabilities. Marketable securities are classified as either trading or available-for-sale. Debt and equity securities that are bought and held principally for the purpose of sale in the near term are classified as trading securities.

Net cash provided by operating activities decreased by $553 million to $1,022 million at December 31, 2000 from $1,575 million at December 31, 1999. Income from continuing operations, net of adjustments for non-cash items, increased by $159 million from $1,164 million in 1999. This was more than offset by cash outflows related to the increase in net operating assets of $301 million in 2000 as compared to cash provided by the decrease in net operating assets of $411 million in 1999. The increase in net operating assets in 2000 was primarily due to the increase in cash tied up in ongoing customer projects where unbilled receivables and inventories, after consideration of advances from customers, exceeded the level experienced in 1999.

CASH FLOW FROM INVESTING ACTIVITIES

Investing activities include: acquisitions of, investments in and divestitures of businesses; purchases of property, plant and equipment, net of disposals; net investments in marketable securities that are not held for trading purposes; and accounts receivable from leases and third-party loans (financing receivables). Net investments in marketable securities that are not held for trading purposes and financing receivables are summarized in the table above as "other investing activities" and increases in these amounts reflect cash outflows. Net cash used in investing activities decreased by $495 million to $1,218 million in 2001 from $1,713 million in 2000. Net cash used in investing activities decreased by $323 million to $1,713 million in 2000 from $2,036 million in 1999.

Net cash flow resulting from purchases of, investments in, and divestitures of businesses, and discontinued operations ("business combinations") changed by $836 million to $505 million used in 2001 from $331 million provided in 2000. In 2001, cash used for acquisitions of new businesses totaled $578 million (including $284 million, related to the acquisition of Entrelec) and cash used for discontinued operations totaled $210 million, mainly in the settlement of claims resulting from the asbestos litigation. These cash outflows were only partially offset by disposals of businesses for an amount of $283 million. In 2000, cash used for acquisitions totaling $893 million was more than offset by cash from discontinued operations ($949 million, primarily relating to the divestiture of our remaining interest in ABB ALSTOM POWER and our nuclear power business) and disposals ($275 million, primarily relating to the disposal of our 50% shareholding in ABB ALSTOM POWER), which amounted to $1,224 million.

Purchases of property, plant and equipment, net of disposals, increased by $294 million to $609 million in 2001 from $315 million in 2000. This increase resulted from reduced proceeds from property, plant and equipment disposals and a return to historical acquisition levels. Purchases of property, plant and equipment, net of disposals, decreased by $36 million in 2000 from $351 million in 1999.

Cash used in other investing activities decreased by $466 million to $314 million in 2001 as compared to $780 million in 2000. This decrease primarily resulted from a higher level of net proceeds from the sale of marketable securities that are not held for trading purposes, which amounted to $593 million from $53 million in 2000. The increase more than offset a higher level of investments in financing receivables, which increased to $907 million in 2001 from $833 million in 2000 due to a higher level of project financing activity during most of the year.

Cash used in other investing activities increased by $459 million to $780 million in 2000 as compared to $321 million in 1999. This increase primarily resulted from a lower level of net proceeds from sales of marketable securities that are not held for trading purposes, which decreased by $281 million from $334 million in 1999 to $53 million in 2000. The increase also reflects a higher level of investment in financing receivables, which increased to $833 million in 2000 from $655 million in 1999.

CASH FLOW FROM FINANCING ACTIVITIES

Our financing activities primarily include net borrowings, both from the issuance of debt securities and directly from banks, treasury and capital stock transactions, and payment of dividends. Net cash provided by financing activities increased by $1,069 million to $677 million provided in 2001 as compared to $392 million used in 2000. Cash provided by long-term borrowings, net of repayments, increased by $3,361 million to $2,708 million provided in 2001 as compared to $653 million repaid in 2000. This was partially offset by a decrease of $678 million in cash flow from borrowings with maturities of 90 days or less from $609 million cash provided in 2000 to $69 million cash used in 2001. During 2001, we used $1,393 million of cash for the purchase of our shares for treasury, offset by proceeds of options to purchase our shares. In April 2001, we paid dividends of $502 million with respect to 2000.

Net cash used in financing activities decreased by $795 million in 2000 to $392 million from $1,187 million in 1999. The decrease was primarily due to a decrease in the level of net repayments of other borrowings to $653 million in 2000 from $908 million in 1999. The net decrease also reflects a higher level of borrowings, particularly borrowings with a maturity of 90 days or less, at year-end 2000 as compared to year-end 1999.

During 2000, our net sales of treasury shares and put options provided net cash of $244 million. We hold some of our shares in treasury to provide shares for delivery upon exercise of warrants in future years under our management incentive plan. We used $165 million in cash in

1999 to purchase our shares for this purpose. We paid dividends of $531 million and $503 million in 2000 and 1999, respectively.

RELATED AND CERTAIN OTHER PARTIES

ABB has participations in joint ventures and affiliated companies, which are accounted for using the equity method. Many of these entities have been established to perform specific functions, such as constructing, operating and maintaining a power plant. In addition to our investment, we may provide products to the project, may act as contractor of the project and may operate the finished product. The entity created generally would receive revenues either from the sale of the final product or from selling the output generated by the product. The revenue usually is defined by a long-term contract with the end user of the output.

Our risk with respect to these entities is substantially limited to the carrying value of the companies on our consolidated balance sheet. The balance sheet carrying value for the equity accounted companies at December 31, 2001 and 2000 was $718 million and $682 million, respectively.

Included in financing receivables is notes receivable from related parties at December 31, 2001 and 2000 of $234 million and $239 million, respectively. Notes receivable from related parties amounted to $198 million at March 31, 2002. Loans granted to equity accounted companies are contained in these amounts.

We retained obligations for performance and other guarantees related to the power generation businesses we contributed to the ABB ALSTOM POWER joint venture. In addition, in connection with a power plant construction project in a business sold to ALSTOM POWER N.V., one of our subsidiaries has issued an advance payment guarantee towards a bank holding funds which are to be drawn down by a consortium led by a subsidiary of ALSTOM POWER. The guarantee was approximately $370 million at December 31, 2001. ALSTOM and its subsidiaries have primary responsibility for performing the obligations that are the subject of the guarantees. In connection with the sale to ALSTOM of our interest in the joint venture in May 2000, ALSTOM and ALSTOM POWER have undertaken to fully indemnify us against any claims arising under such guarantees. As of May 31, 2002, there have been no material claims made under these guarantees.

In connection with the sale of our nuclear business to British Nuclear Fuels ("BNFL") in 2000, one of our subsidiaries retained obligations under surety bonds relating to the performance by the nuclear business under certain contracts entered into prior to the sale to BNFL. Pursuant to the purchase agreement under which the nuclear business was sold, BNFL is required to indemnify us for any costs and liabilities incurred by us with respect to such bonds. Our total liability under these bonds at December 31, 2001 is approximately $700 million. As of May 31, 2002, there have been no material claims made under these surety bonds. We do not expect to incur significant losses under these surety bonds.

EXCHANGE

All our local subsidiaries report their financial results in their respective local currencies, and our Consolidated Financial Statements are reported in U.S. dollars. Accordingly, balance sheet items are translated into U.S. dollars using year-end exchange rates, while income statement and cash flow items are translated using average exchange rates for the year.

