

This is ABB

ABB (www.abb.com) serves manufacturing, process and consumer industries, utilities, and the oil and gas sector, with 160,000 employees in more than 100 countries.



Sustainable solutions – like wind and combined heat and power – to complement existing grids.



Web-based control systems for electricity supply.



Software for the growing energy trading market.



Industrial IT – ABB's open software platform for real-time management across the value chain.



Contents

3	Key figures
4	Highlights 2000
6	Letter from the Chairman
8	President's comments
12	ABB Executive Committee 2000

Segment presentation

14	Automation
15	Power Transmission
16	Power Distribution
17	Building Technologies
18	Oil, Gas and Petrochemicals
19	Financial Services

20	ABB Executive Committee 2001
----	------------------------------

22	Managing for value
24	Sustainability
26	Research and development

Business stories

28	Introduction
30	Industrial IT
34	eBusiness initiatives in 2000
38	Deregulating power markets
42	Alternative energy solutions
46	Telecommunications and infrastructure
50	Subsea technologies
54	Petrochemicals
58	Management
61	ABB Board of Directors

62	Financial Review
----	------------------

The ABB Group publishes the Group Annual Report in English, German and Swedish. The English-language version is binding. ABB also issues quarterly financial results in April, July and October. All figures shown for the ABB Group are in U.S. dollars. ABB also publishes annual sustainability and technology reports. For a copy of these reports, please contact ABB Corporate Communications at the address printed on the back of this report, or download the reports from www.abb.com.

This Annual Report includes forward-looking statements. 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 following: (i) the difficulty of forecasting future market and economic conditions; (ii) the effects of, and changes in, laws, regulations, governmental policy, taxation or accounting standards and practices; (iii) the effects of competition in the product markets and geographic areas in which we operate; (iv) our ability to successfully manage the transformation of our business; (v) our ability to anticipate and react to technological change and evolving industry standards in the markets in which we operate; (vi) the timely development of new products, technologies and services that are useful to our customers; (vii) unanticipated cyclical downturns in some of the industries that we serve; (viii) the risks inherent in large, long-term projects served by parts of our business; and (ix) the difficulties encountered operating in emerging markets.

The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," and similar words are intended to identify forward-looking statements. We undertake no obligation to update publicly or revise any forward-looking statements because of new information, future events or otherwise. In light of these 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.

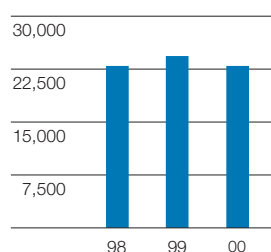
Key figures

Total Group

Year ended December 31 (\$ in million, except per share amounts)	2000	1999
Revenues	22,967	24,356
Orders received	25,440	24,633
Earnings before interest and taxes (EBIT)	1,385	1,122
Income from continuing operations before taxes and minority interest	1,306	1,022
Net income	1,443	1,360
Stockholders' equity	5,171	4,271
Total assets	30,962	30,578
Capital expenditures, excluding purchased intangible assets	485	666
Capital expenditures for acquisitions	896	1,780
Divestitures	1,963	2,283
Research and development expense	703	865
Order-related development expenditures	985	1,212
Earnings before interest and taxes / Revenues	6.0%	4.6%
Return on equity	30.6%	34.1%
Net operating cash flow	1,022	1,575
Number of employees	160,818	161,430
Basic earnings per share	4.89	4.59
Diluted earnings per share	4.87	4.58

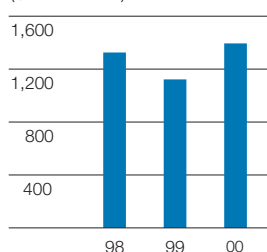
Group revenues

(\$ in millions)

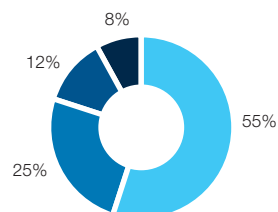


Group earnings before interest and taxes

(\$ in millions)

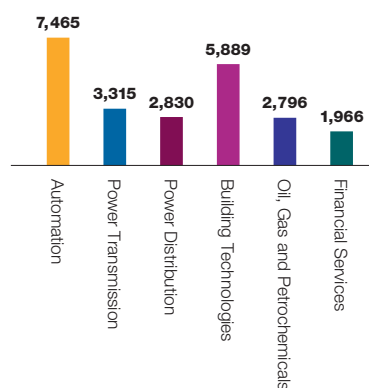


Revenues per region 2000



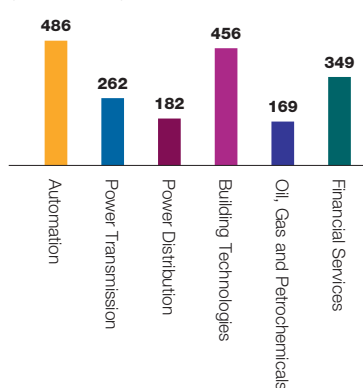
Revenues per segment 2000

(\$ in millions)

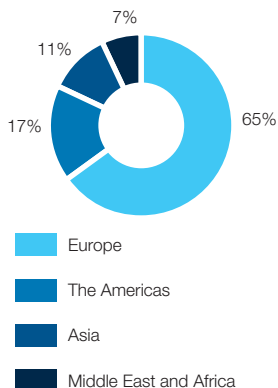


Earnings before interest and taxes per segment 2000

(\$ in millions)



Employees per region 2000



Highlights 2000

ABB's earnings before interest and taxes (EBIT) rose 23 percent to \$1,385 million in 2000. Revenues were six percent lower at \$22,967 million. Reported in local currencies to reflect the real underlying development of its businesses, revenues rose two percent. Cash flow from operating activities amounted to \$1,022 million.

ABB divested its share of ABB ALSTOM POWER to ALSTOM of France and finalized the sale of its nuclear activities, completing its exit from the large-scale power generation field. The company launched a new business to focus on small-scale alternative energy solutions, including wind power, combined heat and power plants, microturbines and fuel cells.

Key acquisitions included software technologies for the pharmaceuticals industry from Base Ten Systems of the U.S.; polypropylene technology from BASF of Germany; a U.S.-based provider of utility eBusiness software called Energy Interactive; a Norwegian oil and gas service company; and a 35-percent stake in the Swedish Export Credit Corporation.

ABB entered several joint ventures, including one with Chevron to develop a special hydrocracking technique for cleaner

fuels, and a joint venture with SKYVA International, a U.S.-based software technology company specializing in eBusiness and collaborative commerce.

ABB introduced several new technologies in 2000, including a high-efficiency generator for wind power, a high-precision robot control system for laser cutting, and intelligent sensors for detecting faults in power lines.

The company launched a family of software products as part of its Industrial IT strategy, aimed at integrating all of a company's processes into a single real-time information system, as well as linking companies with their suppliers and customers into a network of collaborative commerce.

ABB continued to implement value-based management at all of its companies and reaffirmed its commitment to sustainable development by implementing ISO 14001, and by developing environmental product declarations, including life cycle assessments.

At the beginning of 2001, ABB announced a fundamental change to its organization, creating new divisions based on customer groups. The changes are aimed at creating new value for customers and other stakeholders, and driving sustained growth for ABB.



Letter from the Chairman



Dear Shareholders,

Being first is normally a big competitive advantage. It allows a company to serve its customers better, create new business opportunities, and expand its market share.

ABB prides itself on moving fast, and has an impressive track record of anticipating, and even sparking, significant changes in the market. The merger that created ABB in 1988 is a prime example. It was the beginning of a consolidation in the electrotechnical business sector. The acquisition ten years later of Elsas Bailey, the industrial automation company, was one of the first moves in a wave of mergers in that sector as well.

ABB's record of technology innovations over the years is another reflection of its pioneering spirit, as are its early moves into Central and Eastern Europe in the late 1980s and then into Asia, Latin America, Africa and the Middle East. Beginning in the mid-90s, ABB was early to see the potential for growth from moving out of heavy asset businesses into higher value businesses based on intellectual capital – self-regulating “intelligent” products and complete solutions for customers to improve their performance.

Today, ABB is once again leading the way, building its position in the growth markets

of the future. The industries that form the backbone of the global economy are undergoing rapid changes – from deregulation in the power utility market to mergers, consolidation and globalization in pulp and paper, the auto industry, steel, chemicals, pharmaceuticals, and many more. These are ABB's customers, and they are looking for suppliers who can deliver not only great products and services on a global basis. They want suppliers who can deliver greater competitiveness.

This is opening up significant new opportunities for ABB to grow. Its unique ability to combine innovations in information technology with world-class products, systems and unparalleled industry know-how – gained over generations and in every part of the world – means it can deliver greater productivity, efficiency, quality and environmental performance to every major industry and in every part of the world.

The Board of Directors is convinced that this is the right strategy for growth and the key to creating more value for our shareholders.

In the last quarter of 2000, the Board appointed Jörgen Centerman, formerly head of the company's Automation segment, to drive this strategy forward, building on his considerable experience in IT and his deep industry knowledge. His first step as President and CEO at the beginning of this year was to announce a

new organization formed around its customers, rather than around its own products and technologies. The aim is to fuel growth by making it easier for customers to do business with ABB, and for ABB to meet the rapidly changing needs of its customers faster and more efficiently.

This is a pioneering move, making ABB the first in its industry to rebuild itself from the outside in. Customer focus becomes more than an approach to business – it is the organizing principle on which the entire company is built, from the key account manager all the way to the top. It will allow ABB to deliver its complete offering of Industrial IT-compatible products and solutions to all of its customers and, in turn, achieve greater growth.

As always, it is the hard work and dedication of ABB's 160,000 people around the world that holds the real key to success. This year, we are introducing a stock ownership plan to provide ABB employees everywhere with the opportunity to share in the value they are creating every day. On behalf of the Board of Directors and shareholders, I would like to thank them for their efforts.

I would also like to especially acknowledge the contribution made to ABB over many years by Göran Lindahl, who stepped down at the end of 2000 after four years as President and

CEO, and more than 20 years as a member of ABB's top management team. The important shift in ABB's business portfolio in recent years and the creation of a single ABB share are among the highlights of his contributions. The rest of the Board and I thank him for his dedication.



Percy Barnevik

Chairman of the Board of Directors

President's comments



“As an industry first, we are fully organizing our company around customers and channels to market, building our whole organization from the customers’ perspective and working our way in. From the salesperson to the CEO, every unit at every level will be structured along customer lines”.

Our vision is to make ABB *The Value Creator*. As a pure business-to-business supplier, we know that value creation starts with being close to the customer. The more we know about our customers, the better we can serve them. We are making this insight the starting point of a deep transformation in the way we do business.

Traditionally, corporations in our business have been organized around either technology or geography – and sometimes both. For large and global companies, this leads to many units serving customers in parallel with different products and services. Quite simply, we've decided to break that mould. As an industry first, we are fully organizing our company around customers and channels to market, building our whole organization from the customers' perspective and working our way in. From the salesperson to the CEO, every unit at every level will be structured along customer lines.

New organization – a platform for growth

With our presence in more than 100 countries, this transformation is opening major growth opportunities. Our technology platforms already supply utilities, process and manufacturing industries, and oil, gas and petrochemical markets around the world with products, systems and services that help them become more competitive, while minimizing energy consumption, raw material use and environmental impacts.

The world is rapidly changing. Complexity and speed are key challenges. Globalization is

creating markets without boundaries, which in turn puts a premium on core competence, responsiveness and efficiency. Deregulation is fostering new dynamics in world electricity markets, expanding our customers' scale and scope. Privatization in electricity, for example, is spawning new niches – and new opportunities for us as energy experts. As our customer industries consolidate, the resulting bigger entities need to cope with the challenge of staying nimble – acting in real time, all the time.

To meet this demand, and anticipating customer needs, we've structured ABB along seven customer divisions. Four customer divisions – Utilities, Process Industries, Manufacturing and Consumer Industries, and Oil, Gas and Petrochemicals – provide end users with faster and easier access to the full range of ABB's products, services and solutions. Two customer divisions – Power Technology Products and Automation Technology Products – are responsible for all generic products in ABB. They also serve external channel partners, such as wholesalers, distributors, original equipment manufacturers (OEMs) and system integrators. The Financial Services division serves both internal and external customers with a full range of financing solutions.

Fundamental changes need guidance, and we have created two divisions to achieve internal improvements along the way. The Group Transformation division – led by some of our most senior managers – is driving

the implementation of the new organization in local markets to allow operational managers to focus on the business. The Group Processes division will design and implement common processes and ensure the most efficient use of infrastructure.

Industrial IT

Alongside this change, we are embarking on a mission to exploit information technology and the Internet. We are creating one single Industrial IT architecture for our entire range of technologies and products – Web-enabling them to speed up collaboration with customers.

Industrial IT also allows us to form online communities along the whole value chain. This is called collaborative commerce – providing technologies, primarily software-oriented, to facilitate common business processes – from suppliers through manufacturing units to end customers.

Highlights 2000

For the year 2000, we reported for the first time under US Generally Accepted Accounting Principles (US GAAP). Earnings before interest and taxes (EBIT) were up 23 percent compared to 1999, to \$ 1,385 million.

Demand varied by region and business. Globally, orders rose by three percent, and demand was sluggish in some key markets. We saw a six-percent drop in revenues in 2000 to \$ 22,967 million. Income from continuing operations was 37 percent higher, and net income rose six percent to \$ 1,443 million.

A consistent shift towards higher-margin businesses, and continued cost reductions, helped us increase profitability. But that is not good enough. We are now gearing up to deliver more value for each and every one of our customers and, in doing so, lift sales significantly. We focus on generating cash and will keep a close eye on the cost of capital.

Revenue development is clearly below our potential. Some 30 percent of ABB sales come from our top 200 customers, who so far have mostly bought only one line of ABB products. Bringing our entire offering to these major customers is a great opportunity.

Looking at our own value management, we have now established the weighted average cost of capital (WACC) for individual ABB businesses in each key market. This creates an economic yardstick for measuring the potential value of a business strategy, and for allocating resources and assessing performance.

We have integrated a primary focus on free cash flow generation into all of our business planning and management, starting with the goals for value creation set for the group as a whole and for each individual business. Overall goals for value creation are translated into value driver targets, which are in turn prioritized and broken down into specific actions directly linked to increasing value.

We reoriented our reporting systems to emphasize dynamic, forward-looking performance measures. We are convinced that con-

stantly reviewing business performance against leading indicators of value creation will help our managers prioritize their daily actions.

We are changing our incentive scheme for managers and are now only measuring global performance within the respective business area, from the top of the organization all the way out to the frontline managers involved.

Managing sustainability

ABB reached a number of environmental and sustainability targets in 2000. For example, we issued a comprehensive social policy, formally recognizing the importance of social performance management in our strategy.

The social policy defines our commitment on such issues as human rights, employee consultation, community involvement and business ethics. It recognizes the role that ABB plays in the countries and communities where we operate, and goes much further than simple compliance with government regulations.

New technologies

New technologies play a key role for ABB, reflected both in the importance of our Group R&D centers and the establishment of the New Ventures Ltd business area. New Ventures will identify and invest in promising new technologies, and speed up commercialization of our product and business development.

In 2000, we entered the alternative energy market with new solutions for renewable and distributed power sources, such as wind power, microturbines and combined heat

and power. We have also started supplying products, systems and services to the growing mobile telephony industry.

Outlook

Our new company structure will be implemented in most markets by the middle of 2001, but the underlying culture change will take longer. Living in a world without walls is a new experience for us all. It is revealing to peek into the ABB Group in transformation – employees are excited and managers are moving swiftly to take action.

For the full-year 2001, revenues are expected to increase compared to 2000 and EBIT to be well above last year's level. Cash flow from operating activities will be well above last year's level.

ABB is targeting a minimum average revenue growth of 6 percent per year through 2005 (excluding major acquisitions and divestments). EBIT margin is targeted to increase 15 percent per year, reaching 12 percent by 2005. The company aims to reduce its weighted average cost of capital (WACC).



Jörgen Centerman

President and Chief Executive Officer

ABB Executive Committee 2000



From left to right: Gorm Gundersen, Markus Bayegan, Sune Karlsson, Jörgen Centerman, Renato Fassbind, Göran Lindahl, Jan Roxendal, Armin Meyer and Jouko Karvinen.

Göran Lindahl

President and CEO

From January 1st 2001:

Jörgen Centerman

President and CEO

Business Areas/Functions

Audit
Corporate Communications
Environmental Affairs
International Consulting
Investor Relations
Legal Affairs
Management Resources

Renato Fassbind

Chief Financial Officer

Business Areas/Functions

Accounting and Reporting
Consolidation
Control
Insurance
Mergers and Acquisitions
Real Estate
Risk Management
Taxes and Finance

Jouko Karvinen

Automation

Business Areas/Functions

Automation Power Products
Instrumentation and Control Products
Flexible Automation
Marine and Turbochargers
Metals and Minerals
Petroleum, Chemicals and Consumer Industries
Pulp and Paper
Utilities

Sune Karlsson

Power Transmission

Business Areas/Functions

Cables
High-Voltage Products and Substations
Power Lines
Power Systems
Power Transformers
T&D Service and Support

Gorm Gundersen

Oil, Gas and Petrochemicals

Business Areas/Functions

Oil, Gas and Petrochemicals

Sune Karlsson

Power Distribution

Business Areas/Functions

Power Distribution Solutions
Distributon Transformers
Medium-Voltage Equipment

Jan Roxendal

Financial Services

Business Areas/Functions

Treasury Centers
Leasing and Financing
Insurance
Structured Finance
Equity Ventures

Armin Meyer

Building Technologies

Business Areas/Functions

Building Systems
Low-Voltage Products and Systems
Air Handling Equipment
Service

Markus Bayegan

Group R&D and Technology

Business Areas/Functions

Group R&D

Automation

“The response of our customers to our Industrial IT strategy – and the prospect of a seamless link between suppliers, plant and customers – proves ABB is on the right track.”

Jouko Karvinen

Head of ABB's Automation segment



ABB is one of the largest automation companies in the world and a leading supplier of automation systems and solutions to customers in pulp and paper, utilities, pharmaceuticals, petroleum, chemicals, metal and minerals, the automotive and marine sectors and many other industries.

A comprehensive suite of Industrial IT software solutions was launched at the beginning of the year, strengthening ABB's portfolio of compatible Industrial IT “building blocks”. The resulting systems help customers integrate all the business processes of a company, such as production, control, management, sales and logistics. They will also help link a company with its customers and suppliers in a seamless web of real-time communication.

Several acquisitions and joint ventures significantly strengthened our position in a number of industries. We formed a joint venture with SKYYVA International, a leading provider of collaborative business software, for the development of eBusiness and Industrial IT solutions. Other important acquisitions included software technologies for the pharmaceuticals industry from Base Ten Systems of the U.S., and the Cellier Group of France, active in the global paper, lubricants, paint, oil and chemicals industries.

ABB plans to open an IT and automation center in Singapore in 2001 for R&D and product development with regional customers. The Asian automation market is currently growing at about double the world average.

Segment activities

Automation power products such as drives, motors and power electronics

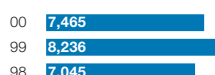
Instrumentation and control products such as field devices for sensing, controlling and actuating; analyzers; metering equipment; control and information systems

Flexible automation and robotics products and systems

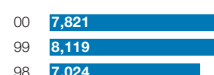
Diesel engine superchargers

Application expertise, project management, and integrated system deliveries to markets such as electrical and water utilities; the petroleum, chemical and consumer industries; metals and mining; pulp and paper; marine and automotive

Revenues (\$ in millions)



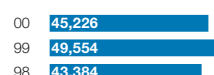
Orders received (\$ in millions)



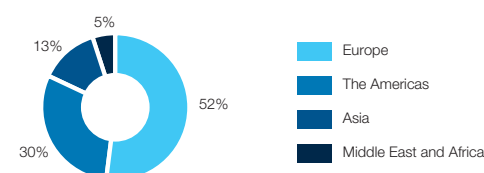
Earnings before interest and taxes (\$ in millions)



Number of employees



Revenues per region 2000



Power Transmission

“ABB continues to focus on innovation and the development of new technologies and solutions to protect and grow its dominant market position.”

Sune Karlsson

Head of ABB's Power Transmission segment



ABB is the world's largest supplier to the power transmission industry, which delivers electricity at high voltages from the power plant to the areas where it is consumed. Our customers are primarily electrical utilities operating in rapidly deregulating and liberalizing power markets. Our business expertise in these dynamic markets, combined with innovative technologies, spans several generations and every part of the world. That means we can deliver products, solutions and services that enable our customers to deliver power efficiently and at competitive prices.

Among ABB's leading power transmission technologies is HVDC (High Voltage Direct Current) Light. It is a cost-effective way to link power networks in different regions or countries. With built-in microprocessors and telecommunications technologies, it also enables electricity to be traded between grids as utilities adapt to market liberalization.

Major orders received in 2000 included a US\$ 80-million order for part of a 750-kilometer power transmission system in Mexico; a US\$ 40-million order for a high-voltage power transmission corridor in Nigeria, two orders from the National Grid of the U.K. for high-voltage indoor substations worth US\$ 80 million and US\$ 30 million respectively; and cross-border orders for HVDC transmission interconnectors between Connecticut and Long Island, Victoria and South Australia, and Argentina and Brazil.

A key acquisition was Energy Interactive of the U.S., which supplies software for the growing energy trading market. The acquisition takes ABB into the dynamic retail power market of the rapidly deregulating North American energy market.

Segment activities

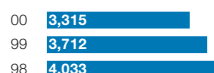
Air- and gas-insulated switchgear products and solutions, high-current systems and AC systems including overhead power lines

High-voltage direct current systems, reactive power compensation, capacitors and power cables

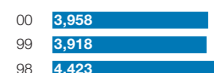
Power transformers, reactors, components and insulating material

Retrofit, maintenance, operations, consultancy and business management systems

Revenues (\$ in millions)



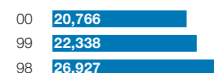
Orders received (\$ in millions)



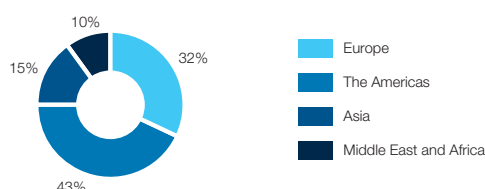
Earnings before interest and taxes (\$ in millions)



Number of employees



Revenues per region 2000



Power Distribution

“Our extensive experience in deregulating markets around the world helps us respond to our customers faster with new technologies that expand our position in this dynamic market.”

Sune Karlsson

Head of ABB's Power Distribution segment



ABB is a leading global supplier to electrical energy consumers and power distribution companies who link high-voltage, long-distance power transmission systems to the lower-voltage, local needs of end customers. ABB delivers a total package of power distribution solutions – hardware, software, financing, consulting – that enables it to create more value in highly competitive and deregulating energy markets, including growing markets for alternative energy technologies.

An important trend is the shift towards small-scale distributed power, where electricity is generated close to, or at the customer's premises. Such systems can be more efficient and have less environmental impact than conventional networks based on large, centralized power plants.

ABB's alternative energy solutions include the first pilot installation of the Windformer™ wind power system; the Turbec microturbine, developed in collaboration with Volvo Aero Corporation; and a pilot installation of a microgrid of distributed generation units in the United States.

A US\$ 100-million order was won in distributed generation for ten combined heat and power (CHP) plants in the United Kingdom.

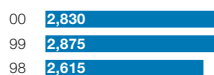
Segment activities

Solutions and systems for renewable energy; distributed power generation; distribution of energy to rural, urban and industrial customers; airport installations; and for railway electrification

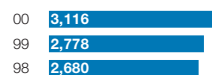
Distribution for transformers

Products for distribution of electrical energy including medium-voltage switchboards, apparatus and pre-fabricated assemblies

Revenues (\$ in millions)



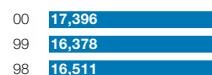
Orders received (\$ in millions)



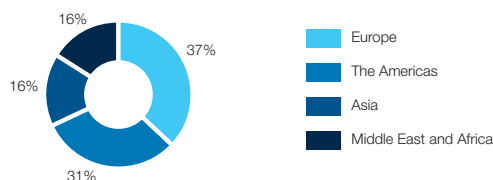
Earnings before interest and taxes (\$ in millions)



Number of employees



Revenues per region 2000



Building Technologies

"Our strength lies in our local presence in markets around the world, our offering of intelligent building solutions, and our ability to deliver a full range of services to industrial and commercial customers."

Armin Meyer

Head of ABB's Building Technologies segment



ABB supplies solutions to efficiently manage energy, data, communications, security and other building systems for commercial, industrial and residential property; low-voltage products and systems such as switches, control products and circuit breakers; air handling equipment; and a variety of service solutions.

ABB won more than 160 Full Service® contracts in 2000. Many of these contracts are performance-based, with ABB undertaking to reduce costs and increase asset effectiveness, and sharing in the value it creates with the customer.

ABB was involved in a number of high-profile building projects. Microsoft's state-of-the-art European headquarters in Germany was completed in 2000, a project in which ABB was technical general contractor. In Finland, ABB was awarded the Building Technologies 2000 Award by the Finnish building systems industry for its intelligent building, Tellus House. ABB is also technical contractor for the new 47-floor Post Tower in Bonn, Germany.

Telecommunications and data transmission continued to grow in 2000. Among the most important orders was the US\$ 150-million contract to design, maintain and upgrade a telecommunications access network in five of Australia's seven states.

Segment activities

Complete infrastructure solutions for industrial and commercial buildings

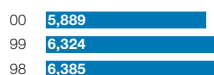
Design, installation and maintenance of electrical, ventilation and data communication systems

Low-voltage products and systems to protect, switch and control; electrical installation material

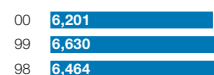
Air handling products such as industrial fans, air handling units, components and distribution products

Service, repair of industrial equipment and maintenance management

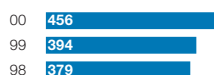
Revenues (\$ in millions)



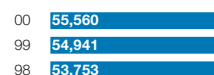
Orders received (\$ in millions)



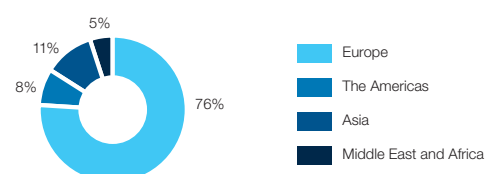
Earnings before interest and taxes (\$ in millions)



Number of employees



Revenues per region 2000



Oil, Gas and Petrochemicals

"ABB aims to make its oil, gas and petrochemicals customers more competitive, with technologies from the well to the refinery, that allow them to use these resources more efficiently and with minimum impact on the environment."

Gorm Gundersen

Head of ABB's Oil, Gas and Petrochemicals segment



ABB delivers advanced technology along the entire value chain of the oil and gas industry, from the well to refining and petrochemicals. ABB has special strengths in deep-sea oil and gas solutions and in refining and polymer processing, especially ethylene and propylene. In each case, ABB delivers technology that allows its customers to be more competitive by getting more from existing resources with less environmental impact.

Major orders received in 2000 included US\$ 650 million to ABB and Snamprogetti of Italy for an ethylene complex in Brazil, a US\$ 574-million order for a gas processing plant in Algeria, US\$ 200 million for three compressor stations on the Yamal natural gas pipeline linking Siberia with western Europe, and US\$ 150 million for a clean fuels plant in the United States.

In the upstream market, ABB won a US\$ 50-million order to deliver a complete subsea production system off Angola, and part of a US\$ 300-million order for the Ringhorne platform in the North Sea. ABB built and launched the prototype for SEPDIS™, a power distribution technology for subsea applications; and installed the first DOGST™ fiber-optic sensing technology used to improve the performance of offshore oil wells.

A joint venture with Equistar Chemicals acquired Novolen polypropylene technology from a subsidiary of BASF. ABB also acquired Umoe ASA, a leading Norwegian service company in the oil and gas industry.

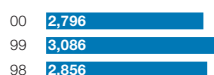
ABB invested US\$ 100 million in Sinopec Corp. of China and formed a strategic alliance with the National University of Singapore for joint research into catalysis and membrane technology.

Segment activities

Licensing of process technology
Refineries and petrochemical plants
Subsea production systems
Floating production systems
Pressure-containing equipment
Compressor stations
Maintenance and modification of offshore and onshore facilities

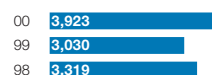
Revenues

(\$ in millions)



Orders received

(\$ in millions)

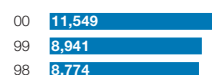


Earnings before interest and taxes

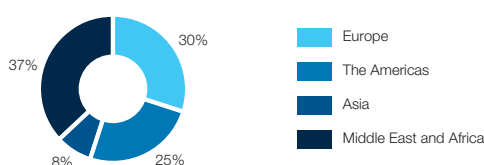
(\$ in millions)



Number of employees



Revenues per region 2000



Financial Services

“Our ability to manage and respond quickly to global change and our deep understanding of business and finance in a wide range of industries is a unique competitive advantage.”

Jan Roxendal

Head of ABB's Financial Services segment



ABB Financial Services supports the group's industrial businesses and third-party customers with innovative financial solutions in structured finance, leasing, project development, financial consulting, insurance and treasury activities. With operations in every major market of the world, ABB Financial Services offers an unequalled breadth and depth of both financial and industrial expertise.

Among the highlights for 2000, ABB Financial Services acquired a 35-percent stake in the Swedish Export Credit Corporation, specializing in long-term export finance and related finance solutions to sectors such as telecommunications, automotive, transportation, energy, and process industries like pulp and paper and petrochemicals. ABB underwrote a US\$ 25-million wind power project in the Midwestern United States in support of its expansion into the alternative energy market. ABB acted as financial advisor to a refinery modernization project in Russia, and arranged and underwrote financing for a pipeline management and control system in Kazakhstan.

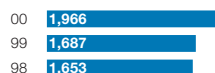
The segment played a key role in financing ABB's intelligent building solution for Microsoft's new European headquarters in Munich, Germany, and in the consortium to operate and maintain a power transmission network in Australia.

As ABB expands its activities into new growth areas such as Industrial IT, alternative energy, and telecommunications infrastructure, its Financial Services segment is creating solutions that allow it to deliver complete solutions, including financing, that make ABB's customers more competitive.

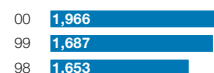
Segment activities

Project and export finance advisory services and countertrade
Project underwriting and debt financing
Project development and equity financing of infrastructure projects
Asset-backed financing, large financial packages, financing for investments and financial advisory services
Traditional reinsurance, financial insurance/reinsurance and insurance brokerage
Management of group liquid assets and borrowings, positions on foreign exchange and money markets within predefined risk limits
Financial consulting services

Revenues (\$ in millions)



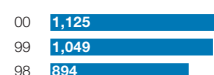
Orders received (\$ in millions)



Earnings before interest and taxes (\$ in millions)



Number of employees



Revenues per region 2000

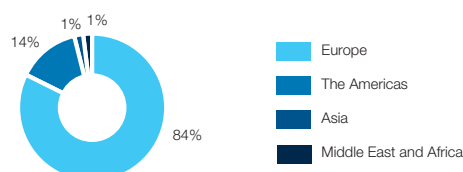


ABB Executive Committee 2001



From left to right: Eric Drewery, Peter Smits, Gorm Gundersen, Dinesh C. Paliwal, Jan Roxendal, Renato Fassbind, Jörgen Centerman, Jouko Karvinen, Andrew Eriksson, Richard Siudek and Jan Secher.

Putting customers at the core of our company

Everybody knows the power of being close to customers. It makes us understand them better, see their needs clearer. It enables us to serve them better and create more value.

But few, if any, have made this well-known fact the core organizing principle for their companies. We at ABB believe we are the first in our industry to take this step, transforming our worldwide enterprise around our main customer groups:

- Power, gas and water utilities
- Process industries, like pulp and paper, metal and mining, chemicals and pharmaceuticals
- Manufacturing and consumer industries, like car makers and food and beverage companies

- Oil, gas and petrochemicals companies
- Channel partners, like wholesalers, distributors, original equipment manufacturers and system integrators.

How does this benefit our customers? First, it makes it easier for them to find and meet the right people in ABB. If an industrial customer needs power distribution equipment, emission control technology and electrical drives for a mill, they will find it all in one team, in one ABB company.

Or maybe they want greater productivity, and a supplier with bright ideas about how to achieve it. Again, we are making it much easier for them to find that expertise, and for us to deliver it. That means growth and success for both of us.

Or maybe they're a wholesaler who wants faster access to our full spectrum of world-

class technologies. They'll find it faster, easier, more efficiently. Organized the way they want it.

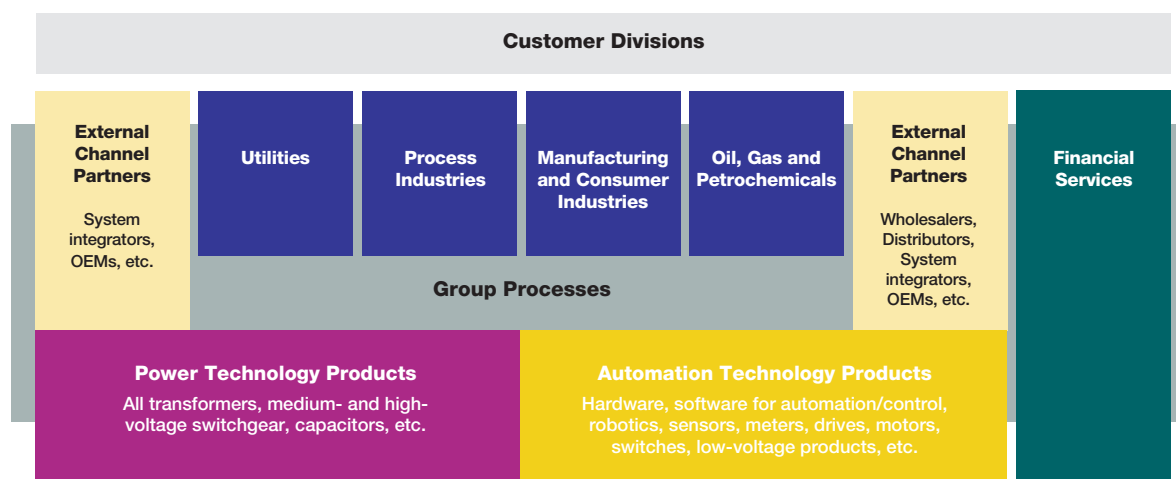
This isn't just renaming boxes on an organizational chart, or putting a new face on an old customer focus program. It builds, of course, on all of the efforts we have made over the years to be a customer-driven company. But by purposefully cutting away most of the need for coordination among product-based business units, the new organization creates an environment in which our people's energies flow naturally into meeting the needs of their customers, delivering more value faster, making them (and us) more competitive.

In addition, we have created a business area called New Ventures, to bring promising new high-technology business ideas – both from inside and outside ABB – to market even faster. This reflects our conviction that technology continues to be a critically important source

of value creation, and must be carefully nurtured.

Supporting the change is a renewed drive to establish common ways of doing business inside ABB. The goal is to get the most out of our global organization, to make our cost structure even more competitive, and to give our people the tools they need to create real value for their customers.

That is what is driving all of these changes – the need to create and deliver more value to our customers, especially in today's fast-changing business environment where customers want suppliers who are easy to do business with, who can do business with them the way that suits them best, and who can help them take advantage of the new opportunities for growth that result from rapid change and technology advances. That, in turn, will fuel growth for ABB, and fuel value creation for all of our stakeholders.



Managing for value

ABB is in the business of creating value – for our customers, shareholders, employees and the communities in which we operate.

That's easy to say, but how do we really do it? And can we measure it to make sure that we really reach the goals we set for ourselves?

Creating value for our customers

The challenge for our customers in today's fast-changing networked world is not only how to keep pace with advances in technology and the speed of information, but how to tap into those advances to become more competitive. That is where we create value for them. We combine our expert knowledge of their markets, their businesses and their business processes – what we call “domain competence” gained over decades of experience in every industry and every part of the world – with world-class products and services.

We deliver “plug and produce” Industrial IT offerings that integrate all of a customer's business processes – from supply and production planning through order processing and delivery – to dramatically improve productivity throughout the enterprise. Then we link their business processes with those of their suppliers

and customers into an integrated system of “collaborative commerce” that boosts productivity all along the value chain.

Creating value for shareholders, employees and communities

To deliver increased shareholder value, we need to constantly challenge ourselves to do the right things smarter, faster, and cheaper. In doing so, we create an exciting, competitive, fast-paced environment for our employees, where there is great opportunity and reward for innovation and success. Our employees create value for themselves, both in terms of job satisfaction and financially, by contributing to the success of the group and its shareholders.

Our success means increased prosperity for the communities we serve. By continually improving products and services we create better, cleaner and more cost-effective solutions. Through our own operations and those of our customers, we are integral members of communities all over the world, contributing directly to their financial resources and improving the quality of life – essential components of community value.

The foundation of ABB

Managing for value is the organizing principle for creating value for all our stakeholders. It is the foundation of our corporate culture, and the basis of our everyday business activities.

In practice it means, among other things, that every one of our business managers knows the cost of capital for his or her business – the



Attracting talent inside ABB means working with universities and recruiting young people into the company. Here, an idea forum between Finnish staff employees and summer trainees.



economic yardstick for measuring the potential value of a business strategy, and for allocating resources and assessing performance.

It also means that we instill a primary focus on free cash flow generation in all our employees, a policy that is fully incorporated in our enterprise planning and management. It starts with the goals for value creation set for the group as a whole and its individual businesses. Overall goals for value creation are then translated into value driver targets, which are in turn prioritized and broken down into specific actions directly linked to increasing value. These are then cascaded throughout the organization.

Our managers are challenged to maximize their free cash flow generation, while still

investing sufficient capital to position their businesses for sustainable competitive advantage in the future.

To ensure that we are on track, we are reorienting our reporting systems to emphasize dynamic, forward-looking performance measures. Constantly reviewing business performance against leading indicators of value creation will help managers prioritize their daily actions.

In ABB, everyone is a direct contributor to, and beneficiary of, value creation. Through Managing for value, we seek to channel the energy, creativity and brainpower of every employee to make ABB into a company that creates value for all its stakeholders.

The ABB Moon festival takes place each year in Taipei County, north of Taiwan – employees and their families eat, drink and celebrate together.





Sustainability plays a central and strategic role in all of ABB's activities. Our approach has three interdependent dimensions: environmental sustainability, economic performance and social performance. Together these three form the whole that is sustainable development. What drives our commitment is the belief that what is good for sustainability will also be good for business. The hallmarks of environmentally responsible companies – higher operational efficiency, advanced technology offerings, strong relationships to a broad stakeholder base – are also the hallmarks of profitable and competitive businesses.

Throughout the 1990s, ABB strove to be a business leader in environmental performance. The year 2000 has seen us reach a number of targets and implement several measures to bring our social performance into balance with our environmental achievements.

- Our long-term commitment to sustainable development is a driving force in our shift towards knowledge-based activities in automation and Industrial IT – activities that make our customers much more efficient. The divestment of our large-scale power generation businesses (power plants fuelled by fossil fuels, nuclear power and hydro-power) was completed during the year. In June, we announced at an international press conference in London a new strategic thrust to strengthen our leading position in small-scale alternative energy solutions and distributed power generation.
- ABB issued a comprehensive social policy, formally recognizing the importance of

social performance management in its corporate strategy. The policy defines ABB's commitment to such issues as human rights, employee working rights and consultation, community involvement and business ethics. It recognizes the role that ABB can and should play in the countries and communities it serves, and goes much further than simple compliance with government regulations.

- A series of case studies were carried out with the help of independent assessors to gauge ABB's strengths and weaknesses as an employer and corporate citizen in seven countries. The framework of the studies was benchmarked against the OECD's proposed Guidelines for Multinational Enterprises, the Social Accountability 8000 standard and the United Nations Global Compact. The studies were done in Brazil, China, Egypt, Poland, South Africa, Switzerland and the United Kingdom.
- ABB was one of the companies participating in the launch of the United Nations Global Compact in July. The Global Compact is supported by business associations, workers' organizations, non-governmental organizations and individual companies. Its nine principles are derived from the Universal Declaration of Human Rights, the International Labor Organization's principles on the right to work, and the Rio Principles on the environment. ABB is already working with likeminded peer companies to seek ways of applying the Global Compact at local level.



Working with the unemployed citizens of South Africa, teaching them lifelong skills in engineering, to start their own businesses or to become a part of ABB.

- ABB initiated a social policy for review and consultation with its main stakeholders. Alongside case studies to investigate the social impact of its operations in seven countries, ABB introduced three social indicators for health and safety – bringing the total number of sustainability performance indicators at ABB to 36.
- At the end of 2000, ABB had implemented ISO 14001 environmental management systems at 537 of its manufacturing and service facilities. The figure corresponds to 97 percent of the total and is about as high as we can expect to achieve, bearing in mind the effects of acquisitions and reorganization.
- ABB continued to build the EcoLab life cycle assessment tool, used to develop environmental product declarations (EPDs) for all major product lines. ABB product lines that achieve this meet the requirements of the ISO 14025 International Standard. So far, eight product declarations have been produced, of which three have gained third-party certification. Another 11 are in preparation.

ABB's Sustainability Report is available free of charge from the address on the rear cover or can be downloaded from our Web site at www.abb.com. It contains a full report of our activities in sustainable development, and includes the ABB Social Policy and extensive summaries of the case studies of ABB's social performance in seven countries.



Research and development

ABB is a knowledge-based company whose strength and success are based on the intellectual capital of its staff and the extensive bank of know-how and experience it holds in its chosen fields. We use that knowledge to answer our customers' needs and make their businesses more competitive. In so doing, we create value for our customers and our other stakeholders.

Research and development is essential to ABB's success. We have consistently invested considerable resources in R&D every year at our eight corporate research centers and R&D laboratories all over the world, covering research into basic science as well as into specific customer needs. And we are engaged in research projects with more than 70 top academic establishments in Europe, North America and Asia.

Speed and efficiency are of the essence, both in terms of generating ideas and then protecting them. ABB has an international team dedicated to ensuring that our research proceeds at full speed and that it is rapidly translated into protected products.

Our technology portfolio

ABB's research and development strategy is based on four technology platforms: Industrial IT and its applications; electrical systems technology; oil, gas and petrochemical technology; and sustainability and alternative energy technology. Of increasing importance to each of these are three fields of scientific research: nanotechnology, micro-electrical mechanical systems (MEMS), and wireless communications.

Nanotechnology investigates materials and structures at the atomic and molecular levels to engineer desirable properties – like improved heat resistance or lower electrical conductivity – to create new generations of custom-made materials.

Micro-electrical mechanical systems (MEMS) are essentially tiny machines designed and built at the micron level. ABB uses MEMS in several applications, including downhole monitoring of offshore wellheads, smart building equipment, automation, and electrical power distribution.

Wireless communications is a future channel that will link every part of a system – be it a



Software, fiber optics and wireless technologies – ABB has 15 corporate research and development programs around the world looking at these and other ways of improving our customers' businesses.

power grid, a pulp and paper plant, or an entire business enterprise. We are on the brink of a revolution in wireless technology that will for the first time bring efficient real-time connectivity, all of the time.

Innovations in 2000

These are some of the innovative technologies that ABB developed into commercial products in 2000:

Industrial IT and its applications

- a set of software modules to control industrial processes
- a robot with a cutting precision of 0.1 mm, ten times more precise than any other precision-cutting robot on the market

Electrical systems technologies

- a range of more environmentally friendly high-voltage motors that cut energy losses and save space and cost by doing away with the need for a transformer
- a Web-based control technology for electricity supply that allows small-scale power from a variety of sources – fuel cells, wind turbines, small gas turbines – to be easily connected to a larger power distribution grid

Oil, gas and petrochemical technology

- a coalescer that brings the time it takes to separate water and oil down to minutes



- Isocracking – a new form of hydrocracking developed in collaboration with Chevron to produce cleaner fuels economically from low-grade crude oils

Sustainability and alternative energy technology

- a compact microturbine developed with Volvo Aero Corporation that produces power and heat more efficiently and with lower emissions for self-contained users such as hospitals, hotels and office buildings
- the joint development with DuPont of fuel cell systems for a variety of applications; they include a very low emission solution for stationary distributed power generation

Our portfolio of research and development programs is designed to ensure that we remain at the forefront of technology advances. We endeavor to create common architectures – like Industrial IT and its many software solutions – for our customers, in turn creating and sustaining long-term value. ABB's Technology Report is available free of charge from the address on the rear cover or can be downloaded from our Web site at www.abb.com.

ABB at the cutting edge

The cutting edge is that thin, thin line that leads the way and finds the boldest route forward. It is a position that many aspire to but few attain. Getting there and staying there requires experience, expertise and the ability to keep going even when others start to lose their way.

Every sector has its cutting edge. Sometimes these fine edges fit neatly within the boundaries of long-established industries. At other times they carve out a new path that changes the course of several industries at the same time. This is the real cutting edge where innovation not only changes the way we do things, it changes the way we think.

That is the position that ABB holds and intends to retain. The coming pages illustrate how we respond to our customers' needs with cutting-edge technologies that give them, and ABB, the competitive strength to succeed.

30 Industrial IT



The next industrial revolution

34 eBusiness initiatives in 2000



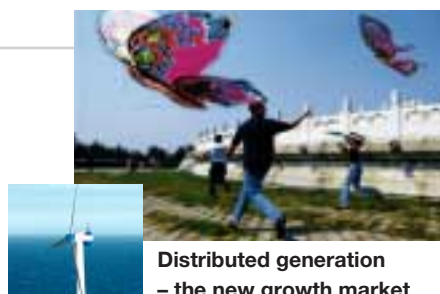
Using the Web to meet our customers one-on-one

38 Deregulating power markets



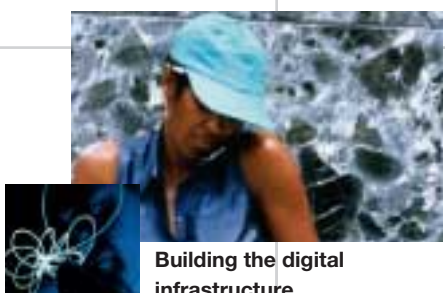
New game, new rules, new solutions

42 Alternative energy solutions



Distributed generation – the new growth market

46 Telecommunications and infrastructure



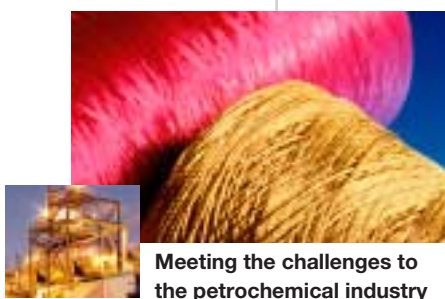
Building the digital infrastructure

50 Subsea technologies



A new era in subsea recovery

54 Petrochemicals



Meeting the challenges to the petrochemical industry

The next industrial revolution

The need for innovation and ingenuity in industry is greater than ever before. The last year has seen mergers and consolidation proliferate as companies seek new synergies and strive to obtain greater productivity and efficiency in their operations. The same drive for higher performance is also seen in the utilities sector, where providers of electricity, water and gas face new competitive pressures.

No matter what the sector – utilities, pulp and paper, pharmaceuticals, mining, consumer goods, automotive, shipping or energy recovery and refining – ABB has a solution, called Industrial IT.

Industrial IT is an ABB concept, and it will profoundly change the way businesses operate. On one level, it is a way to integrate all of a company's business processes – supply, production, control, management, sales and distribution – into a single system that can be accessed and controlled in real-time onsite or via the Internet. It provides structured information to managers who need to make decisions now, not at the end of the month.

But that is only the beginning. Industrial IT is also a way to link the company with its suppliers and customers to form a seamless web of real-time communication in which information essential to their relations with one another is exchanged freely and immediately. It creates a kind of community of purpose that allows them to achieve an entirely new level of partnership and collaboration along the whole value chain.

With the launch of our Industrial IT concept, ABB aims to provide its customers with this capability.



Plug-and-produce industrial systems

One of ABB's goals is to have all its offerings Industrial IT-enabled. The new designation is a guarantee that each product can be integrated with other Industrial IT-enabled products on a plug-and-produce basis to form an Industrial IT solution. ABB's growing portfolio of Industrial IT building blocks ensures that all the components for new enterprise systems are compatible and available from one source.