We have commercial activities denominated in all major currencies, in particular U.S. dollars, Swiss francs, Euro, Scandinavian currencies, and Japanese yen. In 2001, the Euro continued to weaken against the U.S. dollar, reaching an exchange rate of 0.88 at the end of 2001, with the deterioration in the first half recovering in part in the second half of 2001. The average exchange

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rate for the year was 0.89. The Swiss franc also declined versus the U.S. dollar in the first half of the year, reaching a low of 0.55 in May and June 2001, with a recovery in the fourth quarter of 2001 reaching an exchange rate of 0.62. However, the Swiss franc declined slightly, closing the year at 0.59. The average Swiss franc exchange rate for 2001 was 0.59. In 2000, the Euro weakened against the U.S. dollar from its opening level of 1.00 to a closing exchange rate of 0.93. The average exchange rate for 2000 was also 0.93. The Swiss franc also declined versus the U.S. dollar in 2000, from an opening level of 0.63 to a year-end closing exchange rate of 0.61. Exchange gains (losses), net, amounted to losses of $5 million, $3 million and $28 million in 2001, 2000 and 1999, respectively, and were recorded as interest expense. Exchange gains (losses), net, includes the re-measurement of certain currencies into functional currencies and the costs of hedging certain balance sheet exposures.

With respect to cash flows, exchange differences recorded are the result of translating cash and equivalents from year-end to average exchange rates. In 2001 and 2000, this translation resulted in a reduction of $72 million and $84 million, respectively, to our total cash flow.

IMPACT OF INFLATION AND CHANGING PRICES

Inflation affects our operations in some markets. However, the majority of our revenues, costs and income are derived from economies which have been characterized by low inflation in recent years.

In high-inflation environments, we are generally able to increase prices to counteract the inflationary effects of increasing costs and to generate sufficient cash flows to maintain our productive capability.

ENVIRONMENTAL CONTINGENCIES AND RETAINED LIABILITIES

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

In a number of jurisdictions, including the United States, we may be liable for environmental contamination at our present or former facilities, or at sites at which hazardous substances generated by our operations were disposed of. In the United States, the Environmental Protection Agency and various state agencies are responsible for regulating environmental matters. These agencies have identified companies in the ABB Group as potentially responsible parties for the costs of cleaning up hazardous substances at a number of sites pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act, the Resource Conservation and Recovery Act and other federal and state environmental laws. As of December 31, 2001, companies within the ABB Group had been named as potentially responsible parties with respect to seven

locations, primarily involving soil and groundwater contamination. We do not believe that our aggregate liability in connection with these sites will be material.

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

In addition, we have retained liability for certain specific environmental remediation costs at two sites in the United States that were operated by our nuclear business, which has been sold to British Nuclear Fuels. Pursuant to the purchase agreement with British Nuclear Fuels, we have retained all of the environmental liabilities associated with our Combustion Engineering subsidiary's Windsor, Connecticut facility and a portion of the environmental liabilities associated with our ABB CE Nuclear subsidiary's Hematite, Missouri facility. The primary environmental liabilities associated with these sites relate to the costs of remediating radiological contamination upon decommissioning the facilities. Such costs are not payable until a facility is taken out of use and generally are incurred over a number of years. Although it is difficult to predict with accuracy the amount of time it may take to remediate radiological contamination upon decommissioning, based on information that British Nuclear Fuels has made publicly available, we believe that it may take approximately six years for this remediation at the Hematite site, from the time of decommissioning. With regard to the Windsor site, we believe the remediation may take until 2008. British Nuclear Fuels has notified the Nuclear

Regulatory Commission of its intention to decommission the Hematite facility in 2003. British Nuclear Fuels decommissioned the Windsor facility in 2001 and the process of remediation has begun. 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 the Atomic Energy Act and the Formerly Used Site Environmental Remediation Action Program because such costs relate to materials used by Combustion Engineering in its research and development work on, and fabrication of, nuclear fuel for the United States Navy. As a result of the sale of the nuclear business, in April 2000 we established a reserve of $300 million in connection with estimated remediation costs related to these facilities. During 2001, approximately $6 million was expended on remediation of the Windsor site.

Estimates of the future costs of environmental compliance and liabilities are imprecise due to numerous uncertainties. Such costs are affected by the enactment of new laws and regulations, the development and application of new technologies, the identification of new sites for which we may have remediation responsibility and the apportionment of remediation costs among, and the financial viability of, responsible parties. In particular, the exact amount of the responsibility of the U.S. government for the Windsor site cannot reasonably be estimated. It is possible that final resolution of environmental matters may require us to make expenditures in excess of our expectations, over an extended period of time and in a range of amounts that cannot be reasonably estimated. Although final resolution of such matters could have a material effect on our consolidated results of operations in a particular reporting period in which the expenditure is incurred, we believe that these expenditures should not have a material adverse effect on our consolidated financial position.

We retain ownership of Combustion Engineering, Inc., a subsidiary that formerly conducted part of our divested power generation business and which now owns commercial real estate which it leases to third parties. Combustion Engineering is a co-defendant, together with third parties, in numerous lawsuits pending in the United States in which the plaintiffs claim damages for personal injury arising from exposure to or use of equipment which contained asbestos that Combustion Engineering supplied, primarily during the 1970s and before. Other ABB Group entities are sometimes named as defendants in asbestos claims. These claims, however, are insignificant

compared to the Combustion Engineering claims and have not had, and are not expected to have, a material impact on our consolidated financial position or consolidated results of operations. As of December 31, 2001 and 2000, reserves of $940 million and $590 million, respectively, were recorded in respect of asbestos claims and related defense costs. These reserves do not reflect probable insurance recoveries on those claims. We also recorded assets of approximately $150 million and $160 million at December 31, 2001 and 2000, respectively, for probable insurance recoveries, which were established with respect to the claims reserved against. During 2001, Combustion Engineering experienced a significant increase in the level of new claims and higher total and per-claim settlement costs as compared to recent years. This resulted in an increase in the reserves for potential asbestos liabilities by $470 million. Cash payments to resolve Combustion Engineering's asbestos claims were $136 million, $125 million and $67 million in 2001, 2000 and 1999, respectively.

During the first quarter of 2002, approximately 14,300 new claims were filed against Combustion Engineering, a decrease of 5 percent compared to the fourth quarter of 2001. Approximately 13,500 claims were settled during the period, of which more than 50 percent were settled without payment. Settlement costs prior to reimbursement were approximately $51 million, up from $37 million in the first quarter of 2001. As a result of intensified efforts to identify and settle valid claims and dispute claims that appear baseless, despite the number of new claims filed, the number of pending claims remained at approximately 94,000 at March 31, 2002.

The ultimate cost of asbestos claims is difficult to estimate with any degree of certainty due to the nature and number of variables associated with asbestos claims. Future consolidated operating results will continue to reflect the effect of changes in estimated claims settlement costs resulting from actual claim activity as well as changes in available insurance coverage. It is reasonably possible that expenditures could be made in excess of established reserves, in a range of amounts that cannot reasonably be estimated. Although the final resolution of any such matters could have a material impact on our reported consolidated results for a particular reporting period, we believe it should not have a material adverse effect on our consolidated financial condition or liquidity. Please see Note 16 to the Consolidated Financial Statements contained elsewhere in this annual report.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

BOARD OF DIRECTORS

In accordance with Swiss law, the board of directors of a Swiss corporation is ultimately responsible for the policies and management of the corporation. The board also appoints the executive officers and authorized signatories of the corporation and supervises the management of the corporation. The board of directors may delegate the conduct of day-to-day business operations to individual directors or to third persons, such as an executive committee.