Industrial IT across the entire value chain

In many respects, Industrial IT is a vision, a concept that describes in one term ABB's business model and strategy for the future. It is also a solution – hardware, software and services – that can be integrated into a common platform for the customer's automation, management and sales systems.

Earlier in the year, ABB launched a series of software systems that cover the entire value chain and that link up to form a seamless whole integrating the manufacturer with suppliers and customers. These systems range from design and engineering to procurement, production and order fulfillment. Each system is part of the ABB Industrial IT concept and bears the "IT" mark in its name. They are open and compatible with all major standards and can be accessed and controlled via the Internet.

A fully automated papermill

in Australia

One of the world's first Industrial IT plants is currently under construction at Tumut, in New South Wales, Australia. The plant, a pulp and paper mill owned by Visy Paper of Melbourne, will contain a complete process automation system that will link up with the company's other software systems as well as those of its customers and suppliers.

ABB was awarded the US\$ 35-million contract in November 1999, with completion scheduled for the first half of 2001. ABB is responsible for the automation and control systems which, when operative, will allow the customer to monitor all aspects of production in real-time. The system will also enable Visy Paper to meet strict environmental regulations by monitoring its air and water emissions.

The order is the largest ever for ABB's SmartPlant™ system which monitors the plant and automatically recommends changes to keep it running optimally. The mill will have a production capacity of 250,000 tons of pulp and paper a year.

Industrial IT solution for wastewater treatment plant

An order worth more than US\$ 4 million was awarded to ABB in November by StoraEnso for a new wastewater treatment plant at its newsprint mill at Hyltebruk in Sweden. The mill is one of the largest in the world and is located in an environmentally sensitive area immediately adjacent to a river.

The solution integrates components from three Industrial IT product families – Operate^{IT}, Control^{IT} and Engineer^{IT} – into a single system that will provide

information on the wastewater plant in real-time to operators and employees at the mill. The Operate^{IT} human interface is a command center for the process operators, giving them a complete overview of the process plant at all times; Control^{IT} components handle process control and integrate production data with open information systems; and Engineer^{IT} provides user-friendly tools for system design and configuration.

ABB is also supplying the instrumentation and electrical system including the delivery and installation of all electrical equipment. StoraEnso has been using ABB software systems for many years.

Joint venture enhances ABB's Industrial IT leadership

ABB's Industrial IT vision includes the seamless, real-time integration of business transactions with the production processes of an enterprise. To achieve this vision, ABB formed a joint venture with SKYVA International, a leading provider of fourth generation business software for the networked economy.

The joint venture will develop, market and, through ABB channels, deliver domain-specific, Web-enabled solutions for the real-time integration of business and manufacturing processes.

In addition, the SKYVA software enables ABB to fulfill the vision of Industrial IT by providing collaborative solutions for the networked economy, seamlessly linking the business processes of suppliers, manufacturers and customers. The alliance enhances ABB's position in Industrial IT while leveraging ABB's domain competence and the innovative Web-enabled technology of SKYVA International.

Industrial IT and automation center to open in Singapore

ABB plans to open an information technology and automation center in Singapore. The center will allow ABB to adapt its solutions to the Asian market more effectively and get them to customers faster. It will also enable ABB to develop new solutions jointly with regional customers.

The center was announced in November and will be completed by late 2001. It will include an eBusiness support center for Asia, a customer call center, a central logistics center, an R&D hub and a training facility.

The Asian automation market makes up some 20 percent of the global market in areas related to ABB's businesses, and is currently growing at about double the world average.

Acquisition of strategic pharmaceutical software technologies

In October, ABB made an important acquisition of strategic pharmaceutical software technologies from Base Ten Systems of the United States.

The acquisition will enable ABB to deliver a complete IT solution that covers the entire value chain in the pharmaceuticals industry. ABB is already the leading supplier of industrial automation systems for chemical synthesis, which is the opening stage of pharmaceutical production. The acquisition of Base Ten's Manufacturing Execution Systems (MES) software and its international project services team enables ABB to extend its offering to the final stage in the value chain of pharmaceutical production.

Acquisition of French automation group broadens market coverage

ABB announced in September that it had acquired the French process automation group, Cellier Group S.A., from Groupe ICBT of France. The acquisition provides ABB with additional IT expertise to bolster its automation offering in a number of important markets and industries.

Cellier designs and installs complete production units and process and control systems for the paper, lubricants, paint, oil and chemical industries. It also delivers software that makes it possible for control systems developed by different companies to communicate with one another. Open communication between systems is a key element of ABB's Industrial IT concept of the fully integrated enterprise in which all systems are linked together, can communicate with each other, and can be easily monitored and controlled from a single workstation.

Cellier is based in Aix-les-Bains and employs about 175 people.

Swedish IT company acquired

ABB has acquired Prevas Engineering from Prevas, the Swedish IT company. The acquisition brings considerable expertise to ABB in the fields of eBusiness, telecommunications and Industrial IT. Prevas Engineering delivers complete solutions for production systems, thereby complementing ABB's overall Industrial IT strategy. The company has 60 employees and is based in Gothenburg and Västerås.

The perfect glass of bubbly – ABB technology for bottling champagne in France. The perfect paint job – robots spraying the finishing touch. The perfect control system – software for monitoring meters.



New industrial drives and high-speed motors

ABB expanded its ACS 6000 industrial drive product line in 2000 with a new set of high-speed alternating current (AC) drives for use in compressors, pumps and other equipment in the chemicals and oil and gas industries.

New high-speed motors use an innovative magnetic bearing system to replace oil bearings used in conventional gas turbine drives. They reduce costs and improve safety and environmental performance. Just as important, the magnetic bearings are easier to monitor and control. Capable of operating at speeds as high as 15,000 revolutions per minute, the new drives have an electrical efficiency of 98.5 percent.

The automated warehouse

The rapid growth in eBusiness is fuelling demand for fast and efficient logistical systems that allow Web-based companies to meet rapidly growing delivery demands. ABB's SattStore system is a full-function warehouse management and control system that covers everything from cranes, conveyors and monorail systems to order processing, quality control and labelling. The whole system can be linked with standard Enterprise Resource Planning (ERP) systems. For example, ABB has built a standard interface between SattStore and the BAAN ERP system.

The most advanced car-safety center in the world

Volvo cars have built their name on safety. Their reputation is based on designing vehicles that can protect the people in them from injury in an accident.

In the summer, Volvo opened a new car-safety facility in Gothenburg, Sweden. The facility enables Volvo to stage various types of collision between vehicles and a variety of objects, and to collect and analyze large amounts of data relating to the effects of a collision.

ABB designed and installed two control systems as well as an 800-metric-ton collision barrier that is moved around the facility on air cushions.

Giant robot-like cranes bound for Hamburg

An order worth approximately US\$ 16 million was received in the summer for 22 automatic, remote-controlled container cranes for a new container terminal in Hamburg, Germany.

The cranes are 40 meters wide and 25 meters high and can be likened to giant, unmanned robots, each of which can cover an area containing up to 1,500 containers. They are equipped with advanced information systems which enable the cranes to load and unload trucks by remote control. The new concept is based on laser technology and has previously been sold to Singapore, the largest container port in the world.



Using the Web to meet our customers one-on-one

The advent of the Internet and eBusiness is having its most obvious impact on the lives of consumers. But online commerce will be dwarfed by the Internet's impact in the business-to-business field, as large companies use the Internet not only to achieve dramatic improvements in efficiency, but also to meet their customers in a completely new way, and to create new kinds of value for them.

This goes far beyond buying and selling over the Web. For ABB, it means enabling customers to design their own products online to meet their individual needs. It means giving them the opportunity to simulate how their factory might perform using different ABB products or systems, testing them in a virtual world before deciding to buy them. It means using the Web as a tool to monitor and control substations in a power grid or subsea oil wells located far offshore. It means creating virtual communities where our customers can meet us, other users of ABB's offerings, their own customers and our suppliers to share ideas, build new relationships, and collaborate to create new value.

ABB is active in each of these areas and more. We aim to be among the leaders in our industry to make the most of the new opportunities that the Internet and eBusiness offer us to deliver more to our customers, faster and more efficiently.



17 industry portals launched

As part of its ongoing drive to adapt itself more to the needs of its customers, ABB has launched 17 different industry portals on its Web site – www.abb.com. Breaking from the traditions of our industry, the portals present the ABB offering from the outside-in, the way our customers are organized, rather than by the way we organize our products and technology.

Customers visiting a portal are able to access catalogues and obtain data and information on ABB products and services for the industry in question. Some portals enable customers to order, track and even configure products online. References, success stories, links to important industry sites, events and other services are geared to make each portal a prime source of industry-related information to customers.

The 17 portals are for the following industries: Automotive, Chemicals, Commercial and Industrial Buildings, Consumer Products, Electric Utilities, Marine, Metals and Foundry, Oil and Gas, Petrochemicals, Pharmaceuticals, Power Generation, Pulp and Paper, Refining, System Integrators, Tele and Data Communications, Water, Wholesalers and Distributors. They will be the focal point of our Web-based offerings as we move forward into the collaborative world of eBusiness.

The truly customer-oriented company uses the Internet to link every part of the value chain, from suppliers to end users and employees. ABB calls this collaborative commerce.



ABB forms supplier portals with other industry leaders

ABB has formed three supplier portals with other industry leaders in the electrical installation, oilfield and pulp and paper markets.

One is an electrical installation portal for the European construction industry announced in October by ABB and its partners Nexans (previously Alcatel Cables), Legrand, Philips Lighting, Osram, Pirelli and Schneider Electric (Legrand and Schneider have since announced they plan to merge). The portal is designed to give a better understanding of the product portfolios of the host companies, and enable customers to find and select the most appropriate products quickly. It is expected to be available to subscribers in 2001 and will be accessible in several languages.

The oilfield portal, announced in August, is a joint venture of twelve of the leading suppliers in oilfield services. The company, OFS Portal, will integrate the product offerings of the twelve suppliers and make it easier for subscribers to choose and conduct product procurement online. The twelve participating companies are ABB, Baker Hughes, BJ Services, Cooper Cameron, ENSCO, FMC, Halliburton, National Oilwell, Schlumberger, Smith International, Transocean Sedco Forex and Weatherford. The portal is expected to open in 2001.

A third portal, the result of an alliance between paperloop.com and ABB, was announced in June with

the first stage launched in November. The portal is part of a partnership between paperloop.com and the joint venture formed by ABB and SKYVA International in October. ABB is one of the largest suppliers of automation and electrical solutions to the pulp and paper industry and the first major supplier to that industry to take a stake in a third-party online marketplace. paperloop.com is the world's leading provider of information to the pulp and paper industry. The development with PaperLoop is aimed at creating a new category of Web portal that goes beyond conventional transaction-only or marketing-only sites to put technical information databases online, offer consulting services via the Web, and provide industrial software that customers can download or use directly online.

The first phase of the project was to create e-storefronts for companies who want to promote and sell their products and services to the paper, printing and converting industries. Released in November, key features include customizable Web pages, online product catalogues, an automated request for quotes (RFQ) service, and an order processing and order status function.

ABB puts US\$ 260 million into eBusiness investment company

ABB is one of several companies to have contributed to the €1 billion (approximately US\$ 927 million) capital base of b-business partners, a new European-based in-

vestment company in business-to-business eCommerce. ABB and Investor, the largest holding company in Sweden, have each committed to invest €300 million (US\$ 278 million at December 31, 2000) in the venture. The other partners in the investment are AstraZeneca, Atlas Copco, Electrolux, Saab Aerospace, Sandvik, SEB, SKF, StoraEnso and WM-Data.

The aim of b-business partners is to invest in European e-B2B companies and startups that have applications useful to the companies that have invested in it. b-business partners will also seek to foster new IT market leaders by cultivating the companies in its portfolio and by providing support, sharing technologies and business models, and by acting as a hands-on advisor.

“3W goes www” – online services for buildings

One of the first online services for building management was launched by ABB in November. The service, called 3W, will improve the economics of building management for owners and improve the standard of comfort and convenience for commercial, industrial and residential tenants. It will be developed into a full-scale portal for the real estate industry in 2001.

3W.com enables buildings to be planned and managed more efficiently by making fixed and variable costs fully transparent. For instance, energy consumption can be monitored and a bank of comprehensive data on a building's energy consumption built up. Tenant consumption patterns can then be influenced to reduce consumption and costs.

For tenants and users, 3W.com provides a number of services that enhance comfort and convenience. Room and workstation reservations can be processed online and links to other external services such as gyms, restaurants, couriers and taxis accessed.

Customers configure their products online

Online configuration of substations and low-voltage motors and drives are two of the product areas that can now be configured online. Customers can configure the new compact, pre-assembled PASS substation online and obtain drawings and 3D-images of the configuration within a few minutes.

The site for low-voltage motors and drives provides customers with their personalized Web page via which they can access product catalogues, configure products and build up their own product catalogues, track orders and obtain a wealth of other information. The service can be accessed via Wap phones and PDAs.

Online repair services in the United States

A new eBusiness portal offering customers a broad range of repair services online opened in the United States in December. The service enables customers to order and track factory-certified repairs 24 hours a day, seven days a week, for over 14,000 products. In June, ABB opened its first factory-certified center of excellence for industrial repair services in Columbus, Ohio. A further two centers are to be opened in Asia and Europe next year.



ABB's online portfolio allows customers to configure substations, low-voltage motors and drives and transformers, among other things... solutions that are a click or two away.

New game, new rules, new solutions

Power utilities markets around the world are in the midst of a revolution – deregulation and privatization are completely changing the rules of the game, and determining who can play. Deregulation gives consumers the freedom to choose between suppliers, and suppliers the freedom to grow through acquisitions or mergers, to create new markets for trading electricity, and to focus on their core businesses while spinning off the rest to others with greater expertise.

ABB has an unrivalled capability in the global utilities industry to provide its customers with a full range of competitive solutions, all the way from power transmission and distribution products, like transformers, switchgear and substations, to integrated grid management and power trading systems, including financing, service and maintenance. These solutions include patented technology that enables our customers to manage their operations, from bidding on the trading markets to retrieving and analyzing load data from the consumer's premises.

Revolutionary technology and advanced solutions serve little purpose if they do not make our customers more competitive and satisfy the consumer's demands for reliable, affordable electricity. This is the gauge by which ABB should always be measured.



Record sales for new transmission technology

When ABB's HVDC Light™ technology was introduced in 1997, it was quickly recognized as an innovation that would revolutionize the transmission of electric power. That prediction has since been realized. In the three years since its launch, orders have doubled annually and have now reached US\$ 200 million a year.

HVDC (High Voltage Direct Current) Light is a new form of DC transmission technology that enables power networks in different regions or countries to interconnect and participate in power trading. The technology combines high-power semiconductors with a unique design of lightweight cables and advanced software.

This year alone ABB won a number of major cross-border orders for HVDC Light. They include an interconnection between Connecticut and Long Island, and one between the states of Victoria and South Australia.

In addition, several other systems based on HVDC Light technology were commissioned during the year. They include an underground transmission system in Australia, a power stabilization plant in Germany, an interconnector between Texas and Mexico, and a wind power transmission project in Denmark.

ABB consortium to run Australian power transmission network

In September, ABB and two consortium partners, Powerlink (Queensland Electricity and Transmission



ABB's equipment and services allowed Commonwealth Edison, the Chicago-based utility, to guarantee reduced power interruptions and faster service restoration.

Company) and Macquarie Bank Limited, were chosen by the South Australian government to operate and maintain its power transmission network on a 200-year lease as part of the privatization of its power infrastructure.

This is the first time that ABB has taken an ownership role in the running of a power transmission network. The agreement includes the operation and maintenance of some 5,500 kilometers of transmission lines and 67 substations. ABB expects a good return on its investment in the operating consortium and hopes to provide equipment and services to maintain and upgrade the grid.

ABB Financial Services played an important role in providing innovative financial solutions for the project.

Acquisition of service provider to retail energy market

ABB announced in August the acquisition of Energy Interactive Inc., a leading provider of energy information software and services to the US energy market.

Deregulation of the North American energy market has made it imperative for providers to give their customers a more reliable service at lower cost. Energy information systems enable them to do this.

Energy Interactive's customers range from small energy service providers and municipal utilities to the largest utility companies, power exchanges and independent system operators. Its product and service offering includes tools for advanced billing, load data

validation and estimation, energy usage and pricing analysis, and a variety of value-added online energy information services.

The new company is known as ABB Energy Interactive and is based in Oakland, California.

Helping ComEd achieve its "No.1 priority"

Reliability is the number-one priority for Commonwealth Edison (ComEd), the Chicago-based utility company. When the Illinois retail power market was deregulated in October 1999, ComEd awarded ABB a US\$ 100-million contract to upgrade its Chicago power grid. The objective was to enable ComEd to meet the peak load in the summer and ensure that its 3.5 million customers would have a reliable supply of electricity.

By delivering all the equipment and services on time and commissioning as contracted, ABB made it possible for ComEd to issue an "Electric Reliability Pledge" in May in preparation for the summer peak. In the pledge, ComEd guaranteed to compensate its customers if it failed to live up to its commitment of reducing interruptions and of providing faster service restoration if and when interruptions did occur.

Fuelling growth in South America

The Latin American market is one of the most deregulated in the world. Industries such as energy, telecommunications, transportation and oil and gas are all in the midst of an extensive process of privatization and liberalization.

ABB is a major presence in many of the industries undergoing deregulation, and has made a number of acquisitions to consolidate its position and presence throughout the region. These include a major industrial service provider in Brazil and an oil and gas equipment supplier in Argentina. ABB's latest strategic acquisition in Latin America is MEGA Transformadores S.A. of Brazil.

MEGA supplies a wide range of distribution transformers and has a strong position in many Latin American markets. ABB immediately strengthened MEGA's position by equipping it with a new Internet-based quotation and order handling system. The new technology will cut production cycle times from several months to just over two weeks, and is seen as a major means of fuelling growth in the Latin American market.

Since the acquisition, ABB has expanded the business markedly, capturing a significant market share and achieving record volumes. The number of staff has increased from 180 to 260. ABB has over 10,000 employees in Latin America.

Opportunities in the U.K. power market

Deregulation has made it possible for previously state-run companies to redefine and focus on their core activities. One of the businesses they often choose to outsource or divest is service and maintenance. As the world leader in power transmission and distribution and in the supply of service and maintenance to this industry, ABB is in a unique position to provide expert service to power utilities.

One of the world's most dynamic deregulated power markets is the U.K., where ABB has been able to tap a number of opportunities. In February 2000, for example, ABB acquired East Midlands Electricity Contracting (EMEC), the service company of East Midlands Electricity.

ABB will broaden EMEC's service activities with distribution and control equipment to give it a comprehensive offering of products and services for the U.K. power market. EMEC employs some 500 engineering staff and has annual revenues of over US\$ 60 million.

Making meters think –

ABB forms alliance with Global Data

ABB has been supplying meters for almost 120 years. In that time we have sold more than 350 million meters in some 150 countries. We have succeeded for so long for the simple reason that we do not allow metering technology to stand still. Meters may not have changed much in appearance, but they are now endowed with intelligence and advanced communication capabilities.

Today, ABB's metering solutions draw on IT and wireless communications. They enable utility companies to retrieve, analyze and convert data into information and knowledge that they can then use to grow their business. Metering functions include billing, network and load management, energy trading and interchange, and advanced metering of industrial and commercial businesses and extensive residential networks. Retrieval can be performed either on-site or by remote access using a variety of communication technologies.

To give further breadth to its data communications capability, ABB entered into an alliance with Global Data of Toronto, Canada, in September. Global Data is a leading supplier of products and services that enable utilities to access, collect and transmit data securely over wireless and fixed line networks. The alliance allows ABB to promote a full, two-way communication solution with excellent wireless coverage throughout North America and other parts of the world.

Opening up the Ontario power market

As part of its preparations for the deregulation of the Ontario power market in November, Ontario Power

Generation Inc. (OPGI) has bought ABB's gimsplus™ Bidding and Settlement System. The system enables OPGI to successfully manage its bidding and settlement processes in the Ontario and New York trading markets.

OPGI is the largest power generation company in Canada and the fifth largest in North America. ABB was able to develop a trade management and settlement system for a company of OPGI's size and needs because of its prior experience of providing similar solutions for the New York and New England Independent Systems Operators.

Two orders for indoor substations in London

ABB has been awarded two orders for high-voltage indoor substations for the City and northwestern districts of London by the National Grid (NGC). The contracts are worth US\$ 80 million and US\$ 30 million respectively, the former being the largest substation order placed by the NGC to date.

The orders, both of which are for ABB's latest compact substation technology, will enable NGC to achieve its environmental and economic goals in the U.K.'s highly competitive and deregulated power market. The contracts are among several that ABB has won in recent years to upgrade urban power grids.

In brief...

Abu Dhabi – ABB won two contracts from the Abu Dhabi Water & Electricity Authority to supply three substations. The orders are valued at US\$ 50 million.

Brazil – Rio Light has given ABB an order worth US\$ 18 million for two substations to be located in the most densely populated parts of Rio de Janeiro. The order was largely financed by the sale of prime land that the compact substations made surplus to Rio Light's requirements, and by the future savings to be made in maintenance costs.

Iraq – The United Nations has awarded a contract to ABB to expand eight substations. The project is part of the UN Development Program for Northern Iraq.

Mexico – ABB was awarded a US\$ 82-million contract to design and build a high-voltage power transmission system including advanced fiber optic links and integrated control systems. The fiber optic telecommunications systems will enhance network control. The order is part of a US\$ 247-million project by Mexico's Comision Federal de Electricidad, the state-owned utility, to speed up development of the country's electricity infrastructure.



ABB's technology makes cities tick. The London Underground (left) where ABB systems deliver electricity carrying more than 700 million passengers each year. Outside Toronto (right), ABB researches and develops future automation and power technologies.

Distributed generation – the new growth market

Power is traditionally produced on a large, centralized scale. It is first generated in a vast central power station, usually by burning non-renewable resources, and then distributed via the national grid to homes, factories and buildings all over the country.

The opposite of this colossus-like approach is small-scale distributed generation. It moves the generation of energy from the central power station to the point of use – the hospital, hotel, office building or apartment block – or close by to a small, local power plant. It is cleaner, more efficient, and more affordable. And it meets the needs of emerging markets for economical sources of energy, and the demand in industrial economies for sustainable power solutions to complement existing grids.

ABB is the only company to offer a comprehensive choice of solutions for this rapidly expanding market. Building on our long tradition in power generation, distribution and transmission, we have developed and launched a full range of advanced, alternative technologies.

They include a new and highly competitive wind power technology called Windformer™, HVDC Light™ high-voltage electricity transmission, combined heat and power (CHP) plants, microturbines, fuel cells and photovoltaic systems, all of which can be linked together to form a microgrid of remote-controllable virtual utilities.

Windformer™ – Making wind power profitable

Wind is the perfect definition of a renewable resource: It is free and one of the few things on the planet that is available in endless quantities. Although it has excellent green credentials, it also has several drawbacks, of which inefficiency and expense have, until recently, been the most significant.

With Windformer, ABB has succeeded in making wind power an economical alternative to conventional forms of energy generation. Compared to other wind power systems, it produces 20 percent more power and cuts lifetime maintenance costs by half. And it is designed to produce electricity at lower cost than many fossil-fuel electricity sources.

Windformer is protected by some 200 patent applications. In combination with HVDC Light™, ABB's advanced power transmission technology, Windformer enables wind farms to be located in offshore installations where the wind is strongest and where the turbines are out of sight and hearing. HVDC Light also makes it possible to connect the farms economically to national grids, thus reducing the need to build additional fossil-fuelled power plants.

The first Windformer pilot plant was sold earlier in the year to Vattenfall, the Nordic energy group, and will go into operation in September 2001.



Global Wind Power Center

Wind power is the world's fastest growing source of energy. The average annual growth rate over the past five years is 40 percent, a figure that is rising every year. Europe is leading the way with 70 percent of all installations, although it is evident that the United States is closing in, and that Asia and Africa will soon be following suit.

An integral part of ABB's strategy for alternative energy solutions is to secure an increasing share of the rapidly growing wind power market.

To achieve this and other targets, ABB has established a Global Wind Power Center to coordinate research and development, project and account management, funding, strategic partnerships and other functions including the marketing of the new Windformer wind power solution. The center is located in Mannheim, Germany.

ABB underwrites major wind power project

ABB Energy Capital has arranged and underwritten a US\$ 25-million wind power project being developed by Northern Alternative Energy in Minnesota in the United States. The project's 46 wind turbines will generate 30 megawatts of power, enough to meet the needs of 14,000 homes.

Northern Alternative Energy is among an elite group of developers pioneering wind as a competitive source of energy. "The project funding is a reflection of ABB Energy Capital's unique ability to understand the wind power industry and create customized financial solutions. Their reputation and commitment to the industry solidified our decision to choose ABB Energy Capital as our financial partner," said Greg Jaunich, President of Northern Alternative Energy. ABB Energy Capital specializes in arranging financing for energy efficiency and environmental projects.

US\$ 100-million CHP contract in UK

In June, ABB was awarded a US\$ 100-million order from Scottish and Southern Energy, a major utility company in the U.K. The order was for ten combined heat and power (CHP) plants.

ABB will build the natural-gas-fired CHP plants – small-scale units that produce both electricity and heat – over the next 18 months throughout the U.K., and operate and maintain them for 17 years. The plants will be linked and remotely controlled and monitored using advanced IT systems and Internet-based communication to optimize load management across the national grid. ABB Energy Leasing arranged part of the financing for the contract.



ABB donated an entire laboratory, involving more than US\$ 800,000 in equipment and years of research into global warming and greenhouse gases, to the University of Tianjin, 150 kilometers south of Beijing.

Several of the plants will be used in greenhouse applications where they will provide electricity for lighting, hot water for heating and CO₂ to stimulate plant growth. Injecting the CO₂ into the greenhouse rather than releasing it into the environment, reduces emissions considerably. ABB has built and operated similar greenhouse applications in the Netherlands.

Microturbines – a hot concept in power technology

One of the hottest concepts in distributed generation is the microturbine, a compact power plant that can be housed in a small room and which is proving to be a cost-effective and highly efficient source of energy for hospitals, hotels, apartment blocks, greenhouses, office buildings and factories.

In 1998, ABB and Volvo Aero Corporation formed Turbec AB, a joint venture to develop a new generation of microturbines. The partnership draws on Volvo's experience of developing small gas turbines for air-planes, trucks and buses, and ABB's experience in high-frequency power generation and conversion.

Shipment of the first Turbec microturbines began in the summer of 2000. By the end of the year, deliveries had been made to customers in the Netherlands, United Kingdom, Germany, Switzerland, Italy, Spain, the United States and Japan. A substantial increase in volumes is forecast for next year.

ABB forms partnership with DuPont

ABB has formed a partnership with DuPont for the joint development of fuel cell systems. Fuel cells function similarly to batteries, producing electricity from a controlled chemical reaction. Depending on the fuels used, the fuel cell can produce enough power for a home while keeping emissions quite low. This is ideal for use in remote areas or locations that are not connected to a power grid.

The ABB-DuPont fuel cell systems will be targeted primarily at telecom transceiver stations and non-grid installations in remote places. As distributed power

systems grow in popularity, ABB sees significant potential for using fuel cells in many other applications, linking them together to form micro-grids that could even deliver surplus power into larger power grids.

Entering the age of the virtual utility


ABB and Progress Energy are signing an agreement for the first pilot implementation of a virtual utility. Progress Energy, through its Carolina Power & Light and Florida Progress utility businesses, is a major supplier of power in the United States with more than 2.8 million customers in North and South Carolina and Florida.

ABB's concept of the virtual utility can connect any combination of energy sources – microturbines, CHP plants, wind power turbines, fuel cells, etc. – to a central control center using Internet-based communication, and from there to the national grid. It requires combined expertise in network management plus small-scale power generation.

The pilot project in the U.S. will enable Progress Energy to monitor all of its distributed generation from a single location, including some 10 megawatts of generation spread across a number of customer locations. These are customers who require a guaranteed and uninterrupted supply of power – such as data processing centers and printing facilities. ABB's virtual utility solution will enable Progress Energy to manage the distributed generation resources more efficiently than was previously possible.

ABB expects to announce further agreements for pilot implementations in the early part of 2001.





ABB's Windformer is designed to operate without either a gearbox or electromagnetic contacts, cutting maintenance costs in half.

Building the digital infrastructure

ABB has been helping the nations of the world build their infrastructures for over 100 years. In that time, we have helped erect national power grids, built and stocked railways, and delivered oil and gas networks. More recently, we have designed and built major airports. And we have provided the financing to take these often complex projects from the drawing board to reality.

More importantly, ABB has delivered not only the skeletons of these networks, but also the nervous systems – the sensors, control systems, communications links, even the business systems needed to operate them efficiently and profitably.

ABB is building on this century-long tradition to deliver the digital infrastructure of today's information technology-based economy. In the relatively short time in which IT has been driving technological development, ABB has built up a strong position in the design, delivery, servicing and financing of digital networks, from wireless telecommunications systems and Internet data centers to intelligent, self-running buildings. We bring our customers a century of expertise, gathered from around the world, from every industry sector – helping them deliver the infrastructure for the next generation.



Major contract secured in Australia

ABB won an order worth US\$ 150 million to design, maintain and upgrade the telecommunications network in five of Australia's seven states and territories. The order was placed by Telstra, Australia's largest data and telecommunications company.

In winning the contract, ABB had to meet the challenge of providing a consistent and exceptional level of service across a vast, 5,000-kilometer territory combining urban districts with remote and rural areas. ABB will do this by employing its advanced call management software to identify, track and expedite calls.

Under the terms of the contract, ABB will be responsible for design and installations covering broadband field services, cross connect units, jointing, CAN (Copper Access Network) electronics, new estates work, pre-provisioning, network maintenance and optical fiber work. Contract activity began in October 2000 and is to run for three years.

ABB to partner Nokia and Ericsson in 3G contracts worldwide

ABB has signed separate agreements with Nokia and Ericsson to partner them in their bids to obtain contracts for the new 3G (3rd generation or UMTS) mobile communications networks currently under development in most European markets and in many parts of Asia and North America.

The agreement with Nokia gives ABB responsibility for handling network planning, site acquisition, con-

In brief...

Telecommunications orders and developments in Europe

Austria – Orders worth US\$ 38 million for the installation, service and maintenance of 750 GSM base stations, 2,150 antenna lines and 1,610 microwave links.
Customer: Connect and Nokia.

Czech Republic – Full package on behalf of Ericsson, from site acquisition and civil works to telecommunications installation and facility management for the GSM provider, Cesky Mobil. Order valued at US\$ 2.8 million.
Customer: Ericsson and the Czech Republic.

Germany – POP "Cybercenter" in Munich. Order valued at US\$ 16 million for the design and supply of a complete power supply infrastructure. Customer: KPN-Qwest.

Germany – Planning, delivery and erection of 20 antenna towers for mobile communications, including the complete infrastructure from foundations to power supply, feeder and antenna installation, and fencing. Value: US\$ 2 million.
Customer: E-Plus.

Sweden – Order valued at US\$ 10 million for the delivery and installation of equipment for a POP station in Stockholm. The order includes power supply, security systems, ventilation, utilities and cooling equipment. The order was received in September and is to be completed by February 2001.

Sweden – ABB has strengthened its position in the telecommunications market by acquiring the consultancy, GMKI Elkonsult, which has seven offices and 75 employees in Sweden. The company focuses on the design and installation of radio base stations for mobile telephony networks.

Sweden – In April, ABB launched a new company – ABB Broadband Solutions – to develop and supply IP-based services and infrastructure for broadband companies. In December, the company won its first major contract for its LivingMAN™ concept from Öresundskraft of Helsingborg. The system will connect Öresundskraft's 110,000 commercial and private customers into a single communications system, enabling users to communicate and conduct business via the Internet. ABB's open platform approach enables content providers and operators to compete on equal terms and gives end customers the ability to choose between operators.

ABB's interests in Washington, DC and Brussels, Belgium are maintained by an ever-ready team of politically savvy professionals.

struction works, and installation and commissioning for 3G contracts won by Nokia in Europe, The Middle East and Africa. Ericsson on the other hand, has made ABB a Global Authorized Partner in the mobile communications field and given ABB similar network-building responsibilities worldwide.

Financing the telecom surge in South America

A wave of deregulation and privatization is sweeping through the telecommunications sector in South America. International service providers are investing heavily in the region, and this has acted as a catalyst for the rapid expansion of telecommunications services for businesses and private subscribers. Penetration in Brazil alone rose from 6.4 million wireless subscribers in 1998 to 15 million in 1999.

ABB is in a unique position to provide financing solutions for the region's telecommunications infrastructure. It has vast experience of financing infrastructure in emerging markets and has a local presence in most countries in the region. One example of many is ABB's financing of BCP Telecomunicações, an emerging wireless service provider for Sao Paulo, the third largest city in the world with a population of 18 million.

ABB acquires 35-percent stake in international finance institution

ABB has acquired a 35-percent stake in the Swedish Export Credit Corporation (SEK), headquartered in Stockholm.



SEK specializes in long-term export finance and related financing solutions for the telecommunications, automotive, transportation, energy, and process industries. It employs some 90 people and has total assets of approximately US\$ 20 billion.

Smart infrastructure for Microsoft's European HQ

Behind the many façades of the new European headquarters of U.S. software giant Microsoft lie the inner workings of one of the most sophisticated building projects ever designed. Eleven low-rise buildings with a total floor area of more than 27,000 square meters provide a state-of-the-art environment for a company producing and using state-of-the-art technology.

Microsoft wanted a building with "unlimited flexibility," where employees could quickly and easily modify their working environments – for example, regulating the temperature, lighting and blinds in their own offices – via the Windows software in their PCs. ABB was responsible for installing the total technical solution including all data and communications networks, climate control and building management systems, in time for the hand-over in October. ABB also provided innovative solutions for the customer's balance sheet management.

Broadband communications network for the Philippines

ABB has been awarded a contract worth US\$ 25 million to supply a communications network for the new Philippine power transmission system. ABB is said to have won the order because of its strong local presence and track record of integrating complex multiple communications technologies into a single, cohesive entity.

The communications network will control and supervise a new nationwide power transmission system currently being built as part of a World Bank project. It will also provide the network operator, the Philippine National Power Corporation, with a power-

ful data transport system and a platform for providing services other than power system control. When the Philippine telecommunications sector is eventually deregulated, the system will be capable of providing Internet and mobile telephony services.

The project is one of the biggest ever undertaken by a power utility in Asia.

Power system in Nigeria includes next-generation telecommunications

ABB has won a US\$ 40-million order to design and build a new high-voltage power transmission corridor, including the installation of fiber optics, to Nigeria's new federal capital of Abuja.

The order was placed by Nigeria's Ministry of Power and Steel and the Nigerian Electricity Authority (NEPA) as part of an initiative to upgrade the country's electrical infrastructure to support economic development. The installation of optical fiber throughout the entire line will allow Abuja and the rest of the country to build up their telecommunications and data communications capability – a key enabler for future Internet technologies and communications.

The project is expected to be completed within two years.

Helping North Korea develop its infrastructure

ABB has signed a wide-ranging, long-term cooperation agreement with the Democratic People's Republic of Korea aimed at improving the performance of the country's electricity transmission network and base industries.

The agreement covers technical cooperation and investment opportunities that will modernize the national grid and upgrade electrical equipment and control systems in power plants and industrial facilities. It also covers cooperation in the field of wind power and solar energy systems as well as the opening of a representative office in Pyongyang in 2001.

ABB at the airport:

From runway lighting to Universal Flight Information Systems



ABB is one of the world's leading suppliers of airport technologies.

We have built entire airports and supplied others with key systems in the fields of information technology, telecommunications, airfield lighting, baggage routing and cargo handling. We have launched new technologies in the fields of flight information systems, including one that will enable airport controllers and flight logistics planners to operate an entire terminal by remote control. The following are some of our achievements in 2000.

Greece – The new Athens International Airport was formally handed over in October, on schedule and in time for the official opening in March, 2001. The new airport is the biggest building project ever undertaken in Greece. ABB was responsible for overall planning and the installation of all high-tech facilities including airfield lighting, baggage handling systems and a telecommunications system. ABB and its consortium partners, Hochtief and Flughafen Frankfurt, will operate the airport on a concession until 2026. The consortium owns 45 percent of the airport, with the Greek government retaining majority ownership.

Kenya – The airfield lighting and electronics system at Mombasa Moi International Airport is being replaced by ABB at a cost of US\$ 1.5 million. The ABB technology will enable the runway lighting to be automatically controlled to meet the needs of individual pilots.

South Africa – ABB has signed an agreement with the South African provincial government of Mpumalanga to build, own and operate an international airport near Nelspruit. The airport will cost over US\$ 32 million. Construction began in July and is scheduled for completion at the beginning of 2002. The deal is being financed by ABB.

Sweden – ABB has won an order worth US\$ 7 million for the delivery and installation of control and monitoring equipment for the runway lighting at Stockholm Arlanda's third runway. The system is to link up with the systems in place at the other two runways. ABB is contracted to install new control systems at some ten airports in Sweden over a five-year period.

Switzerland – ABB has formed a joint company with Avireal AG of Switzerland to build, maintain and manage airports and airport facilities. The 50-50 joint venture will be called Airrange and is to be based in Zurich.

Taiwan – Evergreen Air Cargo Services has awarded ABB the contract to build the cargo handling systems at the new terminal at Chiang Kai-Shek Airport, Taipei. Work began in November with completion scheduled for next year. The contract is worth approximately US\$ 20 million.

United States – To consolidate its position in the international airport industry, ABB announced in November that it has entered the United States market for airport technologies. ABB's comprehensive package of automation systems, routing and information systems for baggage and cargo, airport lighting and modular IT management systems will form the core of its total solution offering.

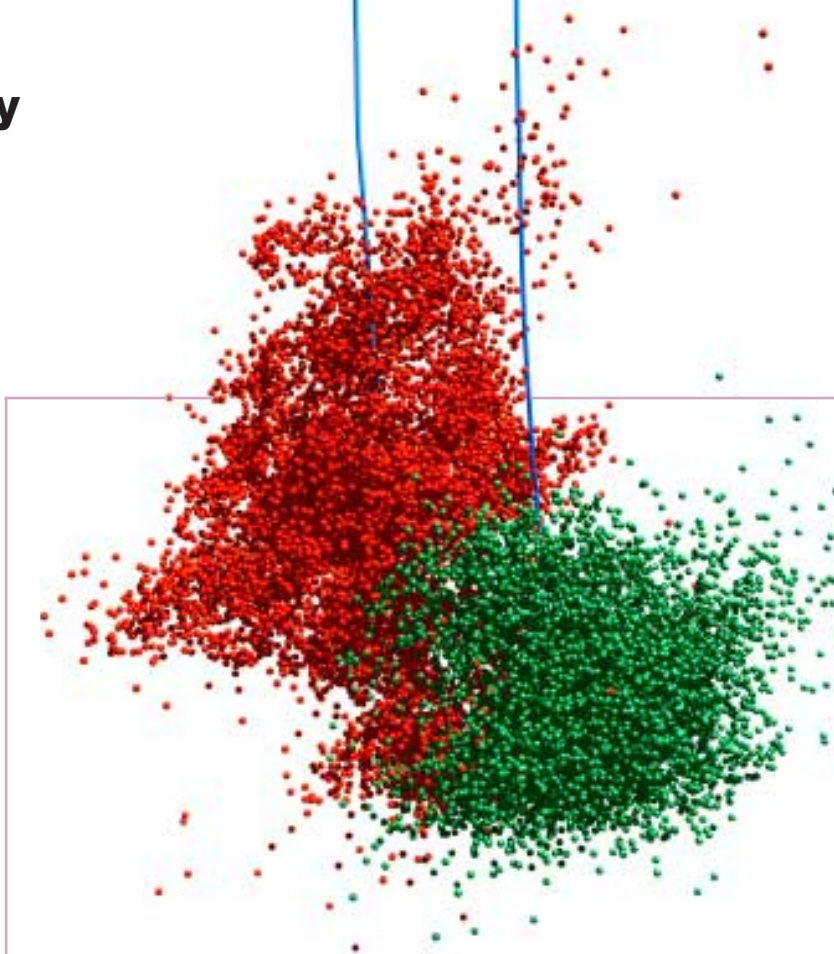
A new era in subsea recovery

Offshore oil and gas recovery is on the threshold of a new era, propelled by new technologies that are making recovery from previously uneconomic fields profitable. With few 'easy' fields left to explore, offshore production is compelled to turn increasingly to complex reservoirs, ultra-deep waters and small, marginal fields.

ABB has developed new technologies that enable oil and gas reserves in deeper, smaller or more complex reserves to be recovered efficiently, cost effectively and in a way that is safer and friendly to the environment.

The cost of recovering oil and gas from marginal and ultra-deep fields has until recently hindered their development. By doing away with the need for platforms and floaters, ABB's subsea technologies will make the cost of production in offshore fields more competitive and closer to the costs of onshore production.

ABB technologies are the building blocks of a system that will eventually provide direct, remote-controlled recovery all the way from a subsea field to onshore processing facilities.



Subsea separation system boosts oil recovery by 50 percent

The world's first subsea separation system is now installed in Norsk Hydro's Troll oilfield in the North Sea, about 60 kilometers off the coast of Norway.

SUBSIS™ (Subsea Separation and Injection System) is a major step towards ABB achieving its vision of bypassing costly platforms and floaters by running offshore oil and gas production direct from the seabed to onshore facilities. Unlike conventional technology which separates water from the oil stream on a surface platform or floater and discharges the water into the sea, SUBSIS separates it on the seabed and pumps the cleaned water back into the reservoir.

SUBSIS achieves the double benefit of cutting operating costs and improving oil recovery. It requires less energy, maintenance and manpower than conventional surface systems, and in some fields it can raise the oil recovery rate by as much as 50 percent. It also reduces the use of hazardous chemicals previously required in some equipment to support top-side separation.

ABB expects the global market for subsea oil and gas processing to grow to US\$ 500–600 million a year within the next few years.



ABB technologies are the building blocks of a system that will provide direct, remote-controlled recovery from a subsea field to onshore processing facilities.

Downhole monitoring via telephone

The first pilot installation of DOGS™, ABB's Downhole Optical Gauge System, took place in March in a platform well operated by Shell Petroleum off the coast of Brunei.

DOGS is a fiber optical sensor located downhole in the well. The system uses fiber optic technology to measure the pressure and temperature of the fluids in the hot downhole environment. In the Brunei installation, DOGS is operating at a depth of 2,000 meters and at temperatures as high as 100 °C.

One of the key advantages of the design is that it performs in higher temperatures than competing systems that use electronics. The problem with electronic technology is that it is less robust and does not survive in the demanding conditions downhole.

DOGS has the further benefit of being Internet-enabled. The wavelengths transmitted via the fiber optic cable are converted into data that can be interpreted by an operator or relayed to the Shell offices in the Netherlands via a radio and telephone link.

DOGS is an important element in ABB's comprehensive and intelligent ADMARC™ system, and has been actively supported by Shell International Exploration and Production B.V.

ABB and Schlumberger to make subsea recovery more economical

ABB and Schlumberger signed a Memorandum of Understanding (MOU) in October to form a joint venture to make subsea oil and gas development more economical. The global joint venture will develop new technology for deepwater and offshore assets based on a risk-reward relationship with customers.

The company will develop new technologies and services needed in hydrocarbon production from the oil reservoir to the delivery point – whether on a platform, a ship, or directly to shore.

The new entity will build on the wide-ranging technology and services of the two companies, and will use its unique position to identify and develop the technology needed for the seamless provision of reservoir development and management services.

Schlumberger Limited is a leading supplier of technical services for a number of industries including oil and gas, utilities, semiconductors, smart cards and Internet solutions.

SEPDIS™ goes to market

ABB has launched its revolutionary new subsea electrical power distribution system, SEPDIS™. Developed

in conjunction with Shell, Statoil, Norsk Hydro, Mobil and Framo Engineering, it is designed by the oil industry for the oil industry.

SEPDIS is, in effect, an underwater electricity grid. It solves the long-standing problem of distributing high-voltage electrical power to systems and users from a single hub located on the seabed. This is a much more efficient and cost-effective method than the alternative of each user operating their own platform-based system with a network of cables running down to the seabed. The lower costs that result from employing SEPDIS contribute to making deepwater and satellite fields cost-efficient alternatives for the first time.

ABB expects the number of subsea wells in operation to grow significantly within the next few years, and with it, demand for this pioneering power technology.

US\$ 50-million order for Angola subsea oil field

ABB was awarded a US\$ 50-million order in November to deliver a complete subsea oil production system for

Angola's first deepsea offshore oil field development. The project helps cement ABB's position as a leading supplier to the promising African offshore oil and gas industry. The order was placed by Cabinda Gulf Oil Company Ltd. (CABGOC), a wholly owned subsidiary of an international consortium.

Under the terms of the order, an ABB-led team will design, manufacture and test a complete subsea oil production system for seven oil wells and four water injection wells in the Kuito oil field. The installation is scheduled for completion in the summer of 2001.

The project is part of the third phase of the Kuito field development, located in 400 meters (ca. 1,300 feet) of water off the coast of Angola. Kuito is the country's first deepsea oil field development. It began producing oil in December, 1999.

Acquisition of Norwegian oil and gas service company

ABB has acquired the oil and gas activities and installation business of Umoe ASA, a leading Norwegian service company in the oil and gas industry.

In brief...

Deepwater R&D award goes to ABB

January – ABB was one of only two companies to be presented with an award for their contribution to the current deepwater exploration R&D project, DeepStar. The other recipient was BP Amoco. DeepStar is a leading joint industry project which addresses the technology needs for deepwater oil and gas developments in the Gulf of Mexico. It is supported by the world's leading oil companies.

Two Ringhorne contracts in North Sea to ABB

February – ABB is supplying three subsea production systems

and two subsea water injection systems to Esso's Ringhorne Development project in the Norwegian Sea. The same solution has been installed at Esso's Balder field in the North Sea and at Blackback, Australia. The systems were delivered by ABB in December.

ABB technology breaks record in oil extraction depths

September – Petrobras, the Brazilian state oil company, has set a new world record for oil extraction using ABB production trees and wellheads. The new record of 2,444 meters breaks

The acquisition builds on our existing oil and gas service activities in the important Norwegian market, while opening new opportunities in the global market. It also strengthens our ability to undertake inclusive projects for process plants and floating production systems. The acquisition makes ABB the biggest modification and maintenance (M&M) provider on the Norwegian shelf of the North Sea.

PanCanadian and ABB form joint software company

PanCanadian Petroleum Limited and ABB have formed a joint company to produce and market software solutions that will significantly increase production and reduce upstream operating costs. The new company, Smartcore Systems Inc., is a 50–50 joint venture and is based in Calgary, Alberta.

Smartcore's first product, iVision, is a comprehensive software solution designed to meet all the automation needs of oil and gas producers. It converts large volumes of data into information which engineers and operators can then use as a foundation for their

decisions. Field operators can remotely open and close well valves, adjust compressor speeds, monitor plant alarms and download new gas compositions to remote terminal units.

iVision enables producers to increase production by up to four percent at a lower capital investment and with lower operating costs than conventional monitoring and control systems.

ABB's technologies are at work in some of the most remote and harshest environments of the world. Here, in Norway, the Troll Pilot subsea separation injection system.



the previous record of 1,877 meters set a few months earlier by ABB and Petrobras.

ABB to design offshore gas project in the UAE

September – The design of the offshore Khuff gas project in Abu Dhabi was awarded to ABB by ADMA-OPCO, the operating arm of the Abu Dhabi National Oil Company. ABB is designing two new platforms and modifications to 13 existing platforms, including ancillary equipment. The total contract value for designing and constructing the Khuff gas project is US\$ 260 million.

ABB to install and finance project in Kazakhstan

November – ABB has won a tender to implement and finance the installation of SCADA (Supervisory Control and Data Acquisition) pipeline management systems in Kazakhstan for KazTransOil, the national oil transportation company. The cost of the systems is valued at US\$ 43 million. ABB Financial Services arranged and underwrote the financing of the project.

Meeting the challenges to the petrochemical industry

Our customers in the refining and petrochemicals industries are the market leaders. To maintain their leading position, they require cutting-edge technologies that improve the efficiency of their operations in a highly competitive global market and, at the same time, reduce their environmental impact. They have extraordinarily high demands, and we pride ourselves on being able to meet them.