Our articles of incorporation stipulate that the board of directors must consist of not fewer than seven and no more than 13 members at any time. Swiss law and our articles of incorporation also provide that each director must be a shareholder of ABB. Directors are elected for terms of one year by the shareholders in a shareholders' meeting. Members of the board of directors whose terms of office have expired are immediately eligible for reelection. The board of directors appoints its Chairman and one or more Vice Chairmen as well as the persons entrusted with our management and representation, whom the board of directors is also responsible for removing.

The following table sets forth the names and the years of birth of our directors and their current positions with ABB.

NAME	BORN	CURRENT POSITION
Jurgen Dormann	1940	Chairman
Jorgen Centerman	1951	Director; President and Chief Executive Officer
Roger Agnelli	1958	Director
Martin Ebner	1945	Director
Hans Ulrich Maerki	1946	Director
Michel de Rosen	1951	Director
Dr. Bernd W. Voss	1939	Director
Jacob Wallenberg	1956	Director

In connection with our group reconfiguration in 1999, a new board of directors was elected on June 26, 1999 to serve the newly created ABB Ltd. The following biographical information regarding our board members refers to June 26, 1999, the beginning of their service for ABB Ltd. Where applicable, these biographies also note the years of service our board members provided to ABB Asea Brown Boveri Ltd, the former parent company of the ABB Group.

JURGEN DORMANN has been the Chairman of ABB's board of directors since November 2001 and has been a member of ABB's board of directors since June 26, 1999. From 1998 to 1999, he served as a member of the board of directors of ABB Asea Brown Boveri Ltd. He is the chairman of the supervisory board of Aventis. Mr. Dormann is also a member of the boards of directors of Allianz and IBM Corporation. Mr. Dormann is a German citizen.

JORGEN CENTERMAN has been a member of ABB's board of directors since March 20, 2001. He has been our President and Chief Executive Officer since January 1, 2001. From September 1998, he was our Executive Vice President responsible for our Automation Segment. From 1993 to 1998, he was Business Area Manager for our global Automation and Drives operations. Previously, he headed the Process Automation business area, headquartered in Stamford, Connecticut. He joined Asea AB in 1976. He is a member of the board of directors of b-business partners B.V. Mr. Centerman is a Swedish citizen.

ROGER AGNELLI was elected to ABB's board of directors at the annual general meeting of shareholders on March 12, 2002. He is the President and Chief Executive Officer of Companhia Vale do Rio Doce. Mr. Agnelli is a Brazilian citizen.

MARTIN EBNER 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

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Boveri Ltd. He is also chairman of the board of directors of BZ Group Holding and Lonza Group. Mr. Ebner is a Swiss citizen.

MICHEL DE ROSEN was elected to ABB's board of directors at the annual general meeting of shareholders on March 12, 2002. He is chairman of the supervisory board of Paul Capital Partners Royalty Fund, and is a member of the board of directors of Innaphase and Ursinus College. He is the President and Chief Executive Officer of ViroPharma, Inc. Mr. de Rosen is a French citizen.

HANS ULRICH MAERKI was elected to ABB's board of directors at the annual general meeting of shareholders on March 12, 2002. He is the chairman of IBM Europe/Middle East/Africa and is chairman of the board of directors of Mikron Holding AG. Mr. Maerki is a Swiss citizen.

DR. BERND W. VOSS was elected to ABB's board of directors at the annual general meeting of shareholders on March 12, 2002. He is a member of the supervisory boards of Dresdner Bank AG, Continental AG, E.ON AG, KarstadtQuelle AG, Preussag AG, Quelle AG, Wacker Chemie GmbH and Allianz AG, and chairman of the board of directors of Bankhaus Reuschel & Co. Dr. Voss 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. He is also a chairman of the board of directors of Skandinaviska Enskilda Banken, vice-chairman of Investor AB, the Knut and Alice Wallenberg Foundation, Atlas Copco, SAS and Electrolux, and a member of the boards of directors of the Confederation of Swedish Enterprise and the Nobel Foundation. Mr. Wallenberg is a Swedish citizen.

Messrs. Gerhard Cromme, Robert A. Jeker and Edwin Somm, members of the board of directors during 2001, did not stand for re-election at the Annual General Meeting of Shareholders on March 12, 2002.

SENIOR OFFICERS

EXECUTIVE COMMITTEE

The executive committee is responsible for our day-to-day management and for the formulation of major strategic and commercial decisions. The members of the executive committee are appointed and removed by the board of directors. The following table sets forth the names and the years of birth of the members of the executive committee, their current positions with us and the dates of their initial appointment to their current positions.

NAME	BORN	CURRENT POSITION	YEA APPOI
Jorgen Centerman...............	1951	President and Chief Executive Officer	20
Gorm Gundersen.................	1944	Executive Vice President, Head of Oil, Gas and Petrochemicals Division	19
Bernhard Jucker................	1954	Executive Vice President, Head of Automation Technology Products Division	20
Dinesh C. Paliwal..............	1957	Executive Vice President, Head of Industries Division	20
Jan Secher.....................	1957	Executive Vice President, Head of Group Processes Division	20
Richard Siudek.................	1946	Executive Vice President, Head of Utilities Division	20
Peter Smits....................	1951	Executive Vice President, Head of Power Technology Products Division	20
Peter Voser....................	1958	Executive Vice President and Chief Financial Officer	20

JORGEN CENTERMAN. For Mr. Centerman's biography, see above under "--Board of Directors."

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GORM GUNDERSEN has been our Executive Vice President responsible for our Oil, Gas and Petrochemicals Division since September 1998. From 1990 to September 1998, he served as an Executive Vice President at Asea Brown Boveri A/S, a Norwegian subsidiary. Mr. Gundersen is a Norwegian citizen.

BERNHARD JUCKER has been our Executive Vice President responsible for our Automation Technology Products Division since April 2002. From 2000 to April 2002, he was the head of the Drives and Power Electronics business area within the Automation Technology Products Division. From 1998 to 2000, he was the Business Unit Manager for our global electrical low-voltage motors and machines. From 1991 to 1998, he was the Business Unit Manager for our global electrical machines business. Mr. Jucker is a Swiss citizen.

DINESH C. PALIWAL has been our Executive Vice President responsible for our Industries Division since April 2002. Between January 1, 2001 and April 2002, he was our Executive Vice President responsible for our Process Industries division. From 1999, he was responsible for our worldwide activities in the Automation Segment for the paper, printing, metals, mining and cement industries. From 1998 to 1999, he was responsible for our worldwide activities in the Automation Segment for the pulp, paper and printing industries. From 1994 to 1998, he was Vice-President responsible for our automation activities in process industries in China and Northeast Asia. From 1990 to 1994, he was Director of Marketing and Sales for our automation activities for the paper industry in Asia. Prior to 1990, he held several positions in sales and project management. Mr. Paliwal is an Indian citizen.

JAN SECHER has been our Executive Vice President responsible for our Group Processes Division since April 2002. From January 2001 to April 2002, he was our Executive Vice President responsible for our Manufacturing and Consumer Industries Division. From 2000, he was President of our Flexible Automation business area. In 1999, he was Executive Vice President at ABB AB. From July 1998 to April 1999, he was President at ABB Satt AB. From April 1998 to December 1999, he was President at ABB Automation Systems AB. From July 1997 to March 1998, he was Vice President and Division Manager at ABB Industrial Systems AB. From 1994 to 1997, he was Vice President and Division Manager at ABB Industry K.K. From 1991 to 1994, he was General Manager at ABB Automation AB. Mr. Secher is a Swedish citizen.