In refining, ABB received several orders that confirm its ability to help customers produce cleaner fuels and meet a fast-growing demand in their markets. In petrochemicals, we offer a complete range of technologies in the ethylene, propylene and polypropylene markets.

ABB continues to reinforce its position and expand its portfolio of products and services. We focus on developing new technologies that not only minimize environmental impact but also give profitable returns to the companies using them. This includes forming strategic corporate and R&D alliances to strengthen our expertise in what is already one of our core skills, catalysis.



Cleaner fuel for the Russian market

Contracts worth some US\$ 200 million were awarded to ABB in October for the modernization of Tyumen Oil Company's oil refinery in Ryazan, Russia. Tyumen is the second largest oil company in Russia in terms of proven reserves, and the Ryazan facility is its largest refinery.

The project achieves the dual purpose of reducing pollution and contributing to Tyumen's profitability. It will increase Tyumen's production of clean, high-octane gasoline and expand its share of the Russian gasoline market. It will also enable the company to reduce emissions from the production of fuels at the refinery.

The order is for technology, engineering, and procurement services and is being financed in part through loan guarantees approved by the United States Export-Import (Exim) Bank under the Oil and Gas Framework Agreement between the United States and the Russian Federation. ABB acted as financial advisor through all stages of the financing process.

US\$ 160-million order for U.S. clean fuels plant

ABB was awarded a US\$ 160-million contract in December for a manufacturing plant that will produce cleaner gasoline and diesel fuel. The order was placed by Murphy Oil USA and is to be built at its refinery at Meraux, Louisiana.

The plant will enable Murphy Oil to meet future legislation reducing the sulfur content in gasoline and diesel fuel, and to do so cost-effectively. It will also reduce the refinery's emissions of greenhouse gases.





From office carpets, car bumpers and dashboards, to compact discs and textiles, ABB's petrochemicals businesses make them possible. Here, the end result of our polypropylene technology.

Completion of the new hydrocracker and hydro-treater is scheduled for 2003. ABB is responsible for engineering, procurement and construction.

Acquisition of leading-edge polypropylene technology

Novolen Technology Holdings C.V., the joint venture between ABB and Equistar Chemicals of the United States in which ABB has an 80 percent stake, has acquired Novolen® polypropylene technology from Targor GmbH, a subsidiary of BASF.

The acquisition includes catalyst, process and product technologies, including the rights to market and license Targor's metallocene polypropylene technology, used in the production of a new generation of high-performance plastics.

The joint venture with Equistar takes ABB's petrochemicals technology business into a new and dynamic market. The demand for polypropylene is growing rapidly, and metallocene-related products are expected to command an increasingly significant share of the polypropylene market. Compared to other plastics, metallocene offers greater strength and toughness, enhanced clarity and seal strength, better melt characteristics, and improved elasticity and cling.

ABB forms research alliance in Singapore

Pursuing its strategy of forming R&D alliances with research institutes and universities all around the world, ABB has entered into an agreement with the

National University of Singapore for joint research into catalysis and membrane technology.

The collaboration will initially focus on three research projects in catalysis, separation technology and chemical synthesis. If successful, they could lead to the development of advanced new technologies to make chemical production dramatically more efficient.

Alliances of this kind bring major benefits to both parties. Universities are usually working at the cutting edge of new technology but lack the industrial and commercial resources that connect academic research to industrial applications. ABB is currently building up an engineering and R&D center in Singapore for the Asia-Pacific region.

ABB invests US\$ 100 million in China

ABB has strengthened its position in China by agreeing to invest US\$ 100 million in Sinopec Corp., the largest petroleum and petrochemical company in China and one of the largest in Asia.

ABB is one of several multinational corporations investing in Sinopec following its flotation in October. The flotation is expected to accelerate the breakup of the state's monopoly in the oil sector and improve Sinopec's competitive edge.

Sinopec Corp. processes 50 percent of China's domestic crude oil, and has the largest product sales and distribution network in China. It is also the largest chemicals producer in the country with almost 50 percent of domestic ethylene capacity. ABB has worked closely with Sinopec since the early 1970s.

US\$ 574-million gas processing plant in Algeria

ABB's Oil, Gas & Petrochemicals segment continued its record-breaking first six months by beginning the third quarter with an order worth US\$ 574 million for a new gas processing plant in Algeria. ABB won the contract to design and build the plant in collaboration with Petrofac International. ABB also arranged and underwrote the financing for Petrofac International's part of the project. The order was placed by a consortium headed by BHP Petroleum of Australia.

Two major contracts from BASF

ABB was awarded two major contracts by BASF, the German chemicals, health and nutrition, and oil and gas company. At Ludwigshafen in Germany, ABB is to build the world's largest PolyTHF[®] plant (PolyTHF is BASF's product name for polytetramethylene ether glycol). The contract includes detailed engineering, equipment and material procurement, construction and pre-commissioning.

The second contract is for an ethylene furnace at the BASF facility in Antwerp, Belgium. The furnace will produce 170,000 metric tons per year of ethylene from liquid feedstocks. BASF Antwerp is the largest chemical site in Belgium.

Compressor stations for world's longest pipeline

ABB has signed a contract to deliver a further three compressor stations to the Yamal natural gas pipeline that runs from the Yamal peninsula in western Siberia through Belarus to Poland and Germany. The order was made by EuRoPol GAZ S.A. of Poland and is valued at US\$ 200 million. This is the second order received by ABB for the Polish sector of the pipeline.

Cracking furnaces for Shanghai Petrochemicals

Shanghai Petrochemicals has awarded a contract for four new cracking furnaces to ABB and China Petrochemical Technology Company (Sinopec Tech). This is the second major extension to the plant's capacity to be made by ABB and Sinopec Tech. The plant was originally designed by ABB.

Greenfield gas chemical complex in Brazil

ABB and Snamprogetti of Italy received an order worth US\$ 650 million to design and construct a greenfield gas chemical complex that will include ethylene plants near Rio de Janeiro. The ethylene plants will use proprietary ABB process technology. The order was placed by Rio Polimeros Ltda.

Service and maintenance contracts in the OG&P industries

ABB's service and maintenance expertise continues to bring major benefits to customers in many different industries all over the world. ABB offers its customers an integrated package of hardware, software and service with guaranteed performance improvements that allow them to get more out of their existing assets.

Italy – ABB and Api Raffineria di Ancona have formed ApiSoi Service SpA to provide refineries in Italy and abroad with service and maintenance. The first contract was placed by Api Raffineria for servicing and maintaining its refinery and plants at Falconara for a period of seven years. Targets include cutting maintenance costs by 15 percent and spare parts procurement by 30 percent, while increasing overall plant efficiency by five percent.

Egypt – The Egyptian Maintenance Company, a joint venture between ABB and The Egyptian Petroleum Company, has received several orders this year for Global Maintenance Contracts. One of the largest contracts was for developing and implementing a full maintenance program for the Khalda Gas Processing Plant. The program includes the supply of all maintenance staff and the management and execution of all stock and procurement activities over a period of three years.

Brazil – ABB completed maintenance in the production unit of Petrobras' Paulinia Oil Refinery four days earlier than the stipulated 37 days, saving the customer an estimated US\$ 15,000 an hour, or US\$ 1.4 million over the four days.



Helping our customers maintain their market leadership means cutting costs, increasing efficiency and developing technology for cleaner and cleaner fuels.

Management

Group Executive Committee 2000

Göran Lindahl (born 1945)	President & Chief Executive Officer
Renato Fassbind (born 1955)	Executive Vice President Chief Financial Officer
Markus Bayegan (born 1944)	Executive Vice President Research and Development, Technology
Sune Karlsson (born 1946)	Executive Vice President Power Transmission, Power Distribution
Jörgen Centerman (born 1951)	Executive Vice President Automation
Jouko Karvinen (born 1957)	Executive Vice President Automation
Gorm Gundersen (born 1944)	Executive Vice President Oil, Gas and Petrochemicals
Armin Meyer (born 1949)	Executive Vice President Building Technologies
Jan Roxendal (born 1953)	Executive Vice President Financial Services

Group Executive Committee 2001

Jörgen Centerman (born 1951)	President & Chief Executive Officer
Eric Drewery (born 1939)	Executive Vice President Group Transformation
Andrew Eriksson (born 1946)	Executive Vice President Group Processes
Renato Fassbind (born 1955)	Executive Vice President Chief Financial Officer
Gorm Gundersen (born 1944)	Executive Vice President Oil, Gas and Petrochemicals
Jouko Karvinen (born 1957)	Executive Vice President Automation Technology Products
Dinesh C. Paliwal (born 1957)	Executive Vice President Process Industries
Jan Roxendal (born 1953)	Executive Vice President Financial Services
Jan Secher (born 1957)	Executive Vice President Manufacturing and Consumer Industries
Richard Siudek (born 1946)	Executive Vice President Utilities
Peter Smits (born 1951)	Executive Vice President Power Technology Products

Group Senior Officers

Markus Bayegan
Beat Hess
Sune Karlsson
Alfred Storck

Group Functions reporting to CEO

Corporate Communications	Björn Edlund
Corporate Strategy and Ventures	Erik Elzvik
Mergers and Acquisitions	Ulf Hoof
Group Strategy and Planning	Nils Leffler
New Ventures Ltd	Juho Lipsanen
Human Resources	Arne Olsson
Large Projects	Sune Karlsson
Legal Affairs and Compliance	Beat Hess
Research and Development	Markus Bayegan
Sustainability Affairs	Jan Strömblad

Group Functions reporting to CFO

Controlling	Hans Anders Nilsson
Corporate Finance and Taxes	Alfred Storck
Real Estate	Walter Stücklin
Risk Management and Insurance	Charles Salek
Value Services	Cheryl Sunderland

Corporate Research and Development

Chief Technology Officer Group R&D and Technology	Markus Bayegan
Corporate Programs	Charlotte Brogren
Technology Evaluation	Klaus Ragaller
Technology Planning	Friedrich Pinnekamp
Intellectual Properties	Katarina Lundblad Vannesjö
High Impact Projects	Even Bakke
Controlling	Håkan Åström

Business Area Managers

Utilities

Utility Automation	Michael Hirth
Utility Services	Joachim Schneider
Modular Substations	Thomas Jauch
Power Systems	Gian Maria Ferrero

Process Industries

Petrochemical, Chemical & Pharmaceutical	Frank Duggan
Marine & Turbochargers	Martinus Brandal
Paper, Printing, Metals & Mining	n.n.

Manufacturing and Consumer Industries

Automotive Industries	Bo Elisson
Telecom & Product Manufacturing Industries	Bruce Loxton
Logistic Systems	Stephen Mey
Building Systems	Jukka Rinnevaara
Air Handling Equipment	Hannu Paitula

Oil, Gas and Petrochemicals

Upstream	Erik Fougner
Downstream	Steve Solomon

Automation Technology Products

Drives & Power Electronics Systems	Bernhard Jucker
Motors & Machines	Anders Jonsson
Instrumentation & Control	Dick McAllister
Robotics	Lars-Gunnar Berggren
Low Voltage Products	Tom Sjökvist
Customer Service	Bo-Göran Persson

Power Technology Products

High Voltage Technology	Josef Dürr
Medium Voltage Technology	Guido Traversa
Power Transformers	Joakim Olsson
Distribution Transformers	Trent Spear

Financial Services

Treasury Centers	Thomas Meyer
Equity Ventures	Chris Antonopoulos
Structured Finance	Lennart Blecher
Insurance	Göran Thorstensson

Group Processes

Group Process Owners	
Process management & Delivery Support processes	Leif Nilsson
Front End Processes	Andrew Eriksson
eBusiness	n.n.
Supply/Demand Chain Processes	Kurt Trippacher
Finance Processes	Jimmy Yap
IS Applications	Kjell Korsmo
IS Infrastructure & Services	Jim Barrington
Shared Services & Local Support	Lars-Göran Lemelius
Group Audit & Verification	Adelheid Schilliger

Group Representatives

Europe

Austria	Rudolf Petsche
Benelux Countries	Jacques de Raad
Czech Republic	Olle Jarleborg
Denmark	Claus Madsen
Estonia	Bo Henriksson
Finland	Mikko Niinivaara
France	Max Abitbol*
Germany	Horst Dietz
Greece	Costas Cosmadakis
Hungary	Peter Hegedüs
Ireland	Diarmuid O'Sullivan
Italy	Gian Francesco Imperiali
Latvia	Bo Henriksson
Lithuania	Vytautas Niedvaras
Norway	Øivind Lund
Poland	Mirosław Gryszka
Portugal	Carlos Dias
Romania	Peter Simon
Russia	Michel Tchesnakoff
Slovak Republic	Andrej Toth
Spain	Fernando Conte
Sweden	Sten Jakobsson
Switzerland	Cristoph Biedermann
Turkey	Alf-Åke Jansson
United Kingdom	Eric Drewery
Balkans and Central Asia	Bruno Berggren*

Middle East and Africa

Dubai/UAE	Ulf G. Strömbäck
Egypt	Bassim Youssef
Israel	Jacob Shani
Ivory Coast	Pierre-Jérôme Desmarquest
Morocco	Jean-Claude Lanzi
Nigeria	Wolfgang Pfeiffer
Saudi Arabia	Bengt Andersson
South Africa	Carlos Poñe
Tanzania	Bo Erik Lansryd
Zimbabwe	Vittorio Semilia

Americas

Argentina	Ulises de la Orden
Bolivia	Nelson Izquierdo
Brazil	Benny Olsson*
Canada	Paul Kefalas
Chile	Victor Ballivian
Colombia	Ramón Monrás
Ecuador	Pedro Sandoval
Mexico	Napoleao Olmedo
Peru	Eduardo Soldano
USA	Howard Pierce
Venezuela	Armando Basave

Asia

Australia	Tommie Bergman
China/Hong Kong SAR	Peter Leupp**
India	Kumar Kaura Kuldip**
Japan	Lave Lindberg
Korea	Robert Suter
Malaysia	Roland Münch
New Zealand	Tommie Bergman
Philippines	Thomas Ng
Singapore	Boonkiat Sim
Taiwan	Göran Sundin
Thailand	Jonny Axelsson
Vietnam	Per Brekke

* Region Managers

** Group Representative and Country Managers

Region Managers

Latin America	Benny Olsson
Middle East and Africa	Max Abitbol
Balkans and Central Asia	Bruno Berggren

ABB Board of Directors

Percy N. Barnevik (born 1941) Chairman

Chairman: Investor, Sandvik (both Sweden), AstraZeneca (UK)

Board Member: General Motors (USA)

Robert A. Jeker (born 1935) Vice-Chairman

Chairman: Batigroup, Feldschlösschen-Hürlimann, Georg Fischer, Messe Basel, Swiss Steel (all Switzerland)

Board Member: Neue Zürcher Zeitung (Switzerland), Synthes Stratec (USA)

Former President: Credit Suisse (Switzerland)

Gerhard Cromme (born 1943)

Chairman: ThyssenKrupp (Germany)

Board Member: Allianz-Versicherung, Ruhrgas, E.ON, Volkswagen (all Germany), Suez Lyonnaise des Eaux, Thales (both France)

Jürgen Dormann (born 1940)

Chairman: Aventis (France)

Board Member: Allianz (Germany), IBM (USA)

Martin Ebner (born 1945)

Chairman: BZ Group Holding, Lonza Group (both Switzerland)

Board Member: Alcan (Canada)

Göran Lindahl (born 1945)

Board Member: DuPont (USA), Ericsson (Sweden)

Agostino Rocca (born 1945)

President and CEO: Techint Group (Argentina)

President: Siderar, Techint S.A., Techint International Construction, Tecpetrol (all Argentina)

Board Member: Pacific Council on International Policy, The Institute of the Americas (both USA), International Iron and Steel Institute (Belgium)

Advisory Member: New York Stock Exchange – NYSE (USA)

Donald H. Rumsfeld (born 1932)

Chairman: Gilead Sciences (USA)

Board Member: Amylin Pharmaceuticals, Rand (both USA)

Former U.S. Ambassador to NATO, U.S. Secretary of Defense, CEO of G.D. Searle & Co. and CEO of General Instrument (all USA)

Edwin Somm (born 1933)

Chairman: SIG (Switzerland)

Board Member: Georg Fischer, Swiss Steel (both Switzerland)

Peter D. Sutherland (born 1946)

Chairman and Managing Director: Goldman Sachs International

Chairman: BP Amoco

Board Member: Ericsson, Investor (both Sweden)

Former Director-General GATT and WTO, Former EU Commissioner

Jacob Wallenberg (born 1956)

Chairman: SEB – Skandinaviska Enskilda Banken (Sweden)

Executive Vice-Chairman: Investor (Sweden)

Vice-Chairman: Knut and Alice Wallenberg Foundation, Atlas Copco, Electrolux (all Sweden)

Board Member: WM-data, Swedish Federation of Industries, Nobel Foundation (all Sweden), EQT Scandinavia (Netherlands)

Proposed Changes in the ABB Board of Directors

Messrs. **Göran Lindahl**, **Donald Rumsfeld** and **Peter Sutherland** have tendered their resignation from the Board. The Board expresses its sincere thanks to them for their many years of loyalty and valuable contributions to the ABB Group. All other members of the Board will be proposed and are available for re-election.

The Board will also propose the election of Mr. Jörgen Centerman, President and Chief Executive Officer of the ABB Group to the Board of Directors. The Board intends to re-elect Mr. Percy Barnevik as its Chairman and Mr. Robert Jeker as its Vice-Chairman.

Beat Hess, Secretary to the Board

Auditors

KPMG Klynveld Peat Marwick Goerdeler SA
Zurich

Ernst & Young AG
Zurich

Financial Review



Contents

Management's discussion – analysis of the Group

- 64** Selected financial data
- 64** Consolidated operations
- 70** Acquisitions, investments and
divestitures
- 70** Restructuring expenses
- 72** Segments
- 81** Liquidity, capital resources
and financial position

Group

- 85** Consolidated Financial
Statements
- 89** Notes to Consolidated
Financial Statements
- 111** ABB Group Auditors' Report

Parent company

- 112** Financial Statements of
ABB Ltd, Zurich
- 113** Notes to Financial Statements
- 114** Proposed appropriation of
available earnings
- 115** Report of the Statutory Auditors

Information

- 116** Investor information
- 118** Price trend for ABB Ltd shares
- 119** ABB Group statistical data

Management's discussion – analysis of the Group

Selected financial data

The following table demonstrates the amount and percentage of ABB Group revenues derived from each of our business segments:

	Revenues			Percent of revenues		
	Year ended December 31,			Year ended December 31,		
	2000	1999	1998	2000	1999	1998
	(\$ in millions)			(in %)		
Automation	7,465	8,236	7,045	30.8	31.8	28.7
Power Transmission	3,315	3,712	4,033	13.7	14.3	16.4
Power Distribution	2,830	2,875	2,615	11.7	11.1	10.6
Building Technologies	5,889	6,324	6,385	24.3	24.4	26.0
Oil, Gas & Petrochemicals	2,796	3,086	2,856	11.5	11.9	11.6
Financial Services	1,966	1,687	1,653	8.0	6.5	6.7
Subtotal	24,261	25,920	24,587	100.0	100.0	100.0
Corporate and eliminations	(1,294)	(1,564)	(1,643)			
Consolidated revenues	22,967	24,356	22,944			

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 revenues		
	Year ended December 31,			Year ended December 31,		
	2000	1999	1998	2000	1999	1998
	(\$ in millions)			(in %)		
Europe	12,570	13,893	13,012	54.7	57.0	56.7
The Americas	5,702	5,675	5,134	24.8	23.3	22.4
Asia	2,770	2,763	2,768	12.1	11.4	12.1
Middle East and Africa	1,925	2,025	2,030	8.4	8.3	8.8
Total	22,967	24,356	22,944	100.0	100.0	100.0

Consolidated operations

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. Orders showed encouraging signs throughout the year 2000 and ended 3% above last year, or 12% when excluding the currency translation effect. As reported in local currencies, all segments increased orders.

Automation segment revenues decreased by \$ 771 million, or 9%, in 2000 compared to 1999 (a 2% decrease as reported in local currencies). The decrease primarily reflected weakness in sales of larger automation systems. Power Transmission revenues decreased by \$ 397 million, or 11%, in 2000 compared to 1999 (a 4% decrease as reported in local currencies). Power Transmission orders, however, increased by 1% as compared to 1999. The decrease in revenues was primarily due to 18% and 21% decreases, respectively, in our Power Systems and High Voltage Products and Substations business areas as a result of low order intake in 1999. Power Distribution revenues decreased by \$ 45 million, or 2%, in 2000 compared to 1999 (a 5% increase as reported in local currencies). Building Technologies experienced a \$ 435 million, or 7%, decrease in revenues for 2000 compared to 1999, due to the significant translation effect (a 4% increase as reported in local currencies). Revenues from Oil, Gas and Petrochemicals decreased by \$ 290 million, or 9%, in 2000 compared to 1999 (a 2% 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. Orders, on the other hand, increased by \$ 893 million, or 29%, to \$ 3,923 million in 2000, and continue to be at a high level. This increased order activity has begun to filter through to revenues in late 2000 and early 2001. Revenues from Financial Services increased by \$ 279 million, or 17%, in 2000 compared to 1999. This increase primarily reflected improved revenues from our Insurance business area. For a more detailed discussion on the individual segments, including the changes in revenues adjusted to local currencies, see the segment sections 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. 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.

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 Automation 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. In these periods, \$ 350 million and \$ 433 million, respectively, of the research and development costs were attributable to the Automation segment. The research and development amount does not include expenditures for order-related devel-

opment of \$985 million and \$1,212 million, in 2000 and 1999, respectively. In these periods, \$330 million and \$480 million, respectively, of order-related development were related to the Automation segment. 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 have made towards common ABB platforms and products. Order-related development was also affected by the level of revenues, particularly in Automation and Power Transmission. 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.

Amortization expense

Amortization expense was \$219 million in 2000 and \$189 million in 1999. There have been no material acquisitions that have affected the level of amortization expense since the Elsag Bailey acquisition in 1999.

Other income (expense), net

Other income (expense), net, typically consists of our share of income or loss on investments, principally from our Equity Ventures (formerly Energy Ventures) business area, as well as gains or losses from sales of businesses, investments and property, plant and equipment, licensing income and restructuring charges. 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 a percentage of revenues, operating income increased to 6.0% in 2000 from 4.6% in 1999. The increase is primarily attributable to the 6% reduction in selling, general and administrative expenses and the increased level of other income, net.

Net interest 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. 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 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. 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 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 business. The net gain from the sale of our nuclear 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 \$ 0.29 to \$ 4.87 in 2000 from \$ 4.58 in 1999. The increase primarily reflected the significant increase in income from continuing operations. Diluted earnings per share from continuing operations increased by \$ 0.80 to \$ 2.97 in 2000, from \$ 2.17 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 \$ 0.51 to \$ 1.90 in 2000 from \$ 2.41 in 1999. This decrease reflected the lower level of income from discontinued operations discussed above.

Year ended December 31, 1999 compared with year ended December 31, 1998

Revenues

Revenues for the ABB Group increased by \$ 1,412 million, or 6%, to \$ 24,356 million in 1999 from \$ 22,944 million in 1998. As reported in local currencies, however, revenues increased 10% in 1999 compared to 1998. Automation revenues increased by \$ 1,191 million, or 17%, from 1998 to 1999. The increase in revenues was a direct result of increased volume related to the purchase of Elsag Bailey. Power Transmission volumes decreased primarily due to the sale of our two standard power cable businesses in Norway and Sweden, which reported revenues of approximately \$ 193 million in 1998, and unfavorable economic conditions in Latin America. Power Distribution saw good performance with an increase in revenues of 10%, mainly fueled by increases in the systems business. Building

Technologies and Financial Services were essentially flat. Oil, Gas and Petrochemicals showed an increase of 8% primarily as a result of a strong order backlog carried through from 1998.

Cost of sales

Cost of sales for the ABB Group increased by \$ 1,253 million, or 7%, to \$ 18,457 million in 1999 from \$ 17,204 million in 1998. The increase in cost of sales is primarily due to the increased level of reported revenues. Cost of sales as a percentage of revenues increased slightly to 75.8%, partly due to margin erosion within certain projects.

Selling, general and administrative expenses

The increase in selling, general and administrative expenses was primarily attributable to increased revenues in 1999, as well as to the acquisition and integration of Elsag Bailey, which had generally higher selling, general and administrative expenses than our existing Automation businesses.

Selling, general and administrative expenses included \$ 865 million and \$ 819 million of research and development costs in 1999 and 1998, respectively. In 1999, \$ 433 million of the research and development costs were attributed to Automation. The research and development amount does not include expenditures for order-related development of \$ 1,212 million and \$ 1,126 million in 1999 and 1998, respectively.

The higher selling, general and administrative expenses also reflects costs associated with addressing Year 2000 issues, where the majority relates to Automation, as well as an investment of \$ 17 million made in 1999 in common global processes, a group initiative to improve process efficiency and reduce costs.

Amortization expense

Amortization expense increased by \$ 189 million in 1999 from \$ 75 million in 1998, attributable to amortization of purchased goodwill and intangibles acquired in the Elsag Bailey transaction.

Other income (expense), net

Other income (expense), net, increased by \$ 136 million to an income of \$ 94 million in 1999 from an expense of \$ 42 million in 1998, and was primarily related to net gains of \$ 132 million in 1999 resulting from the disposition of various businesses.

Earnings before interest and taxes

Earnings before interest and taxes, or operating income, decreased \$ 204 million, or 15%, to \$ 1,122 million in 1999 from \$ 1,326 million in 1998. The decrease is primarily attributable to a 9% increase in selling, general and administrative expenses to \$ 4,682 million in 1999 from \$ 4,297 million in 1998. The increase more than offset the increase in gross profit to \$ 5,899 million in 1999 from \$ 5,740 million in 1998.

Net interest expense

Interest expense increased by \$ 49 million, or 7%, to \$ 708 million in 1999 from \$ 659 million in 1998. The negative development mainly arose from the additional debt incurred to finance the Elsag Bailey acquisition. The level of interest and dividend income earned remained flat at \$ 608 million. Our 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.

Provision for taxes

Provision for taxes increased by \$ 6 million, or 2%, to \$ 343 million in 1999 from \$ 337 million in 1998. As a percentage of income from continuing operations before taxes and minority interest, the development led to a higher tax charge of 33.6% in 1999 compared to 26.4% in 1998. This increase was principally due to the contribution of our power generation business to ABB ALSTOM POWER, which included businesses whose profits were taxed at a rate lower than our effective tax rate, as well as tax losses/tax credits (valuation allowances). Furthermore, increased goodwill amortization related to acquisitions and restructuring charges adversely affected the tax charge in 1999.

Income from continuing operations

Income from continuing operations decreased \$ 280 million, or 30%, to \$ 643 million in 1999 from \$ 923 million in 1998. The decrease reflects the impact of the items discussed above, particularly the increase in selling, general and administrative expenses.

Income (loss) from discontinued operations, net of tax

Income from discontinued operations, net of tax, was \$ 717 million in 1999, from losses, net of tax, of \$ 441 million in 1998. In 1998, both our transportation and our power generation businesses experienced operating losses, including restructuring charges resulting from the program announced in 1997. In 1999, we recognized losses from the operating results of the discontinued operations of \$ 1,087 million. These losses included contract loss provisions of approximately \$ 560 million, primarily related to technical difficulties with a new model of gas turbine, which do not affect our continuing operations because our agreement

with ALSTOM fully releases us with respect to such issues. These losses were more than offset by the net gain on the contribution of 50% of our power generation business to the ABB ALSTOM POWER joint venture of \$ 1,339 million. We also recognized a net gain on the sale of ADtranz of \$ 464 million.

Net income

As a result of the factors discussed above, net income increased by \$ 878 million to \$ 1,360 million in 1999 from \$ 482 million in 1998. The increase in net income reflects the net gains realized on the disposition of our interest in the ADtranz joint venture and the formation of our power generation joint venture, offset by losses from these discontinued operations, and further offset by a slight decline in results from continuing operations, as discussed above.

Earnings per share

Diluted earnings per share increased by \$ 2.96 to \$ 4.58 in 1999 from \$ 1.62 in 1998, largely resulting from net gains reflected in discontinued operations. Diluted earnings per share from discontinued operations increased by \$ 3.89 to \$ 2.41 in 1999 from a loss of \$ 1.48 in 1998, reflecting the discontinued operations discussed above. This increase was partially offset by a decline in diluted earnings per share from continuing operations which decreased by \$ 0.93 to \$ 2.17 in 1999 from \$ 3.10 in 1998, reflecting the decrease in income from continuing operations discussed above. Per share earnings were also affected by the purchase of approximately 2.0 million shares for our treasury to meet obligations in connection with the management incentive plan.

Acquisitions, investments and divestitures

During 2000 and 1999, we conducted significant acquisitions, investments and divestitures.

- In 2000 and 1999, we invested \$896 million and \$ 1,780 million, respectively, in new businesses, joint ventures and affiliated companies. In 1999, we acquired Elsag Bailey for a cash purchase price of \$ 1,562 million and assumed debt of \$ 648 million.
- In 2000 and 1999, we received aggregate cash consideration of \$ 1,963 million and \$ 2,283 million, respectively, from dispositions. The material dispositions are described below. In addition, we received cash consideration of \$ 77 million from the disposition of our two standard power cable businesses in Norway and Sweden. In 1998, those two businesses reported aggregate revenues of \$ 193 million.
- In 2000, we disposed of our power generation businesses, which included the investment in the ABB ALSTOM POWER joint venture described below and the nuclear business. We received cash proceeds of approximately \$ 1,197 million from ALSTOM in exchange for our joint venture interest. We received proceeds of \$ 485 million from the sale of the nuclear business. 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

cash boot of \$ 1,500 million 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 for a 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.

Restructuring expenses

In late 1997, we announced a restructuring plan to improve our productivity and competitiveness and recorded an expense charge of \$ 152 million, excluding restructuring expenses attributable to the now discontinued power generation segment. The 1997 restructuring, which was principally implemented and substantially completed during 1998, covered employee termination and severance costs incurred in conjunction with the closure of production facilities, the downsizing of selected operations in Europe and the United States, and the consolidation of operations.

In 1998, we incurred additional restructuring expenses of \$ 146 million in connection with the finalization of the 1997 restructuring, excluding \$ 176 million of restructuring expenses attributable to the now discontinued power generation segment. The \$ 146 million expense is included in other income (expense), net in our consolidated income statements. There were no significant unexpected charges incurred in connection with the 1997 restructuring. Actual plan costs approximated accrued amounts and the re-

maintaining accrued liability at December 31, 1998 was not significant.

During the first quarter of 1999, we acquired Elsag Bailey 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 due 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.

Segments

Overview

Revenues, earnings before interest and taxes (or operating income), operating margins and net operating assets by segment are as follows:

	Revenues			Net operating assets		
	Year ended December 31,			December 31,		
	2000	1999	1998	2000	1999	1998
	(\$ in millions)			(\$ in millions)		
Automation	7,465	8,236	7,045	3,743	4,003	2,601
Power Transmission	3,315	3,712	4,033	1,192	1,392	1,496
Power Distribution	2,830	2,875	2,615	736	1,090	1,085
Building Technologies	5,889	6,324	6,385	811	1,068	1,334
Oil, Gas & Petrochemicals	2,796	3,086	2,856	903	554	543
Financial Services	1,966	1,687	1,653	9,098	7,750	6,827
Corporate and eliminations	(1,294)	(1,564)	(1,643)	(1,851)	(2,713)	(2,618)
Consolidated figures	22,967	24,356	22,944	14,632	13,144	11,268

	Earnings before interest & taxes			Operating margins		
	Year ended December 31,			Year ended December 31,		
	2000	1999	1998	2000	1999	1998
	(\$ in millions)			(in %)		
Automation	486	408	461	6.5	5.0	6.5
Power Transmission	262	309	292	7.9	8.3	7.2
Power Distribution	182	181	153	6.4	6.3	5.9
Building Technologies	456	394	379	7.7	6.2	5.9
Oil, Gas & Petrochemicals	169	165	167	6.0	5.3	5.8
Financial Services	349	337	410	n/a	n/a	n/a
Corporate and eliminations	(519)	(672)	(536)	n/a	n/a	n/a
Consolidated figures	1,385	1,122	1,326	6.0	4.6	5.8

In 1998, we realigned our corporate structure by creating eight business segments out of our existing businesses: the six current segments, plus the power generation and transportation segments that we have sold. The segment data for 1998 have been restated to reflect the reclassification of certain business areas within the segments.

In January 2001, we announced a further realignment of the ABB Group to increase our

customer focus. We will replace our current business segments with seven business divisions structured along customer groups. Four end-user customer divisions, Utilities; Process Industries; Manufacturing and Consumer Industries and Oil, Gas and Petrochemicals serve end-user customers with solutions, products and services. Two channel partner customer divisions, Power Technology Products and Automation Technology Products serve

external channel partners like wholesalers, distributors, original equipment manufacturers and system integrators directly and the end-user customers indirectly through the end-user customer divisions. They are also responsible for all generic products in ABB. The Financial Services division provides services and project support for the whole Group as well as for external customers. Two additional divisions, Group Transformation and Group Processes, serve key organizational purposes. For more information on the future transformation of the ABB Group, turn to the separate section “ABB Executive Committee 2001”, page 20. The analysis of results of operations set forth below reflects our structure during the periods presented.

Segment costs

The most significant operating expenses for all segments are material costs and personnel costs, with the exception of Financial Services, which does not incur significant material costs. Material costs include raw materials, components and products and services purchased specifically with respect to customer orders. Personnel costs include the costs of salaries and wages. Most of our industrial business segments have a higher level of material costs than personnel costs as a percentage of revenues, except the Automation and Building Technologies segments, in which personnel costs are almost equal to material costs.

Automation

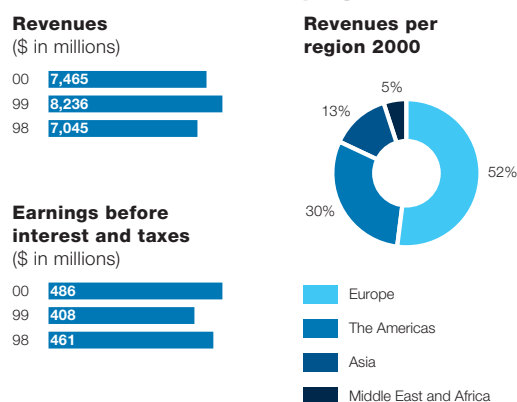
Demand for our automation products and services has varied by industry and region in 2000 and 1999, reflecting the broad range of the segment's customers, products and systems. In every sector, customer demand focused on increasing productivity and profitability by making manufacturing and business processes

more efficient. Advances in information technology and software development continued to be key drivers of demand for our products and services. As a result, we continually seek to enhance our equipment and system offerings to improve the functioning of our products and, thereby, maintain margins. Demand in 1999 was also influenced by the Year 2000 issue by redirecting capital investment. This did not, however, fully compensate for the Asian financial crisis. These influences did not have a significant impact in 2000.

Year ended December 31, 2000 compared with year ended December 31, 1999

Automation revenues decreased by \$ 771 million, or 9%, to \$ 7,465 million in 2000 from revenues of \$ 8,236 million in 1999. As reported in local currencies, revenues decreased by 2% in 2000 compared to 1999. The decrease generally reflected weakness in sales of larger automation systems. In addition, the revenue figures for both 2000 and 1999 include the effects of the Elsag Bailey acquisition which was completed in mid-January 1999. Automation's efforts to integrate Elsag Bailey negatively impacted sales of large automation systems in 2000 but had a positive effect on margins as discussed below. Additionally, increased sales volumes, particularly in Europe,

Automation selected key figures



Asia and Latin America offset pricing pressure with respect to automation products. Our Flexible Automation business area showed the largest improvement within the segment and increased revenues by 12% between 1999 and 2000, largely as a result of higher volumes from large automotive orders.

Earnings before interest and taxes, or operating income, in 2000 increased by \$ 78 million, or 19%, to \$ 486 million from \$ 408 million in 1999. In particular, our Power Products business area experienced strong operational improvement for the year and improved operating income by 28% in 2000. The business area benefited from structural consolidation and reduction of the cost base as well as healthy market conditions. In general, the improvement in earnings before interest and tax reflects the benefits of Automation's substantial efforts over the past 12 to 18 months to reduce its cost base and improve internal efficiency, productivity and quality management on a global basis. These efforts include the internal reorganization of our Utilities business area and the integration of Pulp and Paper and Metals and Minerals. The improvement also reflects the benefits of the Elsag Bailey integration. As a result of the integration, products and services formerly provided by Elsag Bailey are generating margins that are more in line with our historical margins.

Year ended December 31, 1999 compared with year ended December 31, 1998

Automation revenues increased by \$ 1,191 million, or 17%, to \$ 8,236 million in 1999 from \$ 7,045 million in 1998. Based on management estimates, excluding the effect of the Elsag Bailey acquisition, we believe revenues would have been flat in 1999. As reported in local currencies, however, revenues increased 3% in 1999 compared to 1998, excluding the effects

of the Elsag Bailey acquisition. ABB Automation's sales performance reflects management's significant efforts to integrate rapidly the Elsag Bailey business in 1999. Our Flexible Automation business showed improvement, primarily from a 50% increase in unit sales of robots.

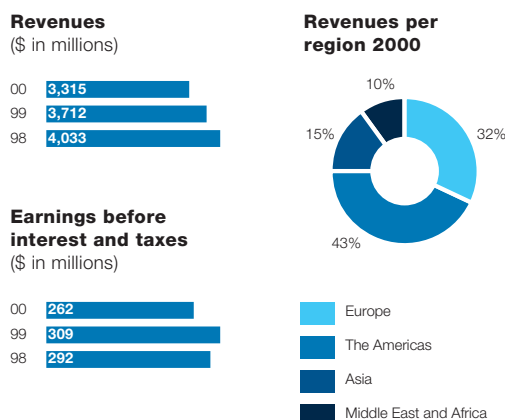
Earnings before interest and taxes, or operating income, in 1998 decreased by \$ 53 million, or 11%, to \$ 408 million in 1999 from \$ 461 million in 1998. The decrease reflected \$ 38 million of restructuring costs and additional goodwill amortization associated with the integration of Elsag Bailey into our operations. Excluding the restructuring costs, earnings before interest and taxes would have been \$ 466 million in 1999. The decrease in earnings before interest and taxes also reflected the lower margins of the Elsag Bailey business relative to ABB Automation's margins as well as costs related to the integration of the Elsag Bailey product lines with our own product lines and the streamlining of our product offerings. It also reflected charges incurred in 1999 in connection with projects that were transferred to the Automation segment from other segments as part of the realignment of our corporate structure in 1998. Our software and knowledge-based service businesses improved their results substantially. Additionally, in 1999, Automation benefited from the global efficiency initiatives discussed above.

Power Transmission

In 2000 as well as 1999, the privatization and deregulation of electricity markets continued to be a principal element that stimulated demand for grid interconnection products and services needed to upgrade existing power transmission systems together with new installations in developing countries. One of the main market characteristics continues to be the customers' increasing demand for complete

systems and applications packages. In 1999, demand for transmission products and systems was strong in North America and the Middle East, while flat or declining in Europe. Latin America and parts of Asia were weak but began to recover and China continued to grow. Demand in 2000 continued its favorable trend in North America and the Middle East. Demand in most of Europe began to improve, except Scandinavia and Germany. Demand in Asia and Latin America, though still weak, continued the positive trends experienced in 1999.

Power Transmission selected key figures



Year ended December 31, 2000 compared with year ended December 31, 1999

Orders increased by \$ 40 million to \$ 3,958 million in 2000 from \$ 3,918 million in 1999. As reported in local currencies, orders increased by 9% in 2000 compared to 1999. The level of orders primarily reflects order growth across most businesses. A number of significant orders were received by our Power Systems business area for an interconnection between Brazil and Argentina and HVDC projects in the U.S. and Australia.

Revenues decreased \$ 397 million, or 11%, to \$ 3,315 million in 2000 from \$ 3,712 million

in 1999. As reported in local currencies, however, revenues decreased by 4% in 2000 compared to 1999. The decrease in revenues is primarily attributable to the weakness in orders from Latin America experienced in 1999 that affected revenues in 2000, particularly in Power Systems and High Voltage Products and Substations, which experienced decreases of 18% and 21%, respectively. These two business areas have Latin America as an important market. The decrease was only partially offset by a 2% improvement in revenues from our Power Transformers business area and an increase of 13% in T&D Service and Support, resulting from the execution of orders received in 1999.

Earnings before interest and taxes, or operating income, decreased by \$ 47 million, or 15%, to \$ 262 million in 2000 from \$ 309 million in 1999, due to reductions in revenues and costs associated with capacity adjustments in Power Transformers and High Voltage Products and Substations.

Year ended December 31, 1999 compared with year ended December 31, 1998

Orders decreased \$ 505 million, or 11%, to \$ 3,918 million in 1999 from \$ 4,423 million in 1998. This decrease was primarily due to the disposition of our two standard cable businesses in Norway and Sweden, which had orders of approximately \$ 200 million in 1998, and weakness in orders from Latin America as a result of the economic conditions in that region. The weakness in Latin American orders mostly affected the Power Lines and Power Systems businesses.

Revenues decreased \$ 321 million, or 8%, to \$ 3,712 million in 1999 from \$ 4,033 million in 1998. As reported in local currencies, however, revenues decreased by 2% in 1999 compared to 1998. The decrease was largely due to the

disposition of our standard cable businesses, which accounted for \$ 193 million of the decrease, as well as the weakness in orders from Latin America in 1999. It was partially offset by sales from our business area T&D Service and Support, created at the end of 1998, which contributed an increase in revenues of \$ 346 million and our Power Systems business area, which increased by \$ 129 million, or 37%.

Earnings before interest and taxes, or operating income, increased by \$ 17 million, or 6%, to \$ 309 million in 1999 from \$ 292 million in 1998. The increase is primarily attributable to the increased revenues in T&D Service and Support and Power Systems, as well as improved profitability in Power Transformers resulting from improved margins in that area reflecting both increased demand and price improvement.

Power Distribution

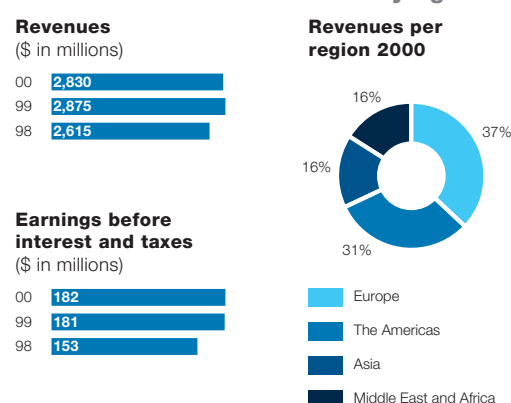
Growing customer demand in privatized and deregulated electricity markets for efficient power distribution systems and related applications together with new electrification in developing countries continued to be the key market drivers for the segment in 2000 and 1999. As a result, demand for power distribution products and systems grew in North America and in Asia, where economic recovery continues. However, demand was essentially flat in Europe, as the deregulation and privatization process is less advanced in certain parts of that region. We also continue to experience an increase in demand for electricity in other emerging markets.

Year ended December 31, 2000 compared with year ended December 31, 1999

Revenues decreased \$ 45 million, or 2%, to \$ 2,830 million in 2000 from \$ 2,875 million in

1999. As reported in local currencies, however, revenues increased 5% in 2000 compared to 1999. Increases in sales volumes more than offset pricing pressures that impacted most businesses. All business areas contributed to the revenue development. In particular, revenues from Distribution Transformers increased as a result of an improved business climate, primarily in North America, where the business area is especially strong.

Power Distribution selected key figures



Earnings before interest and taxes, or operating income, were basically flat and ended at \$ 182 million in 2000 from \$ 181 million in 1999. Our efforts to increase production efficiency, including reducing the number of duplicative products and increasing the standardization of products where appropriate, particularly in our Medium Voltage Equipment business area, lowered our cost base. These positive developments were offset by added development costs for new distributed generation technologies and the impact of translating local currencies into U.S. dollars for reporting purposes.

Year ended December 31, 1999 compared with year ended December 31, 1998

Revenues rose \$ 260 million, or 10%, to \$ 2,875 million in 1999 from \$ 2,615 million in 1998,

reflecting a substantial volume increase in Power Distribution Solutions resulting from our customers' needs for innovative systems to increase their competitiveness in deregulated markets, especially North America. Stronger demand in North America for Distribution Transformers as a result of improved market conditions also contributed to the increased revenues. As reported in local currencies, however, revenues increased 14% in 1999 compared to 1998.

Earnings before interest and taxes, or operating income, increased by \$ 28 million, or 18%, to \$ 181 million in 1999 from \$ 153 million in 1998. The volume increase in Distribution Solutions and higher operating margins in both Distribution Solutions and Distribution Transformers contributed to this improvement.

Building Technologies

Demand in Europe, our largest Building Technologies market, improved and was generally good in most sectors. Also, demand for telecommunication and Internet infrastructure grew during 2000. In Australia, we experienced a similar development in large telecommunication infrastructure projects. The North American economy remained strong, resulting in significant growth for low voltage products and industrial fans. Emerging markets in Asia, the Middle East, Africa and South America experienced a general improvement in overall economic conditions, with particularly encouraging development in China. Our Low Voltage Products and Systems business continues to grow at a high rate in China.

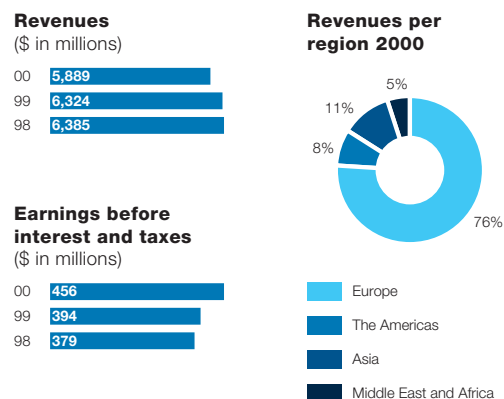
Year ended December 31, 2000 compared with year ended December 31, 1999

Revenues decreased by \$ 435 million, or 7%, to \$ 5,889 million in 2000 from \$ 6,324 million in 1999. Approximately 80% of our revenues

in 2000 were denominated in European currencies, principally the Euro. As a result, our reported revenues in the period were adversely affected by the decline of these currencies against the dollar. As reported in local currencies, revenues increased 4% in 2000 compared to 1999. The contribution to revenues came from Low Voltage Products and Systems which increased volumes as a result of improved market conditions in Europe, North America and China. Also, our Service business area experienced improved revenues as a result of an increase in full service contracts signed in 1999 and early 2000. These contracts typically last for several years and revenue is recognized throughout the contract period.

Earnings before interest and taxes, or operating income, for the segment grew by \$ 62 million, or 16%, to \$ 456 million in 2000 from \$ 394 million in 1999. The earnings development for the two business areas Low Voltage Products and Systems and Air Handling Equipment was good as a result of increased sales volumes and improved efficiency. The increase in earnings resulted primarily from decreased cost of sales and decreased selling, general and administrative expenses which outpaced the reported sales decline.

Building Technologies selected key figures



Year ended December 31, 1999 compared with year ended December 31, 1998

Revenues were essentially flat in 1999, decreasing by \$61 million, or 1%, to \$6,324 million in 1999 from \$6,385 million in 1998. Approximately 79% of our revenues were denominated in European currencies, principally the Euro. As a result, our reported revenues were adversely affected in 1999 by the decline of the European currencies against the dollar. As reported in local currencies, however, revenues increased 3% in 1999 compared to 1998. Our Low Voltage Products and Systems and Building Systems business areas were weak in the first half of 1999 but improved during the year as the European economy recovered. In Building Systems, the impact of general European economic conditions was only partially offset by strong growth in data communications installations as well as service and facility management. Growth in Service was driven by the full service business and the acquisition of Central de Manutenção Ltda in Brazil. Air Handling Equipment suffered from overall weakness in the industrial fan market, particularly in emerging markets.

Earnings before interest and taxes, or operating income, for the segment grew by \$15 million, or 4%, to \$394 million in 1999 from \$379 million in 1998. This increase is in part attributable to improved internal efficiency and continued reductions in administrative costs which boosted margins. These efficiencies in large part reflected the benefits of the overall restructuring program we announced in 1997 and implemented in 1998 and 1999. Earnings before interest and taxes in 1998 were negatively affected by the related restructuring charges. Additionally, the Service business area experienced a substantial earnings improvement, mainly due to higher volumes.