RICHARD SIUDEK has been our Executive Vice President responsible for our Utilities Division since January 1, 2001. From 1998, he was Country Segment Manager in the United States for the Transmission and Distribution Segments. From 1996 to 1998, he was Business Area Manager responsible for our worldwide activities in nuclear power. From 1991 to 1996, he was President and Vice President of ABB Combustion Engineering. Prior to joining us in 1991, he served as Marketing Manager at Westinghouse Electric Corporation, served various positions in marketing and sales at Westinghouse Nuclear Europe, SA, and served as a Scientific Officer at United Kingdom Atomic Energy Authority. Mr. Siudek is a citizen of the United States.

PETER SMITS has been our Executive Vice President responsible for the Power Technology Products Division since January 1, 2001. From 1998, he was Senior Vice President, Business Area Manager Distribution Transformers, at ABB T&D Ltd. From 1994 to 1998, he was President and Country Manager at Asea Brown Boveri SA. From 1990 to 1994, he served as President at Pfleiderer Verkehrstechnik GmbH. From 1988 to 1990, he held several positions at Asea Brown Boveri AG, was Vice-President at ABB Schaltanlagen GmbH and was Business Unit Manager for worldwide substations activities in the our High-Voltage Switchgear business area. From 1980 to 1988, he held several positions at Asea Lepper GmbH. From 1979 to 1980, he served as Divisional Export Sales Manager at Vossen GmbH. From 1978 to 1979, he served as Assistant Accountant in Auditing at Peat, Marwick, Mitchell & Co. (KPMG). Mr. Smits is a German citizen.

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PETER VOSER was appointed our Executive Vice President and Chief Financial Officer in March 2002. Mr. Voser was Chief Financial Officer of Shell Europe Oil Products from 1999 until early 2001, when he became Chief Financial Officer of Shell Oil Products. Mr. Voser is a Swiss citizen.

GROUP SENIOR OFFICERS

The following table sets forth the names of our Group senior officers, their current positions with us and the dates of their initial appointment to their current positions.

NAME	CURRENT POSITION	YEAR OF APPOINTME
Markus Bayegan.................	Chief Technology Officer	2001
Beat Hess......................	General Counsel, Head of Group Function Legal and Compliance	2001
Sune Karlsson..................	Head of Group Function Large Projects	2001

Alfred Storck.................	Head of Group Function Corporate Finance and Taxes	2001

MARKUS BAYEGAN has been our Chief Technology Officer since January 2001. From 2000 until our realignment in January 2001, he was Executive Vice President responsible for our research and development activities worldwide. From 1998 to 2000, he served as Senior Corporate Officer for our group research and development activities worldwide. From 1994 to 1998, he served as Senior Vice President of Technology for our Building Technologies Segment. From 1987 to 1998, he served as president of ABB Corporate Research, A/S, a Norwegian subsidiary. From 1985 to 1998, he was Professor in Electronics Manufacturing at the Norwegian Institute of Technology. Prior to joining us, he was employed by EB Corporation, a Norwegian electromechanical and telecommunication company that we acquired. Mr. Bayegan is a Norwegian citizen.

BEAT HESS has been our General Counsel since 1988. He assumed his position after the merger of BBC Brown Boveri AG and Asea AB in 1988. In January 2001, he was appointed Head of Group Function Legal and Compliance and has acted as the Secretary of the ABB Ltd Board of Directors since 1998. Mr. Hess is a Swiss citizen.

SUNE KARLSSON has been our Head of Group Function Large Projects since January 2001. From 1997 until 2000, he was our Executive Vice President and Member of the Group Executive Committee responsible for the Power Transmission and Distribution Segments. From 1992 until 1996, he was Executive Vice President of Power Transmission ABB Germany and responsible for Customer Focus Program ABB worldwide. From 1988 until 1992, he was Executive Vice President of Power Transmission ABB Germany and Business Area Manager of ABB Power Transformers. In 1988, he was President of ABB Transformers, Ludvika and Business Area Manager of ABB Power Transformers. From 1985 until 1988, he was President of Transformer Operations and Business Area Manager of Asea Transformers in Asea Ludvika. From 1983 until 1985, he was General Manager of Transformer Operations in Asea Lepper, Bad Honnef. Previously, from 1980 until 1983, he was Production Manager of Transformers Division in Asea Ludvika. From 1972 until 1980, he worked for Asea Vasteras as Project, Planning and Workshop Manager. Mr. Karlsson is a Swedish citizen.

ALFRED STORCK has been our Group Tax Officer since 1988 (merger of BBC Brown Boveri AG and Asea AB). In 1997, Alfred Storck assumed in addition the position as head of Corporate Finance. In January 2001, he was appointed Head of Group Function Corporate Finance and Taxes. Mr. Storck is a German citizen.

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DUTIES OF DIRECTORS AND OFFICERS

The directors and officers of a Swiss corporation are bound, as specified in the Swiss Federal 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 Federal 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 in Swiss doctrine 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 may not take any actions that may be harmful to the corporation. Our articles of incorporation do not provide for the retirement or non-retirement of directors under an age-limit requirement.

EXERCISE OF POWERS

The 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 may entail. Pursuant to court practice, the directors may take any action that is not outright excluded by the business purpose of the corporation. In so doing, however, the directors must still pursue the duty of due care and the duty of good faith described above. The board of directors must extend equal treatment to its shareholders in like circumstances. Our articles of incorporation do not contain provisions concerning a director's power, in the absence of an independent quorum, to vote compensation to themselves or any members of their body.

CONFLICTS OF INTEREST

Swiss law does not have a general provision on conflicts of interest. However, the Swiss Federal Code of Obligations requires directors and officers to safeguard the interests of the corporation and, in this connection, imposes a duty of care and good faith on directors and officers. This rule is generally understood as disqualifying directors and officers from participating in decisions, other than in the shareholders' meeting, that directly affect them. However, our articles of incorporation do not limit our directors' power to vote on a proposal, arrangement or contract in which the director is materially interested. Directors and officers are personally liable to the corporation for any breach of these provisions. In addition, Swiss law contains provisions under which the members of the board of directors and all persons engaged in the management of ABB are liable to the company, to each shareholder and to the company's creditors for damages caused by any intentional or negligent violation of their duties.

CONFIDENTIALITY

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

SANCTIONS

If directors and officers transact 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 outright excluded by the corporation's business purpose. Directors and officers acting in violation of their statutory duties--whether transacting 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 (in bankruptcy) the creditors for damages. The liability is joint and several, but the courts may apportion the liability among the directors 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 was acting in bad faith.

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

COMPENSATION

For the year ended December 31, 2001, the persons who served as members of our board of directors and executive committee received an aggregate amount of CHF 20,848,500 ($12,560,851 at December 31, 2001) as compensation for services in all capacities. This includes compensation accrued with respect to the 2001 fiscal year but paid during the 2002 fiscal year, and excludes the pension and other benefits paid to our former chief executive officer, Goran Lindahl, in 2001 described below under "Recent Developments."

BOARD OF DIRECTORS

For the period from the Annual General Meeting in 2001 to the Annual General Meeting in 2002, board members' compensation was fixed as follows:

- Chairman: CHF 1,500,000 (reduced in November 2001 to CHF 1,000,000)

- Vice Chairman: CHF 400,000

- Member: CHF 250,000

- Committee Member: CHF 50,000

Payments to board members are made in May and November of each year.

Board members receive at least 50% (and may elect to receive a higher ratio) of their compensation in shares. In 2001, over 90% of the compensation received by directors was received in shares and as of December 31, 2001, a total of 247,887 shares were held for the account of active board members. The aggregate annual gross compensation paid to board members in shares and cash amounted to CHF 3,150,000 ($1,897,819 at December 31, 2001). Board members do not receive pension benefits and are not eligible to participate in our management incentive plan.

EXECUTIVE COMMITTEE

Members of the executive committee receive annual base compensation. In addition, they are eligible for annual bonus compensation, which depends on the performance of the individual area of responsibility of each executive committee member and of the ABB Group and, in certain cases, on a qualitative appreciation of a member's achievements. In 2001, the persons who served on the executive committee received an aggregate of CHF 17,698,500 ($10,663,032 at December 31, 2001) in base compensation and bonus. For 2001, compensation to our president and chief executive officer consisted of a base salary of CHF 1,500,000 and a bonus amount of CHF 1,500,000, and total compensation to the other members of the executive committee amounted to CHF 14,698,500 ($8,855,585 at December 31, 2001), including bonus amounts relating to 2001 performance that were paid in 2002.

In addition to receiving annual base and bonus compensation, members of the executive committee may participate in a management incentive plan providing for subscription to warrants or warrant appreciation rights. In 2001, members of the executive committee received warrants

representing the future right to acquire 1,000,000 shares and warrant appreciation rights representing the future right to receive the cash equivalent to the market price of 7,500,000 warrants.

Executive committee members also enjoy pension benefits in accordance with Swiss social security legislation and, depending on seniority, certain additional benefits under supplementary benefit programs. More than 75% of our pension obligations with respect to executive committee members are funded, and we have reserved for the remaining obligations on our balance sheet. On average, yearly pension payments to members of the executive committee do not exceed 50% of their remuneration when retiring from their position with ABB at pension age. In 2001, we incurred costs for pension contributions of CHF 12,099,517 ($7,195,583 at December 31, 2001) with respect to pension benefits for executive committee members.

Executive committee members receive customary additional benefits such as a company car and health insurance compensation, which are not material in the aggregate.

RECENT DEVELOPMENTS

In February 2002, our board of directors completed a reassessment of certain pension and other benefits of former chief executive officers Percy Barnevik and Goran Lindahl. Mr. Barnevik received approximately CHF 148 million (approximately $88 million) of pension benefits following his resignation as chief executive officer in 1996, and Mr. Lindahl was to receive approximately CHF 85 million (approximately $51 million) of pension and other benefits following his resignation as chief executive officer in 2000. The board's reassessment followed a detailed review of these payments, and the board determined that restitution should be sought of amounts paid and amounts still payable should be withheld. In March 2002, we reached agreements with Mr. Barnevik who agreed to return CHF 90 million (approximately $54 million) to us, and with Mr. Lindahl who agreed that his pension and other benefits would be reduced by CHF 47 million (approximately $28 million). These amounts will be recorded in our earnings during the year ended December 31, 2002 and were determined through actuarial calculations, external benchmarking of European chief executive officer compensation and negotiations. In this paragraph, amounts in Swiss francs have been translated into U.S. dollars at a rate of $1.00 = CHF 1.6743, the average of the noon buying rates for Swiss francs in March 2002.

We believe that the compensation and pension levels of our current ABB Group executives comply with prevailing European practices, and we have recently established a Nomination and Compensation Committee to monitor our compensation practices. See "--Board Practices."

MANAGEMENT INCENTIVE PLAN

We have a management incentive plan under which approximately 1,000 key employees received warrants and warrant appreciation rights for no consideration over the course of six launches from 1998 to 2001. The warrants are exercisable for shares at a predetermined price, not less than the fair market value as of the date of grant.

Participants may also sell the warrants rather than exercise the right to purchase shares. Equivalent warrants are listed on the SWX Swiss Exchange, which facilitates valuation and transferability of warrants granted under the management incentive plan.

Each warrant appreciation right entitles the holder to an amount in cash equal to the market price of one equivalent warrant on the SWX Swiss Exchange. Warrant appreciation rights are not transferable. Participants may exercise or sell warrants or exercise warrant appreciation rights only during the 30 days immediately following publication of our interim or annual results. No exercise or sale is permitted until after the vesting period, which is three years from date of grant, although vesting restrictions can be waived in the event of death, disability or divorce. All warrants and warrant appreciation rights expire six years from the date of grant.

As of May 31, 2002, the warrants outstanding represented the participants' future right to acquire 19,642,951 of our shares, including the future right of the current members of our executive committee to acquire an aggregate of 1,877,562 shares. Also on that date, the warrant appreciation rights represented the participants' future right to receive the cash equivalent to the market price of 100,792,320 warrants, including the future right of the current members of our executive committee to receive the cash equivalent to the market price of 7,281,250 warrants. In order to meet our obligations under outstanding and exercisable warrants, we held 1,507,870 shares in treasury as of May 31, 2002. In addition, as of May 31, 2002, the board of directors has allocated 40,000,000 contingent shares in support of the management incentive plan. We generally hold sufficient cash settled call options to meet our obligations under outstanding warrant appreciation rights. We held 100,792,320 cash settled call options as of May 31, 2002, in connection with the exercise of warrant appreciation rights outstanding under the management incentive plan.

The amounts of warrants outstanding include those instruments held by employees of ABB ALSTOM POWER, a discontinued operation. Under the terms and conditions of the management incentive program, employees of ABB ALSTOM POWER retain their entitlements in the management incentive plan.

Currently 10,538,000 warrants representing the right to purchase 6,832,839 shares and 8,520,000 warrant appreciation rights are exercisable.

The following table sets forth the number of warrants outstanding under the management incentive plan as of May 31, 2002.

LAUNCH (YEAR)	WARRANTS OUTSTANDING	EXERCISE RATIO (WARRANTS:SHARES)	NUMBER OF SHARES UNDERLYING WARRANTS	EXERCISE PRICE (C
1 (1998)	4,743,000(1)	1:0.6484	3,075,361(1)	30.89
2 (1998)	5,795,000(1)	1:0.6484	3,757,478(1)	25.54
3 (1999)	4,648,060	1:0.2000	929,612	37.50
4 (1999)	15,115,000	1:0.2000	3,023,000	41.25
5 (2000)	21,150,000	1:0.2000	4,230,000	53.00
6 (2001)	23,137,500	1:0.2000	4,627,500	17.00

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(1) All of the warrants from Launch 1 and 2, representing the right to purchase 6,832,839 shares, are currently exercisable.

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The following table sets forth the number of warrant appreciation rights outstanding under the management incentive plan as of May 31, 2002.

LAUNCH (YEAR)	WARRANTS APPRECIATION RIGHTS OUTSTANDING(1)	EXPIRATION DATE
1 (1998)	3,542,000	01/14/04
2 (1998)	4,978,000	12/09/04
3 (1999)	592,320	06/09/05
4 (1999)	19,150,000	11/10/05

5 (2000)	33,895,000	06/12/06
6 (2001)	38,635,000	12/09/07

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(1) Each warrant appreciation right represents a participant's future right to receive the cash equivalent of the equivalent market price of warrants exercisable at the following exercise ratios and prices:

LAUNCH (YEAR)	EXERCISE RATIO (WARRANTS: SHARES)	EXERCISE PRICE (CHF)
1 (1998)	1:0.6484	30.89
2 (1998)	1:0.6484	25.54
3 (1999)	1:0.2000	37.50
4 (1999)	1:0.2000	41.25
5 (2000)	1:0.2000	53.00
6 (2001)	1:0.2000	17.00

SHARE OWNERSHIP

As of May 31, 2002, the current members of our board of directors and executive committee owned an aggregate of 141,906 shares, representing less than 1% of our total shares outstanding. As discussed above, the current members of our executive committee own warrants representing the future right to acquire an aggregate of 1,877,562 shares, representing the right to acquire less than 1% of our total shares outstanding. The members of our board of directors are not entitled to participate in our management incentive plan.