Oil, Gas and Petrochemicals

Capital expenditures by customers of our Oil, Gas and Petrochemicals segment 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 like economic growth, substitution of products, and demand for more environmentally friendly products.

Demand in the upstream market (from the well or bore hole to the refinery) for oil and gas development and production was adversely affected by low oil prices during the first half of 1999. Although production cuts lifted oil prices during the second half of 1999, uncertainty regarding the sustainability of higher oil prices led many oil companies to postpone investments. The petrochemical and refining downstream market was also negatively affected by the generally low level of economic activity in Asia that led to low investments. As a result of the impact of oil prices and the low level of economic activity in Asia, overall market volumes fell during 1999 in both the upstream and downstream portions of the market and across all regions.

As oil prices continued their recovery during 2000, demand in both the upstream market and the downstream petrochemicals market increased in 2000, reflecting renewed investments by companies in the oil, gas and petrochemical related industries.

Oil, Gas and Petrochemicals selected key figures

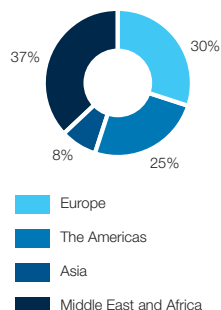
Revenues (\$ in millions)

00	2,796
99	3,086
98	2,856

Earnings before interest and taxes (\$ in millions)

00	169
99	165
98	167

Revenues per region 2000



Year ended December 31, 2000 compared with year ended December 31, 1999

Oil, Gas and Petrochemicals' orders increased by \$ 893 million, or 29%, to \$ 3,923 million in 2000 from \$ 3,030 million in 1999, reflecting the higher demand in both the upstream and downstream markets. However, the increase in orders from our longer term project business is not immediately reflected in revenues. As reported in local currencies, orders increased by 40% in 2000 compared to 1999.

The segment's revenues decreased by \$ 290 million, or 9%, to \$ 2,796 million in 2000 from \$ 3,086 million in 1999. As reported in local currencies, however, revenues decreased 2% in 2000 compared to 1999. The decrease resulted from the low level of orders in 1999 reflecting the factors discussed above. Additionally, the improving level of orders in late 1999 and 2000 was only reflected in revenues in late 2000.

Earnings before interest and taxes, or operating income, increased slightly by \$ 4 million, or 2%, to \$ 169 million in 2000 from \$ 165 million in 1999, helped by a gain of approximately \$ 15 million from smaller non-core divestitures. 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.

Year ended December 31, 1999 compared with year ended December 31, 1998

For the reasons discussed above, orders decreased \$ 289 million, or 9%, to \$ 3,030 million in 1999 from \$ 3,319 million in 1998.

Nonetheless, the strong order backlog in both the upstream and downstream portions of the market at the end of 1998 allowed the segment to record an 8% increase in revenues in 1999 to \$ 3,086 million over the 1998 level of \$ 2,856 million. As reported in local currencies, however, revenues increased 11% in 1999 compared to 1998. The order backlog in 1998 reflected the high level of investments by the industry in 1998. These investments were made before the impact of the Asian financial crisis and the low oil prices in early 1999. Investment commitments made in 1998 resulted in a high level of purchases in late 1998 and 1999 to complete these projects.

Earnings before interest and taxes, or operating income, decreased by \$ 2 million, or 1%, to \$ 165 million in 1999 from \$ 167 million in 1998. The decrease resulted from lower than expected downstream margins on some projects, and one project in which we agreed to lower operating margins in return for a higher level of advance payments. The decrease was mostly offset by a combination of a good upstream order backlog and cost containment measures that produced a slightly higher upstream margin.

Financial Services

ABB Financial Services 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 and the income from our lease portfolio are affected by movements in interest rates, while the trading results of our Treasury Centers are affected by movements in interest rates and exchange rates. Also, movements in the equity markets affect the investment result in our Insurance business. In 1999, bond prices weakened generally due to an overall rising interest rate environment, while equity prices generally improved across most markets, particularly in Sweden. During the year 2000, short-term interest rates continued to increase while long-term bond yields decreased. In major equity markets price levels were volatile and dropped compared to the previous year. Most currencies depreciated strongly against the U.S. dollar during 2000. This trend only reversed at the end of the year.

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. The revenue increase primarily related to improved revenues in the Insurance business area.

Earnings before interest and taxes (including net results relating to internal transactions), or operating income, increased by \$ 12 million, or 4%, to \$ 349 million in 2000 from \$ 337 million in 1999.

Structured Finance posted higher earnings for 2000, mainly reflecting higher net interest income from its 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 the 35% stake in that institution in June 2000.

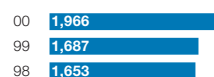
Equity Ventures increased its earnings as a result of higher income from its investment in special purpose infrastructure companies. New investments during 2000 included a stake in a high-voltage power transmission line in Australia.

Earnings in Insurance 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.

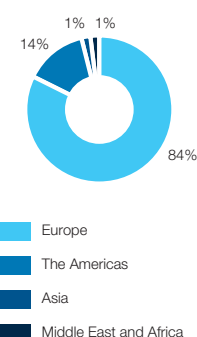
Earnings in Treasury Centers were higher in 2000 than in 1999, mainly due to a stronger trading result.

Financial Services selected key figures

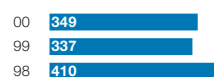
Revenues
(\$ in millions)



Revenues per region 2000



Earnings before interest and taxes
(\$ in millions)



The consolidated assets of Financial Services amounted to more than \$ 21 billion at 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 ABB projects by Structured Finance and to ABB companies by Treasury Centers.

Year ended December 31, 1999 compared with year ended December 31, 1998

Revenues were essentially flat in 1999 compared to 1998, increasing by \$ 34 million, or 2%, reflecting improved volumes in Insurance and Structured Finance, offset by reduced volumes from Treasury Centers.

Earnings before interest and taxes (including net results relating to internal transactions), or operating income, of \$ 337 million in 1999 decreased by \$ 73 million, or 18%, from \$ 410 million in 1998. The decrease primarily reflects the capital gain of \$ 59 million recorded in 1998 from the sale of our investment management business at the end of 1998. The divested business employed about 80 people with operations in Sweden, Finland, Norway, the United States, Switzerland and Poland and involved institutional asset management, mutual funds, ABB pension funds and the asset management of some ABB insurance-related funds.

Unanticipated movements in the interest rate and foreign exchange markets made it difficult for our Treasury Centers in 1999 to achieve the same level of trading profit in 1999 as in 1998. Leasing and Financing (which was integrated into business area Structured Finance during 2000) posted lower earnings due to decreased advisory fee income related to lower volumes from cross-border leasing transactions. Investment income continued to grow in Insurance, which reported its highest earnings ever due to gains in its equity investment portfolio. Structured Finance reported record results as a number of transactions in Latin America, the Middle East and Europe were closed.

The consolidated assets of Financial Services amounted to more than \$ 20 billion.

Liquidity, capital resources and financial position

Our liquidity and capital resources have been drawn historically from three primary sources: cash from operations, proceeds from the issuance of public debt securities, and third party bank borrowings.

Our strong credit rating supports both our access to international capital markets as well as our borrowings from external banks. At December 31, 2000, all publicly traded debt securities issued by our subsidiaries were rated AA– and A–1 by Standard & Poor's Ratings Group and Aa2 and Prime–1 by Moody's Investors Service. On September 6, 2000, Standard & Poor's affirmed ABB's long-term credit rating at AA– and changed the ratings outlook from stable to positive. Due to our strong credit rating, we can rely on being able to raise sufficient amounts of short-term as well as long-term debt on short notice from the capital markets as well as our core external banks.

We believe that our ability to generate operating cash flow, together with our other sources of liquidity, will continue to provide the cash flows necessary to support our business expansion and meet our financial commitments on a timely basis for at least the next 12 months.

In ABB, the majority of public debt issuances and bank borrowings are raised by our system of Treasury Centers (which are part of ABB Financial Services) and associated financing subsidiaries, which are part of our Financial Services segment. Public borrowings are raised within amount, maturity, currency and price guidelines set each year and reviewed periodically by ABB Ltd. Treasury Centers are located in countries where we have significant operating subsidiaries and/or holding companies to provide such companies with funding,

cash management and foreign exchange hedging. This concentration of financing activities results in lower financing costs for the ABB Group.

In accordance with our financial policies, our operating companies primarily borrow in local currencies to meet their financial requirements. Borrowings are typically issued with floating interest rates, or are effectively converted to borrowings with floating interest rates through the use of derivative instruments. It is our policy that ABB Ltd and special purpose finance subsidiaries within the Financial Services segment serve as the primary vehicles for the issuance of publicly traded and privately placed debt securities such as bonds and commercial paper.

Exchange

Each of our local subsidiaries reports its financial results in its respective local currency, 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 2000, average exchange rates for the U.S. dollar first strengthened and later weakened compared to most major currencies. Consequently, as reported in U.S. dollars, revenues and earnings were reduced by approximately 8% and 10%, respectively, in 2000. In 1999, the strengthening of the average U.S. dollar exchange rates compared to most major currencies resulted in approximately 4% reduction of revenues and earnings. Orders were similarly affected.

Exchange gains (losses), net amounted to

losses of \$ 3 million, \$ 28 million and \$ 10 million, respectively in 2000, 1999 and 1998 and were recorded in 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 2000, this translation resulted in a \$ 84 million reduction in our total cash flow, in contrast to a \$ 100 million reduction in 1999 and a contribution of \$ 28 million in 1998.

Financing activities

Our financing activities primarily include net borrowings, both from the issuance of public debt securities and directly from third party banks, purchase of stock for treasury, and payment of dividends. Net cash used in financing activities decreased by \$ 795 million to \$ 392 million in 2000 from \$ 1,187 million in 1999. The decrease was primarily due to an increase in total borrowings of \$ 410 million, to \$ 7,363 million at the year-end 2000 from \$ 6,953 million at the year-end 1999. Total average level of borrowings was lower in 2000 as compared to 1999. Net cash used in financing activities increased by \$ 1,774 million in 1999 to \$ 1,187 million compared to 1998 when \$ 587 million was provided by financing activities.

We hold some of our shares in treasury to provide shares for delivery upon exercise of warrants in future years under our management incentive program. We used \$ 199 million of cash in 1999 to purchase our shares for this purpose. During 2000, our net sales of treasury shares and put options provided net cash of \$ 244 million. In April 2000, we paid dividends

of \$ 531 million with respect to 1999. We paid dividends of \$ 503 million and \$ 460 million in 1999 and 1998, respectively.

At December 31, 2000 and December 31, 1999, we had total borrowings including short-, medium- and long-term borrowings, outstanding of \$ 7,363 million and \$ 6,953 million, respectively. At both December 31, 2000 and 1999, approximately 1% of those borrowings were secured.

Short-term borrowings, including current maturities of long-term debt, increased by \$ 220 million, or 7%, to \$ 3,587 million outstanding at December 31, 2000 from \$ 3,367 million outstanding at December 31, 1999. Long-term borrowings increased by \$ 190 million, or 5%, to \$ 3,776 million at December 31, 2000 from \$ 3,586 million at December 31, 1999, primarily as a result of the refinancing of maturing short-term debt in the Financial Services segment.

At December 31, 2000, \$ 4,425 million, or approximately 60% of our total borrowings, represented commercial paper and other short-term and medium-term debt securities issued under underwritten capital market facilities. At December 31, 1999, borrowings under these facilities totaled \$ 3,377 million, or 49%, of our total borrowings.

The other 40% and 51%, respectively, of our borrowings at December 31, 2000 and December 31, 1999 represented other than publicly traded debt securities and was composed primarily of private placement or other bond issues of \$ 1,405 million and \$ 1,439 million, respectively, with the balances represented by commercial lending from external banks.

As of December 31, 2000, the effective interest rate on our floating rate borrowings of \$ 3,444 million and our fixed rate borrowings of \$ 611 million was 5.4% and 4.6%, respec-

tively, after considering the effect of interest rate, currency and equity swaps. The weighted average interest rate on our commercial paper borrowings of \$ 1,923 million and other short-term debt of \$ 1,163 million was 5.9% and 6.0%, respectively.

Financial position

Total assets increased by \$ 0.4 billion, or 1%, to \$ 31.0 billion at year-end 2000 from \$ 30.6 billion at year-end 1999. On the assets side, increases of 13% and 44%, respectively, in financing receivables (receivables from leases and third party loans) and investments and other assets were largely offset by decreases of 12% and 15%, respectively, in marketable securities and property, plant and equipment.

Decreases in other accounts payable, accrued liabilities and pension and other related benefits were offset by a 6% increase in short- and long-term borrowings as well as an increase in accounts payable, trade.

Cash flows

Net cash provided by operating activities in 2000 decreased by \$ 553 million to \$ 1,022 million from the exceptionally high level of \$ 1,575 in 1999, mainly due to a lower level of advances compared to 1999. In 1999, net cash provided by operating activities increased by \$ 775 million to \$ 1,575 million from \$ 800 million in 1998, mainly due to an overall reduction of operating assets as opposed to an increase in 1998.

Net cash used in investing activities in 2000 decreased by \$ 323 million to \$ 1,713 million from \$ 2,036 million in 1999. Investing activities include: acquisitions and disposals of businesses; capital expenditures, 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). The reduction in 2000 of cash used in investing activities is mainly due to the reduced acquisitions compared to 1999 when Elsag Bailey was acquired. In 1999, net cash used in investing activities increased by \$ 1,019 million to \$ 2,036 million from \$ 1,017 million in 1998. The increase in 1999 was primarily due to the acquisition of businesses totaling \$ 1,720 million, net of cash acquired, of which \$ 1,562 million related to the purchase of Elsag Bailey. This increase was partly offset by cash from sales of investments in marketable securities. In 2000, 1999 and 1998, net cash provided by discontinued operations of \$ 949 million, \$ 723 million and \$ 741 million, respectively, was used in part to finance the investing activities discussed above.

Net cash used in financing activities in 2000 decreased by \$ 795 million to \$ 392 mil-

lion from \$ 1,187 million in 1999. Net cash used in financing activities in 1999 increased by \$ 1,774 million to \$ 1,187 million compared to 1998 when \$ 587 million was provided by financing activities. In 2000, the decrease in cash used in financing activities was mainly due to reduced net repayments of borrowings and a change in cash flows from net treasury and capital stock transactions. In 1999, the increase in cash used in financing activities was attributable to a \$ 2,118 million increase in repayments of borrowings.

As a result of all of the above, the level of cash and equivalents decreased by \$ 218 million to \$ 1,397 million at the end of 2000 from \$ 1,615 million at the end of 1999 and followed a reduction of \$ 1,025 million from \$ 2,640 million at the end of 1998.

Consolidated Financial Statements

Consolidated Income Statements

Year ended December 31 (in millions, except per share data)	2000	1999	1998
Revenues	\$ 22,967	\$ 24,356	\$ 22,944
Cost of sales	(17,222)	(18,457)	(17,204)
Gross profit	5,745	5,899	5,740
Selling, general and administrative expenses	(4,417)	(4,682)	(4,297)
Amortization expense	(219)	(189)	(75)
Other income (expense), net	276	94	(42)
Earnings before interest and taxes	1,385	1,122	1,326
Interest and dividend income	565	608	608
Interest expense	(644)	(708)	(659)
Income from continuing operations before taxes and minority interest	1,306	1,022	1,275
Provision for taxes	(377)	(343)	(337)
Minority interest	(48)	(36)	(15)
Income from continuing operations	881	643	923
Income (loss) from discontinued operations, net of tax	562	717	(441)
Net income	\$ 1,443	\$ 1,360	\$ 482
Weighted average shares outstanding	295	296	298
Dilutive potential shares	1	1	—
Diluted weighted average shares outstanding	296	297	298
Basic earnings per share:			
Income from continuing operations	\$ 2.99	\$ 2.17	\$ 3.10
Income (loss) from discontinued operations	1.90	2.42	(1.48)
Net income	\$ 4.89	\$ 4.59	\$ 1.62
Diluted earnings per share:			
Income from continuing operations	\$ 2.97	\$ 2.17	\$ 3.10
Income (loss) from discontinued operations	1.90	2.41	(1.48)
Net income	\$ 4.87	\$ 4.58	\$ 1.62

See accompanying notes to consolidated financial statements.

Consolidated Financial Statements

Consolidated Balance Sheets

December 31 (\$ in millions, except share data)	2000	1999
Cash and equivalents	\$ 1,397	\$ 1,615
Marketable securities	4,209	4,771
Receivables, net	8,328	7,804
Inventories, net	3,192	3,265
Prepaid expenses and other	1,585	1,602
Total current assets	18,711	19,057
Financing receivables	3,875	3,427
Property, plant and equipment, net	3,243	3,813
Goodwill and other intangible assets, net	3,155	2,904
Investments and other	1,978	1,377
Total assets	\$ 30,962	\$ 30,578
Accounts payable, trade	\$ 3,375	\$ 3,194
Accounts payable, other	2,363	2,686
Short-term borrowings and current maturities of long-term borrowings	3,587	3,367
Accrued liabilities and other	6,127	6,635
Total current liabilities	15,452	15,882
Long-term borrowings	3,776	3,586
Pension and other related benefits	1,790	1,954
Deferred taxes	1,528	1,656
Other liabilities	2,924	2,912
Total liabilities	25,470	25,990
Minority interest	321	317
Stockholders' equity:		
Capital stock and additional paid-in capital, par value CHF 10, 300,002,358 shares	2,082	2,071
Retained earnings	4,628	3,716
Accumulated other comprehensive loss	(1,122)	(1,031)
Less:		
Treasury stock, at cost (4,133,233 and 5,452,550 shares at December 31, 2000 and 1999, respectively)	(417)	(485)
Total stockholders' equity	5,171	4,271
Total liabilities and stockholders' equity	\$ 30,962	\$ 30,578

See accompanying notes to consolidated financial statements.

Consolidated Financial Statements

Consolidated Statements of Cash Flows

Year ended December 31 (\$ in millions)	2000	1999	1998
Operating activities			
Income from continuing operations	\$ 881	\$ 643	\$ 923
<i>Adjustments to reconcile income from continuing operations to net cash provided by operating activities:</i>			
Depreciation and amortization	836	795	648
Restructuring charges	(73)	(52)	76
Pension and post-retirement benefits	(57)	(38)	(73)
Deferred taxes	102	10	18
Net gain from sale of property, plant and equipment	(247)	(47)	(102)
Other	(119)	(147)	(108)
Changes in operating assets and liabilities:			
Marketable securities-trading	10	151	(344)
Trade receivables	77	(328)	(237)
Inventories	(136)	(7)	(901)
Trade payables	266	433	187
Other assets and liabilities, net	(518)	162	713
Net cash provided by operating activities	1,022	1,575	800
Investing activities			
Changes in financing receivables	(833)	(655)	(385)
Purchases of marketable securities (other than trading)	(2,239)	(973)	(1,043)
Purchases of property, plant and equipment	(553)	(839)	(768)
Acquisitions of businesses (net of cash acquired)	(893)	(1,720)	(271)
Proceeds from sales of marketable securities (other than trading)	2,292	1,307	979
Proceeds from sales of property, plant and equipment	238	488	242
Proceeds from sales of businesses (net of cash disposed)	275	356	229
Net cash used in investing activities	(1,713)	(2,036)	(1,017)
Financing activities			
Changes in borrowings with maturities of 90 days or less	609	383	327
Increases in other borrowings	3,626	3,570	3,266
Repayment of other borrowings	(4,279)	(4,478)	(2,360)
Treasury and capital stock transactions	244	(165)	(155)
Dividends paid	(531)	(503)	(460)
Other	(61)	6	(31)
Net cash provided by (used in) financing activities	(392)	(1,187)	587
Net cash provided by discontinued operations	949	723	741
Effects of exchange rate changes on cash and equivalents	(84)	(100)	28
Net change in cash and equivalents	(218)	(1,025)	1,139
Cash and equivalents – beginning of year	1,615	2,640	1,501
Cash and equivalents – end of year	\$ 1,397	\$ 1,615	\$ 2,640
Interest paid	\$ 647	\$ 793	\$ 805
Taxes paid	273	251	288

See accompanying notes to consolidated financial statements.

Consolidated Financial Statements

Consolidated Statements of Changes in Stockholders' Equity⁽¹⁾

For the years ended December 31, 2000, 1999 and 1998			Accumulated other comprehensive loss					
	Capital stock and additional paid-in capital	Retained earnings	Foreign currency translation adjustment	Unrealized gain (loss) on available- for-sale securities	Minimum pension liability adjust- ment	Total accumu- lated other compre- hensive loss	Treasury stock	Total stock- holders' equity
(\$ in millions)								
Balance at January 1, 1998	\$ 2,037	\$ 2,837	\$ (511)	\$ 135	\$ (8)	\$ (384)	\$ (131)	\$ 4,359
Comprehensive loss:								
Net income		482						482
Foreign currency translation adjustments			(268)			(268)		(268)
Effect of change in fair value of available-for-sale securities, net of tax of \$ 9				22		22		22
Minimum pension liability adjustments, net of tax of \$ 52					(275)	(275)		(275)
Total comprehensive loss								(39)
Dividends paid		(460)						(460)
Purchase of treasury stock							(155)	(155)
Balance at December 31, 1998	2,037	2,859	(779)	157	(283)	(905)	(286)	3,705
Comprehensive income:								
Net income		1,360						1,360
Foreign currency translation adjustments			(226)			(226)		(226)
Effect of change in fair value of available-for-sale securities, net of tax of \$ 39				(90)		(90)		(90)
Minimum pension liability adjustments, net of tax of \$ 7					190	190		190
Total comprehensive income								1,234
Dividends paid		(503)						(503)
Purchase of treasury stock							(199)	(199)
Purchase of non-tendered ABB AB stock ⁽²⁾							(438)	(438)
Issuance of ABB Ltd stock ⁽³⁾	34						438	472
Balance at December 31, 1999	2,071	3,716	(1,005)	67	(93)	(1,031)	(485)	4,271
Comprehensive income:								
Net income		1,443						1,443
Foreign currency translation adjustments			(152)			(152)		(152)
Effect of change in fair value of available-for-sale securities, net of tax of \$ 7				20		20		20
Minimum pension liability adjustments, net of tax of \$ 21					41	41		41
Total comprehensive income								1,352
Dividends paid		(531)						(531)
Purchase of treasury stock							(400)	(400)
Sale of treasury stock and put options	11						468	479
Balance at December 31, 2000	\$ 2,082	\$ 4,628	\$ (1,157)	\$ 87	\$ (52)	\$ (1,122)	\$ (417)	\$ 5,171

⁽¹⁾ Retroactively restated to reflect the issuance of ABB Ltd shares in exchange for all issued shares of ABB AB and ABB AG.

⁽²⁾ Purchase of 3% of issued stock of ABB AB. See Note 1 to consolidated financial statements.

⁽³⁾ Issuance of approximately 5 million shares of ABB Ltd, representing the equivalent number of shares purchased in (2) above. See Note 1 to consolidated financial statements.

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

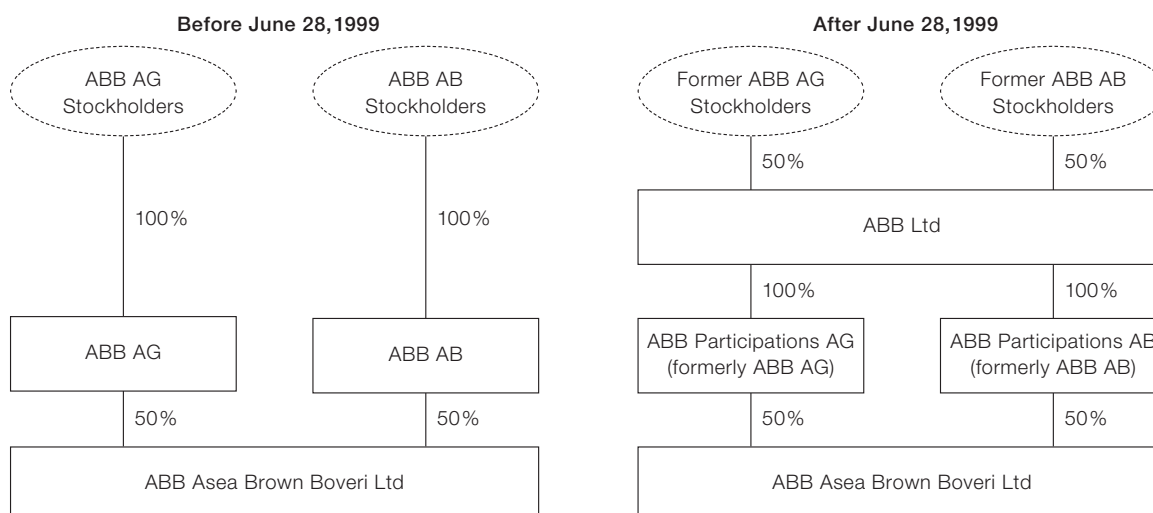
(U.S. dollar amounts in millions, except per share amounts)

Note 1 The Company

ABB Ltd is a global technology company organized in five industrial business segments and a financial services segment, with each segment having global responsibility for its business strategies and its manufacturing and product development activities, as applicable.