Share amounts provided in this section do not include the shares beneficially owned by BZ Group Holding Limited, of which Mr. Ebner is chairman. See "Item 7. Major Shareholders and Related Party Transactions--Major Shareholders."

BOARD PRACTICES

Scheduled board meetings take place five times per year. Extraordinary meetings are held each year as necessary. During 2001, six board meetings were held. 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 the member time to study the respective matters prior to the meetings. Decisions made at the board meetings are recorded in written minutes of the meetings.

In the first quarter of 2002, our board of directors established two committees, the Finance and Audit Committee and the Nomination and Compensation Committee. The committees are to present their findings to the board.

The Finance and Audit Committee oversees the financial reporting processes and accounting practices, evaluates the independence, objectivity and effectiveness of external and internal auditors, reviews audit results and monitors compliance with the laws and regulations governing the preparation of our financial statements, and assesses the processes relating to our risk management and internal control systems. Mr. Voss is the Chairman of the Finance and Audit Committee, and Messrs. Wallenberg and Agnelli are members.

The Nomination and Compensation Committee develops and maintains a regular succession scheme for board membership and the Chief Executive Officer position and nominates candidates for these positions. It further develops compensation guidelines and reviews benefit plans for the members of the executive committee and for senior staff and assesses the specific compensation received by the members of the board of directors and the executive committee. Mr. Dormann is the Chairman of the Nomination and Compensation Committee, and Messrs. Ebner and Maerki are members.

Mr. Centerman has an agreement with ABB that provides for benefits upon termination of his employment. Under the terms of the agreement, either Mr. Centerman or ABB may terminate his employment by giving 12 months' written notice. If Mr. Centerman's employment is terminated by ABB, he will continue to receive compensation for a period of two years from the date on which notice is given, amounting to his base salary at the time of the notice and a yearly incentive bonus based on his average incentive bonus for the two years preceding the year in which notice is given.

Except as described above, no director has a service contract with us providing for benefits upon termination of employment.

EMPLOYEES

A breakdown of employees by geographic region for the years ended December 31, 2001, 2000 and 1999 is as follows:

REGION	2001	2000	1999
Europe	102,500	105,500	104,500
The Americas	27,000	27,500	28,500
Asia	16,500	17,500	18,500
Middle East and Africa	10,500	10,500	10,000
Total	156,500	161,000	161,500

As of March 31, 2002, we employed approximately 151,800 people. Some of our employees are represented by labor unions or are the subject of collective bargaining agreements. We believe that our employee relations are good.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

MAJOR SHAREHOLDERS

To our knowledge, as of June 1, 2002, the following person held 5% or more of our total share capital:

NAME	AMOUNT OWNED	TOTAL PERCENTAGE OF SHARE CAPITAL
BZ Group Holding Limited(1)	133,777,434	11.1%

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(1) BZ Group Holding Limited filed a Schedule 13G on February 14, 2002, reporting ownership of the number of shares indicated above. Mr. Ebner, a member of our board of directors, is the Chairman of BZ Group Holding Limited. This does not include 32,223 shares owned by Mr. Ebner as an individual and earned as compensation for services as a member of our board of directors. See "Item 8. Directors, Senior Management and Employees--Board of Directors--Compensation."

Under the articles of incorporation of ABB Ltd, each registered share represents one vote. Major 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.

Under the Swiss Stock Exchange Act, shareholders and groups of shareholders acting in concert who reach, exceed or fall below the thresholds of 5%, 10%, 20%, 33 1/3%, 50% or 66 2/3% of the voting rights of a Swiss listed 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 Federal Code of Obligations, according to which we must disclose individual shareholders and groups of shareholders and their shareholdings if they hold more than 5% of all voting rights and we know or have 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 our annual report.

At May 15, 2002, we had approximately 241,000 shareholders. Approximately 800 were U.S. holders, of which approximately 600 were record holders. Based on the share register, U.S. record holders (including holders of American Depositary Shares) held approximately 1.6% of the total number of shares issued, including treasury shares, at that date.

RELATED PARTY TRANSACTIONS

In the normal course of our industrial activities, we sell products and derive certain other revenues from companies in which we hold an equity interest. The revenues derived from these transactions are not material for ABB Ltd. In addition, in the normal course of our industrial activities, we purchase products from companies in which we hold an equity interest. The amounts involved in these transactions are not material for ABB Ltd. Also, in the normal course of our industrial activities, we will 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.

At December 31, 2001, ABB Ltd had granted loans to unconsolidated related parties amounting to approximately $234 million. Notes receivable from related parties amounted to $198 million at March 31, 2002. At March 31, 2002, ABB had a note receivable of $42 million with Termobarranquilla S.A. Empresa de Servicios Publicos, Colombia, an equity accounted company in which ABB holds a 29% interest. All other loans with related parties amounted to less than $30 million at that date.

In June 2000, we entered into a share subscription agreement to acquire a 42% interest in b-business partners B.V., a venture capital fund formed to invest in and develop business-to-business e-commerce companies across Europe.

Pursuant to the terms of the agreement, we committed to invest a total of $278 million, of which $69 million was paid in 2000 and $134 million was paid during the first half of 2001. In December 2001, Investor AB, another founding shareholder of the fund, acquired 90% of our investment and capital commitments for approximately book value, or $166 million in cash. After this transaction, b-business partners repurchased 50% of all its outstanding shares, which resulted in a return of capital to us of $10 million. After these transactions, we retain a 4% investment in b-business partners and we are committed to provide additional capital to it of $3 million. Further, b-business partners retains a put right to cause us to repurchase 150,000 shares of b-business partners at a cost of approximately $13 million. At the time of these transactions, Percy Barnevik, the former chairman of the board of directors of ABB, was the chairman of Investor AB. Jorgen Centerman, our President and Chief Executive Officer, is a member of the board of directors of b-business partners.

In December 2001 we entered into, and in April 2002 we amended and restated, a $3,000 million 364-day revolving credit facility. Skandinaviska Enskilda Banken is one of the lenders under the credit facility with a $155 million commitment representing approximately 5% of the total commitment available to us under the credit facility. Mr. Jacob Wallenberg, a member of our board of directors, is the chairman of the board of directors of Skandinaviska Enskilda Banken.

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.

LEGAL PROCEEDINGS

We are involved in legal proceedings from time to time incidental to the ordinary conduct of our business. These proceedings principally involve matters relating to warranties, personal injury, damage to property, environmental liabilities and intellectual property rights.

We retain ownership of Combustion Engineering, Inc., a subsidiary that formerly conducted part of our divested power generation business and which now owns commercial real estate which it leases to third parties. Combustion Engineering is a co-defendant, together with third parties, in numerous lawsuits pending in the United States in which the plaintiffs claim damages for personal injury arising from exposure to or use of equipment which contained asbestos that Combustion Engineering supplied, primarily during the 1970s and before.

It can be expected that additional asbestos-related claims will continue to be asserted. The ultimate cost of these claims is difficult to estimate with any degree of certainty due to the nature and number of variables associated with these claims. Some of the factors affecting the reliability of estimating the potential cost of claims are the rate at which new claims are filed, the impact of court rulings and legislative action, the extent of the claimants' association with Combustion Engineering's or other defendants' products, equipment or operations, the type and severity of the disease suffered by the claimant, the method of resolution of such cases, the financial condition of other defendants and the availability of insurance to recover the costs, until the policy limits are exhausted. As of December 31, 2001, there were approximately 94,000 cases pending (2000: 66,000) against Combustion Engineering, which amount includes 15,000 claims that we treat as settled but under which there are continuing payments (2000: 8,500). Approximately 55,000 new claims were made in 2001 (2000: 39,000) and approximately 27,000 claims were resolved in 2001 (2000: 34,000). In 2001, the average payment per claim in which a payment was made was $6,069 which represented a 26% increase in the average payment per claim of $4,833 in 2000. Approximately $12.8 million, $10.5 million and $8.2 million in administration and defense costs were incurred in 2001, 2000 and 1999, respectively.

In response to the increase in asbestos claims, Combustion Engineering has intensified its efforts to identify the claims that are valid and the claims that appear to be invalid. Combustion Engineering generally settles valid claims and, increasingly, will challenge claims that appear to be invalid. The level of invalid claims appears to be increasing. This change in approach, in part, explains the reasons for the decrease in claims settled in 2001 and the increase in the per claim settlement amount.

Other ABB Group entities are sometimes named as defendants in asbestos claims. These claims are insignificant compared to the Combustion Engineering claims and have not had, and are not expected to have, a material impact on our financial position or results of operations. Based on information provided by our insurance carriers, as of December 31, 2001, there were approximately 7,500 cases pending (2000: 6,000) against these entities. Approximately 1,900 new claims were made against these entities in 2001 (2000: 700) and approximately 200 such claims were resolved in 2001 (2000: 150).

A reserve is maintained to cover estimated costs for the asbestos claims and an asset is recorded representing estimated insurance reimbursement. The reserve represents management's estimate of the costs associated with asbestos claims, including defense costs, based on historical claims trends, available industry information and incidence rates of new claims. As a result of changes in management's expectations regarding the foreseeable future that claims would continue

to be incurred, the estimates were modified in 1999 to extend the period over which current and future claims were expected to be settled from 7 to 11 years. This revision better reflected anticipated claim settlement costs in light of the number and type of claims being filed at that time and the allocation of such claims to all available insurance policies. As a result of that revision, an additional accrual of approximately $300 million was recorded in 1999 which is included in the results of discontinued operations. During 2000, the level of new claims and settlement costs increased as compared to previous levels. Consequently, a charge of approximately $70 million was recorded in 2000, which is included in the results of discontinued operations, related to higher costs than were expected during that period. Based on the significant increase in new claims and settlement costs experienced in 2001 described above, an additional charge of $470 million was recorded in 2001, which is included in the results of discontinued operations. Because of the uncertainty as to the causes of the substantial increase in claims filed against Combustion Engineering in recent periods, the estimation of future claims to be resolved is subject to substantially greater uncertainty.

At December 31, 2001 and 2000, reserves of approximately $940 million and $590 million, respectively, were recorded for all asbestos-related claims. Receivables of $150 million and $160 million at December 31, 2001 and 2000, respectively, were recorded for probable insurance recoveries with respect to such claims. Allowances against the insurance receivables are established at such time as it becomes likely that insurance recoveries are not probable.

Cash payments to resolve Combustion Engineering's asbestos claims were $136 million, $125 million and $67 million in 2001, 2000 and 1999, respectively.

It is expected that Combustion Engineering's insurers will reimburse approximately $43 million and $48 million, respectively, of payments made to resolve Combustion Engineering's asbestos claims in 2001 and 2000, respectively.

During the first quarter of 2002, approximately 14,300 new claims were filed against Combustion Engineering, a decrease of 5 percent compared to the fourth quarter of 2001. Approximately, 13,500 claims were settled during the period, of which more than 50 percent were settled without payment. Settlement costs prior to reimbursement were approximately $51 million, up from $37 million in the first quarter of 2001. As a result of intensified efforts to identify and settle valid claims and dispute claims that appear baseless, despite the number of new claims filed, the number of pending claims remained at approximately 94,000 at March 31, 2002.

Estimating the insurance recovery is inherently uncertain and depends on a number of factors, including the potential for disputes over coverage issues with the insurance carriers, the principles of law which would be likely to apply in resolving such disputes, the amount which will be received under agreements which settled such disputes in prior periods, the timing and amount of asbestos claims which may be made in the future, the financial solvency of the underlying insurance providers and the amount which may be paid to settle or otherwise dispose of those claims. These factors are beyond our control and changes in these factors could materially affect Combustion Engineering's insurance recoveries.

Our management has considered the financial viability and legal obligations of Combustion Engineering's insurance carriers and concluded that, except for those insurers that have become or may become insolvent, the insurers will continue to fund their portion of the claims costs relating to asbestos litigation settlements. Accordingly, the expected amounts of insurance recoveries are recognized on an undiscounted basis. Combustion Engineering will fund defense costs. Over time, as available coverage under Combustion Engineering's insurance policies is utilized against asbestos claims payments, the portion of the cost of resolving asbestos claims that will be recovered under Combustion Engineering's insurance policies will be reduced.

Future operating results will continue to reflect the effect of changes in estimated claims costs resulting from actual claim activity as well as changes in available insurance coverage. It is reasonably possible that expenditures could be made, in excess of established reserves, in a range

of amounts that cannot reasonably be estimated. Although the final resolution of any such matters could have a material impact on our reported results for a particular reporting period, we believe the litigation should not have a material adverse effect on our consolidated financial condition or liquidity.

ABB Barranquilla, a subsidiary of our Equity Ventures subsidiary, is an equity investor in Termobarranquilla S.A., Empresa de Servicios Publicos (TEBSA), which owns a Colombian independent power generation project known as Termobarranquilla. The other shareholders of TEBSA include Corporacion Electrica de la Costa Atlantica (CORELCA), a government-owned Colombian electric utility. CORELCA also purchases the electricity produced from the Termobarranquilla project. In addition to our equity investment, our former power generation business was engineering, procurement and construction contractor for Termobarranquilla. The project was awarded to us and another company, as joint bidders, after a competitive bidding process in 1994. The co-bidder manages the operation and maintenance of the facility. We entered into agreements with the co-bidder for a sharing and reallocation of a portion of the amounts paid to us and to the co-bidder under the engineering, procurement and construction contract and the operation and maintenance contract. These agreements were not disclosed at the time to CORELCA. They also were not disclosed at the time to the lenders who provided financing to TEBSA for the project, including U.S. Overseas Private Investment Corporation and U.S. Export Import Bank, as required pursuant to the lending documents.

We have been engaged in ongoing discussions of this matter with the project lenders and the other shareholders of TEBSA since September 2000. Although we cannot yet be certain what the outcome of the discussions will be, to date there has been no indication that this matter will lead to a significant dispute between us and CORELCA or the project lenders. To date, TEBSA has met its payment obligations to the project lenders. ABB Barranquilla has invested $67.7 million in TEBSA and has a contingent commitment to invest up to an additional $21 million if TEBSA cannot meet its obligations.

In April 2001, pursuant to an agreement with the Antitrust Division of the U.S. Department of Justice, one of our subsidiaries, ABB Middle East and Africa Participations AG entered a guilty plea in the Federal District Court for the Northern District of Alabama to violating the antitrust laws by agreeing with other contractors to the coordination of bids on, and allocation among themselves of, a number of construction projects in Egypt, primarily in the late 1980s and early 1990s, that were financed by agencies of the U.S. government. We cooperated fully in this investigation and provided information to the Antitrust Division. Our subsidiary ABB SUSA, which bid on a number of the projects in question, concluded an agreement with the Civil Division of the Department of Justice to resolve civil claims related to this matter. In connection with these resolutions, we agreed to pay a fine and civil damages in a total amount of approximately $63 million. In accordance with Accounting Principles Board Opinion No. 21, INTEREST ON RECEIVABLES AND PAYABLES, the discounted present value of this settlement amount of approximately $57 million was recognized in our financial statements for the period ended December 31, 2000. These matters did not have a material adverse effect on our consolidated financial position.

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, 2001.

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ITEM 9. THE OFFER AND LISTING

MARKETS

The shares of the newly created ABB Ltd have been listed on the SWX Swiss Exchange, the London Stock Exchange and the Frankfurt Stock Exchange since June 28, 1999, the Stockholm Stock Exchange since June 22, 1999 and the New York Stock Exchange (in the form of American Depositary Shares, or ADSs) since April 6, 2001.

Our ADSs are issued under a deposit agreement with Citibank, N.A. as depositary. Each ADS represents one share.

TRADING HISTORY

The principal market for our shares is virt-x, where our shares are traded under the symbol "ABBN." Our ADSs are traded on the New York Stock Exchange under the symbol "ABB." The table below sets forth, for the periods indicated, the reported high and low closing sale prices for the shares on virt-x and for the ADSs on the New York Stock Exchange.

	VIRT-X	
	HIGH	LOW
	(CHF)	
ANNUAL HIGHS AND LOWS		
1999 (from June 28, 1999)	48.69	33.9
2000	54.50	37.9
2001	44.38	10.0
QUARTERLY HIGHS AND LOWS		
2000		
First Quarter	54.50	43.0
Second Quarter	54.00	44.5
Third Quarter	52.56	40.3
Fourth Quarter	43.56	37.9
2001		
First Quarter	44.38	28.6
Second Quarter	33.10	25.0
Third Quarter	27.60	10.2
Fourth Quarter	19.05	10.0
2002 First Quarter	18.30	11.0
MONTHLY HIGHS AND LOWS		
2001		
December	19.05	15.0
2002		
January	18.30	14.7
February	14.50	11.0
March	14.75	12.0
April	15.75	12.6
May	15.35	14.1
June (through June 25)	14.25	12.1

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(1) From April 6, 2001.

LISTING ON THE SWX SWISS EXCHANGE AND TRADING ON VIRT-X

Our shares are listed on the main board of the SWX Swiss Exchange and are included in the Swiss Market Index, a capitalization-weighted index of the shares of 27 large Swiss corporations currently traded on virt-x. We are subject to the regulations and listing rules of the SWX Swiss Exchange.

The SWX Swiss Exchange was founded in 1993 as the successor to the local stock exchanges of Zurich, Basel and Geneva. Trading in foreign equities and derivatives began in December 1995. In August 1996, the SWX Swiss Exchange introduced full electronic trading in Swiss equities, derivatives and bonds. The aggregate value of trading activity of Swiss shares, investment funds, warrants, and bonds as well as other non-Swiss shares, warrants and bonds on the SWX Swiss

Exchange was in excess of CHF 1,000 billion in 2001. As of December 31, 2001, the equity securities of 412 corporations, including 149 foreign corporations, were listed and traded on the SWX Swiss Exchange.

virt-x plc (formerly Tradepoint Financial Networks plc), a pan-European blue chip trading platform based in London, was created in 2001 as a collaboration among the SWX Swiss Exchange and a consortium of internationally active investment banks and financial services companies (called the TP Consortium) to provide an efficient and cost effective pan-European equities market. virt-x is a Recognized Investment Exchange supervised by the Financial Services Authority in the United Kingdom. The SWX Swiss Exchange and the TP Consortium each hold 38.9% of the issued share capital of virt-x plc, the remaining 22.2% are publicly held.

All trading in the 27 stocks included in the Swiss Market Index, including ABB, has been transferred to virt-x. The trading of these stocks is conducted in Swiss francs. virt-x uses the SWX Swiss Exchange trading platform and network under a facilities management agreement. Most of the systems operation and development capability is outsourced to the SWX Swiss Exchange in Switzerland.

Trading begins each business day at 9:00 a.m. (CET) and continues until 5:30 p.m. (CET). At 5:20 p.m. (CET) the exchange moves into "Closing Auction" status. The closing auction stops at 5:30 p.m. (CET). Orders can be placed up to 10:00 p.m. (CET) and again from 6:00 a.m. (CET) onwards.

Members register incoming orders from their customers in their trading system. These orders are forwarded to the relevant trader and checked, or fed directly into the trading system by the trader. From here they are submitted to the central exchange system of virt-x, which acknowledges receipt of the order, assigns a time stamp to it and verifies its formal correctness.

Depending on the type of transaction, the orders are also transmitted to data vendors (such as Reuters, Bloomberg and Telekurs). In the fully automated exchange system in use at virt-x, buy and sell orders are matched according to clearly defined matching rules.

Regardless of their size or origin, incoming orders are executed in the order of price (first priority) and time received (second priority).

Transactions take place through the automatic matching of orders. Each valid order of at least one share is entered and listed according to its price. In general, orders placed at the best price (known as "market orders") are executed first followed by orders placed with a price limit (known as "limit orders"). If several orders are listed at the same price, they are executed in the order of the time they were entered.

Any transaction executed under the rules of virt-x must be reported. On order book executions are automatically and immediately reported by the trading system. There are separate provisions for the delayed reporting of certain qualifying trades. Individual elements of portfolio trades must be reported within one hour while block trades and enlarged risk trades must be reported when the business is substantially (80%) completed, or by 5:30 p.m. (CET) on the day of trade, unless the

trade is agreed after 4:30 p.m. (CET), when the trade must be reported by 5:30 p.m. (CET) the following business day. Block trades and enlarged risk trades are subject to minimum trade size criteria. All other transactions must be reported within three minutes except when the transaction is conducted in a SWX Swiss Exchange listed security, where the trade must be reported within 30 minutes.

virt-x trades can be settled by CREST, SIS SegaInterSettle AG or Euroclear. Members may employ one, two or a combination of all three depositories to settle their virt-x transactions. Each depository maintains its unique service offering and facilitates settlements between each other by real time links. Exchange transactions are usually settled on a T+3 basis, meaning that delivery against payment of exchange transactions occurs three days after the trade date. Where any settlement is due to take place on a day on which the central bank for the currency in which the transaction is conducted is closed, the settlement due date is adjusted to be the next business day after the currency holiday.

The traded prices of all securities are constantly monitored. As soon as the difference between two successive trade prices is greater than a specific predefined value, a brief trading suspension, called "stop trading," is automatically triggered. The triggering parameters and length of a stop trading differ according to the security.

ITEM 10. ADDITIONAL INFORMATION

DESCRIPTION OF SHARE CAPITAL AND ARTICLES OF INCORPORATION

This section summarizes the material provisions of our articles of incorporation and the Swiss Code of Obligations relating to our shares. The description is only a summary and is qualified in its entirety by our articles of incorporation, a copy of which has been filed with the Securities and Exchange Commission, and by Swiss statutory law.

REGISTRATION AND BUSINESS PURPOSE

We were 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."

Our business purpose as set forth in Article 2 of our articles of incorporation is to hold interests in business enterprises, particularly in enterprises active in the area of industry, trade and services. We may acquire, encumber and exploit real estate and intellectual property rights in Switzerland and abroad and may also finance other companies. We may engage in all types of transactions and may take all measures that appear appropriate to promote, or that are related to, our purpose.

THE SHARES

Our shares are registered shares with a par value of CHF 2.50 each. The shares are fully paid and non-assessable.

Each share carries one vote in our general share