In June 1999, ABB Ltd, a newly incorporated Swiss company, issued approximately 295 million registered shares to the stockholders of ABB AB, a Swedish publicly listed company, and ABB AG, a Swiss publicly listed company. As of that date, 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 5 million) were sold to third parties, resulting in a total of 300 million issued shares of ABB Ltd as of June 28, 1999.

The capital transaction to form ABB Ltd and create a single class of capital voting stock for the stockholders of ABB AB and ABB AG resulted in the following:



The following table presents combined selected financial information of ABB AG and ABB AB as of and for the six months ended June 28, 1999, excluding each company's respective ownership interest and equity in earnings of ABB Asea Brown Boveri Ltd:

	June 28, 1999
Cash and marketable securities ⁽¹⁾	\$ 28
Total liabilities ⁽¹⁾	1
Interest and other income, net	9
Extraordinary dividend by ABB AG	179

⁽¹⁾ Excludes \$ 62 million related to the extraordinary dividend which was not yet able to be distributed to ABB AG shareholders.

Note 2 Significant accounting policies

The following is a summary of significant accounting policies followed in the preparation of these consolidated financial statements.

Basis of presentation

The consolidated financial statements are prepared on the basis of United States (U.S.) generally accepted accounting principles and are presented in U.S. dollars (\$) unless otherwise stated. Par value of capital stock is denominated in Swiss francs (CHF).

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.

Principles of consolidation

The consolidated financial statements include the accounts and subsidiaries of ABB Ltd and ABB Asea Brown Boveri Ltd (collectively, the "Company"). All significant intercompany balances have been eliminated in consolidation.

The Company's investments in joint ventures and affiliated companies, which generally include companies that are 20% to 50% owned, are accounted for using the equity method. Accordingly, the Company's share of earnings of these companies is included in the determination of consolidated net income. Other investments are recorded at cost.

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates.

Note 2, continued

Concentrations of credit risk

The Company invests excess cash in deposits with banks throughout the world and in other high quality, liquid marketable securities (commercial paper, government agency notes, asset-backed securities, etc.). The Company has a policy of placing deposits with financial institutions which have a credit rating equivalent to the Company's or higher. From time to time it may be necessary for certain subsidiaries to invest excess cash in financial institutions with a credit rating which is lower than the Company's. The Company actively monitors its credit risk by routinely reviewing the credit worthiness of the investments held and by maintaining such investments in deposits or liquid securities. The Company has not incurred any credit losses related to such investments.

The Company sells a broad range of products, systems and services to a wide range of industrial and commercial customers throughout the world. Concentrations of credit risk with respect to trade receivables are limited due to a large number of customers comprising the Company's customer base. Ongoing credit evaluations of customers' financial position are performed and, generally, no collateral is required. The Company maintains reserves for potential credit losses and such losses, in the aggregate, have not exceeded management's expectations.

Cash and equivalents

Cash and equivalents include highly liquid investments with original maturities of three months or less.

Marketable securities

Debt and equity securities are classified as either trading or available-for-sale at the time of purchase and are carried at fair value. Debt and equity securities that are bought and held principally for the purpose of sale in the near term are classified as trading securities and unrealized gains and losses are included in the determination of net income. Unrealized gains and losses on available-for-sale securities are excluded from the determination of net income and are accumulated as a component of other comprehensive income (loss) until realized. Realized gains and losses on available-for-sale securities are computed based upon historical cost of these securities applied using the specific identification method.

Declines in fair values of available-for-sale investments that are other than temporary are included in the determination of net income.

Revenue recognition

The Company recognizes substantially all revenues from the sale of manufactured products upon transfer of title including the risks and rewards of ownership to the customer which generally occurs upon shipment of products. On contracts for sale of manufactured products requiring installation which can only be performed by the Company, revenues are deferred until installation of the products is complete. Revenues from short-term fixed price contracts to deliver services are recognized upon completion of required services to the customer. Revenues from contracts which contain customer acceptance provisions are deferred until customer acceptance occurs or the contractual acceptance period has lapsed.

Sales under long-term fixed price contracts are recognized using the percentage-of-completion method of accounting. The Company principally uses the cost-to-cost or delivery events methods to measure progress towards completion on contracts. Management determines the method to be used for each contract based on its judgement as to which method best measures actual progress towards completion.

Anticipated costs for warranties on products are expensed in proportion to sales recognition on the related contracts. Losses on fixed-price contracts are recognized in the period when they are identified and are based upon the anticipated excess of contract costs over the related contract sales.

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

Receivables

The Company accounts for the securitization of trade receivables in accordance with Statement of Financial Accounting Standards No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS 125). In September 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS 140), that replaces, in its entirety, SFAS 125. SFAS 140 will require an entity to recognize the financial and servicing assets it controls and the liabilities it has incurred and to derecognize financial assets when control has been surrendered in accordance with the criteria provided in SFAS 140. The Company adopted the disclosure requirements of SFAS 140 effective December 2000 and will apply the new accounting rules prospectively to transactions beginning in the second quarter of 2001. Based on current circumstances, the Company believes the application of the new accounting rules will not have a material impact on its consolidated financial statements.

At the time the receivables are sold, the balances are removed from trade receivables and a retained interest or deferred purchase price component is recorded in other receivables. The retained interest is recorded at its estimated fair value. Costs associated with the sale of receivables are included in the determination of current earnings.

Inventories

Inventories are stated at the lower of cost (determined using either the first-in, first-out or the weighted average cost method) or market. Inventoried costs relating to percentage-of-completion contracts are stated at actual production costs including overhead incurred to date, reduced by amounts identified with sales recognized.

Impairment of long-lived assets

Long-lived tangible and intangible assets are reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed* (SFAS 121) when events or circumstances indicate the carrying amount of a long-lived asset may not be recoverable. Impairment is assessed by comparing an asset's net undiscounted cash flows expected to be generated over its remaining useful life to the asset's net carrying value. If impairment is indicated, the carrying amount of the asset is reduced to its estimated fair value.

Note 2, continued

Goodwill and other intangible assets

The excess of cost over the fair value of net assets of acquired businesses is recorded as goodwill and is amortized on a straight-line basis over periods ranging from 5 to 20 years. The cost of other acquired intangibles is amortized on a straight-line basis over their estimated useful lives, typically ranging from 3 to 10 years.

Capitalized costs for internal use software

The Company expenses costs incurred in the preliminary project stage and, thereafter, capitalizes costs incurred in developing or obtaining internal use software. Capitalized software costs are amortized on a straight-line basis over their estimated useful lives, typically ranging from 3–5 years.

Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation, using the straight-line method over the estimated useful lives of the assets as follows: 10 to 50 years for buildings and leasehold improvements, 3 to 15 years for machinery and equipment and 3 to 5 years for furniture and fixtures.

Derivative financial instruments

The Company uses derivative financial instruments to manage interest rate and currency exposures, and to a lesser extent commodity exposures, arising from its global operating, financing and investing activities. The Company's policies require that the industrial entities economically hedge all contracted foreign exposures, as well as at least fifty percent of the anticipated sales volume of standard products over the next twelve months. In addition, within limits determined by the Company's Board of Directors, derivative financial instruments are also used for proprietary trading purposes within the Company's Financial Services segment.

Currency and interest rate risk management

Instruments used as hedges must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract. Accordingly, changes in market values of hedge instruments must be highly correlated with changes in market values of underlying hedged items, both at inception of the hedge and over the life of the hedge contract. Any derivative that either is not designated as a hedge, or is so designated but is ineffective, or is in connection with anticipated transactions, is marked-to-market and recognized in earnings.

Forward foreign exchange contracts are the primary instrument used to manage foreign exchange risk. Gains and losses on foreign currency hedges of existing assets or liabilities are recognized in income consistent with the hedged item. Gains and losses on hedges of firm commitments are deferred and recognized in income as part of the hedged transaction. Other foreign exchange contracts are marked-to-market through earnings.

The Company uses interest rate and currency swaps primarily to optimize funding costs and to hedge specific assets. Interest rate and currency swaps that are designated as hedges of borrowings or specific assets are accounted for on an accrual basis and are recorded as an adjustment to the interest income or expense of the underlying asset or liability over its life.

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

If the underlying hedged transaction is terminated early, the hedging derivative financial instrument is terminated simultaneously, with any gains or losses recognized immediately. Gains or losses arising from early termination of a derivative financial instrument of an effective hedge are accounted for as adjustments to the basis of the hedged transaction.

Derivative financial instruments used for proprietary trading purposes

Derivative financial instruments used in the Company's trading activities are recorded at fair value.

Credit risk

The Company's exposure to credit risk on derivative financial instruments is the risk that a counterparty will fail to meet its obligations. To reduce this risk, the Company has credit policies which require the establishment and review of credit limits for individual counterparties. In addition, close-out netting agreements have been entered into with most counterparties. Close-out netting agreements are agreements which provide for the termination, valuation and net settlement of some or all outstanding transactions between two counterparties on the occurrence of one or more pre-defined trigger events. Only if such agreements are in place and the Company intends to settle on a net basis would the assets and liabilities arising from transactions covered by a close-out netting be presented on a net basis in the financial statements.

Translation of foreign currencies and foreign exchange transactions

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

Foreign currency transactions, such as those resulting from the settlement of foreign currency denominated receivables or payables, are included in the determination of net income, except as it relates to intra-Company loans that are equity-like in nature with no reasonable expectation of repayment which are accumulated as a component of other comprehensive income (loss).

In highly inflationary countries, monetary balance sheet positions in local currencies are converted into U.S. dollars at the year-end rate. Fixed assets are kept at historic U.S. dollar values from acquisition dates. Sales and expenses are converted at the exchange rates prevailing upon the date of the transaction. All translation gains and losses from restatement of balance sheet positions are included in the determination of net income.

Note 2, continued

Taxes

Deferred taxes are accounted for by using the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities. They are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that the deferred tax assets will be realizable.

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

Research and development

Research and development costs were \$ 703 million, \$ 865 million and \$ 819 million in 2000, 1999 and 1998, respectively. These costs are included in selling, general and administration expense as incurred.

Earnings per share

Basic earnings per share is calculated by dividing net income by the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated by dividing net 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 the Company's 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 the Company's stock was assumed, if dilutive, and the securities issued under the Company's management incentive plan, to the extent the average market price of the Company's stock exceeded the exercise prices of such instruments (see Notes 20 and 21).

New accounting standards

The Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* (SAB 101), on December 3, 1999. SAB 101 provides additional guidance on the application of existing U.S. generally accepted accounting principles to revenue recognition in financial statements. The Company adopted SAB 101 effective October 1, 2000.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), the amended version of which is effective January 1, 2001. SFAS 133 requires the Company to record all derivatives on the balance sheet at fair value. For derivatives that are designated as fair value hedges, the changes in fair value will be offset by the changes in fair value of the hedged assets, liabilities or firm commitments. Changes in fair value of derivatives designated as cash flow hedges will be reflected in accumulated other comprehensive loss until the underlying transaction being hedged impacts earnings. The Company will adopt SFAS 133 on January 1, 2001.

In its September 2000 meeting, the Emerging Issues Task Force reached several consensus in Issue 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock* (EITF 00-19). EITF 00-19 generally reaffirms the previous guidelines of Issue 96-13, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*, but provides additional criteria for the classification of such derivative instruments as equity or as either assets or liabilities. EITF 00-19 is effective for all new contracts and contract modifications entered into after September 20, 2000. For contracts that exist on September 20, 2000, the effective date of adoption is June 30, 2001. The effect of any reclassification of a derivative instrument from equity to an asset or liability as of June 30, 2001 would be calculated as of that date and presented in a manner similar to a cumulative effect of a change in accounting principle. The Company is a party to various derivative instruments that are indexed to and potentially settled in its own stock. As all these contracts existed at September 20, 2000, EITF 00-19 is not effective for the Company's outstanding instruments until June 30, 2001.

Note 3 Business combinations

Elsag Bailey

In October 1998, the Company entered into an agreement to acquire all of the outstanding shares of Elsag Bailey Process Automation N.V. (Elsag Bailey), a company involved in providing process automation solutions for many industries, including power generation, chemicals, pharmaceuticals, oil and gas, pulp and paper, metals and mining, and food and beverages. The transaction has been accounted for as a purchase. The Company's consolidated financial statements include Elsag Bailey's results of operations since January 14, 1999, the transaction closing date.

The cash purchase price of \$ 1,562 million was allocated to the identified assets acquired and liabilities assumed based upon their estimated fair values as follows:

Tangible assets acquired	\$ 1,260
Liabilities assumed	(1,767)
Identified intangible assets	379
Goodwill	1,690
	\$ 1,562

The identified intangible assets are being amortized over 10 years and the goodwill is being amortized over 20 years.

In August 1999, the Company sold certain business operations of Elsag Bailey involved in the manufacture and sale of gas chromatograph and mass spectrometer products. The net gain on disposal of \$ 41 million has been recorded as an adjustment to the allocation of the original purchase price.

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

Note 3, continued

Assuming its acquisition of Elsas Bailey had occurred on January 1, 1998, the Company's unaudited pro forma condensed consolidated results of operations for the year ended December 31, 1998 would be as follows:

	Unaudited
Revenues	\$ 24,376
Income from continuing operations	741
Net income	300
Basic and diluted earnings per share:	
Income from continuing operations	\$ 2.49
Loss from discontinued operations	(1.48)
Net income	\$ 1.01

The unaudited pro forma results have been prepared for comparative purposes only and include certain adjustments, including additional amortization expense related to acquired intangible assets, interest expense on borrowings to finance the transaction and the sale of the gas chromatograph and mass spectrometer businesses. These unaudited pro forma results do not purport to be indicative of the results of operations that actually would have resulted had the combination occurred on January 1, 1998, or of the future results of operations of the consolidated entities.

As of January 14, 1999, the Company began to formulate a restructuring plan in connection with the Elsas Bailey acquisition that included reorganizing Elsas Bailey operations in Germany and the United States. In the first quarter of 1999, the Company completed the assessment and recorded a \$141 million liability in its purchase price allocation related to costs of involuntary employee terminations and severance. The Elsas Bailey integration restructuring was substantially complete at the end of 2000.

Other acquisitions and investments

During 2000, 1999 and 1998, the Company invested \$896 million, \$218 million and \$288 million, respectively, in 61, 74 and 76 new businesses, joint ventures and affiliated companies. Of these transactions, 24, 24 and 23, respectively, represented acquisitions accounted for as purchases and accordingly, the results of operations of the acquired businesses have been included in the Company's consolidated financial statements from the respective acquisition dates. The aggregate purchase price of these acquisitions during 2000, 1999 and 1998 was \$416 million, \$190 million and \$112 million, respectively. The aggregate excess of the purchase price over the fair value of the net assets acquired totaled \$447 million, \$137 million and \$91 million, respectively, and has been recorded as goodwill. Assuming these acquisitions had occurred on the first day of the year prior to their purchase, the pro forma consolidated results of operations for those years would not have materially differed from reported amounts either on an individual or an aggregate basis.

In June 2000, the Company entered into a share subscription agreement to acquire a 42% interest in b-business partners B.V. Pursuant to the terms of the agreement, the Company committed to invest a total of \$278 million of which \$69 million was paid in 2000. The remaining amounts are due in 2001.

Other divestitures

In the ordinary course of business, the Company periodically divests businesses and investments not considered by management to be aligned with its focus on activities with high growth potential. The results of operations of the divested businesses are included in the Company's consolidated results of operations through the date of disposition. During 2000, 1999 and 1998, the Company sold several operating units and investments for total proceeds of \$281 million, \$311 million and \$174 million, respectively, and recognized a net gain of \$201 million, \$132 million and \$75 million, respectively. Such amounts are included in other income (expense), net. Income before taxes and minority interest from these operations was not material in 2000, 1999 and 1998.

Note 4 Discontinued operations

In a series of transactions during 2000, the Company disposed of its Power Generation segment, which included its investment in ABB ALSTOM POWER NV (the "Joint Venture") and its nuclear technology business. The Company sold its nuclear business to British Nuclear Fuels PLC in April 2000 and its 50% interest in the Joint Venture to ALSTOM SA (ALSTOM) in May 2000. The Company disposed of its Transportation segment in the first quarter of 1999. As a result of these transactions, the Company's consolidated financial statements present the net assets and results of operations of these segments as discontinued operations.

In connection with the sale of its 50% interest in the Joint Venture to ALSTOM in May 2000, the Company received cash proceeds of \$1,197 million and recognized a gain of \$734 million (\$713 million, net of tax), which includes \$136 million of accumulated foreign currency translation losses. In connection with the sale of the nuclear business to British Nuclear Fuels PLC in April 2000, the Company received cash proceeds of \$485 million and recognized a gain of \$55 million (\$17 million, net of tax). The net gain from the sale of the nuclear business reflects a \$300 million provision for estimated environmental remediation. These gains were also offset by operating losses associated with these businesses.

Effective June 30, 1999, the Company formed the Joint Venture with ALSTOM by contributing certain assets and businesses of its power generation business. Upon formation of the Joint Venture, the Company received cash boot and recognized a corresponding gross gain of \$1,500 million (\$1,339 million, net of tax). The Company accounted for its 50% ownership in the Joint Venture as an equity investment through the date of disposal. For the six month period ended December 31, 1999, the Company recognized net losses of \$99 million for its share of the results of the Joint Venture's operations.

In the first quarter of 1999, the Company sold its 50% interest in ABB Daimler-Benz Transportation GmbH (ADtranz), a rail transportation joint venture, to DaimlerChrysler for cash consideration of \$472 million. Upon disposal of its investment, the Company realized a net gain of \$464 million. For the year ended December 31, 1998, the Company's share of ADtranz net losses was \$282 million.

Note 4, continued

At December 31, 1999, net assets of discontinued operations of \$289 million consisted primarily of the Company's investment in the Joint Venture which is included in investments and other in the consolidated balance sheet.

Operating results of the discontinued businesses, including the Power Generation segment in 2000, 1999 and 1998, and the Transportation segment in 1998, are summarized as follows:

Year ended December 31,	2000	1999	1998
Revenues	\$ 120	\$ 3,813	\$ 7,989
Costs and expenses	(258)	(4,889)	(8,119)
Loss before taxes	(138)	(1,076)	(130)
Tax benefit (expense)	(7)	157	(29)
Net loss from discontinued operations	(145)	(919)	(159)
Net loss from equity accounted investments, net of tax benefit of \$15 million and \$51 million and tax expense of \$47 million	(23)	(168)	(282)
Gain from dispositions of discontinued operations, net of tax expense of \$59 million and \$161 million	730	1,804	–
Income (loss) from discontinued operations, net of tax	\$ 562	\$ 717	\$ (441)

The loss before taxes in 1999 includes charges for contract loss provisions recorded in accordance with the Company's periodic review of such provisions of approximately \$560 million, primarily related to technical difficulties with a new model of gas turbine. The loss before taxes in 1999 also includes other costs of approximately \$300 million principally related to the increase in management's estimate of future asbestos claims (see Note 16).

Note 5 Marketable securities

Marketable securities consist of the following:

Year ended December 31,	2000	1999
Trading	\$ 676	\$ 711
Available-for-sale	3,533	4,060
	\$ 4,209	\$ 4,771

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

	Cost	Unrealized gains	Unrealized losses	Fair value
At December 31, 2000:				
Equity securities	\$ 593	\$ 53	\$ (139)	\$ 507
Debt securities:				
U.S. government obligations	800	21	(3)	818
European government obligations	549	8	(4)	553
Corporate	231	3	(1)	233
Asset-backed	667	1	(1)	667
Other	723	32	–	755
Total debt securities	2,970	65	(9)	3,026
	\$ 3,563	\$ 118	\$ (148)	\$ 3,533

At December 31, 1999:

Equity securities	\$ 322	\$ 91	\$ (8)	\$ 405
Debt securities:				
U.S. government obligations	1,033	5	(25)	1,013
European government obligations	845	38	(13)	870
Corporate	381	2	(8)	375
Asset-backed	603	–	–	603
Other	781	16	(3)	794
Total debt securities	3,643	61	(49)	3,655
	\$ 3,965	\$ 152	\$ (57)	\$ 4,060

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

Note 5, continued

At December 31, 2000, contractual maturities of the above available-for-sale debt securities consist of the following:

	Cost	Fair value
Less than one year	\$ 690	\$ 697
One to five years	1,448	1,461
Six to ten years	708	732
Due after ten years	124	136
	\$ 2,970	\$ 3,026

Gross realized gains on available-for-sale securities were \$ 39 million, \$ 87 million and \$ 154 million in 2000, 1999 and 1998, respectively. Gross realized losses on available-for-sale securities were \$ 27 million, \$ 32 million and \$ 103 million in 2000, 1999 and 1998, respectively.

The net change in unrealized gains and losses in fair values of trading securities was not significant in 2000 or 1999.

At December 31, 2000 and 1999, the Company pledged \$ 1,099 million and \$ 672 million, respectively, of marketable securities as collateral for certain bank borrowings, issued letters of credit, insurance contracts or other security arrangements.

At December 31, 2000, investments and other in the consolidated balance sheet includes \$ 263 million of available-for-sale securities that are pledged in connection with the Company's pension plan in Sweden. These securities are comprised of European government and other debt securities recorded at their fair value of \$ 192 million (including \$ 5 million of unrealized gains) and equity securities recorded at their fair value of \$ 71 million (net of unrealized losses of \$ 9 million).

Note 6 Financial instruments

Fair values reflected in the following tables represent the replacement costs of outstanding derivative instruments. Changes in interest rates and currency rates in the future may result in these instruments being settled for amounts different from those recognized in the financial statements. Discounted cash flow methodology and option pricing models, based upon available market information, have been used to derive fair values.

The gross notional values indicate the extent of the Company's use of derivatives but do not reflect the Company's exposure to market or credit risk arising from such transactions.

The fair values and notional values of outstanding derivative financial instruments used for purposes other than trading are as follows:

December 31,	2000			1999		
	Fair values			Fair values		
	Asset	Liability	Gross notional	Asset	Liability	Gross notional
Interest rate and currency swaps, and other fixed income contracts	\$ 95	\$ (198)	\$ 5,703	\$ 253	\$ (196)	\$ 4,646
Foreign exchange forward contracts and options	105	(152)	5,442	104	(194)	5,325

The fair values and notional values of outstanding derivative financial instruments used for trading purposes are as follows:

December 31,	2000			1999		
	Fair values			Fair values		
	Asset	Liability	Gross notional	Asset	Liability	Gross notional
Interest rate and currency swaps, options and other fixed income contracts	\$ 140	\$ (99)	\$ 42,558	\$ 123	\$ (134)	\$ 120,995
Foreign exchange forward and futures contracts and options	617	(673)	32,687	711	(783)	36,748

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

Note 6, continued

The average fair values of derivative financial instruments used for trading purposes and net gain (loss) from trading activities are as follows:

Year ended December 31,	2000			1999			1998		
	Average fair values			Average fair values			Average fair values		
	Asset	Liability	Net gain (loss)	Asset	Liability	Net gain (loss)	Asset	Liability	Net gain (loss)
Interest rate and currency swaps, options and other fixed income contracts	\$ 147	\$ (108)	\$ 50	\$ 321	\$ (221)	\$ 31	\$ 433	\$ (516)	\$ 45
Foreign exchange forward and futures contracts and options	913	(964)	(86)	677	(400)	(14)	624	(687)	(30)

Disclosure about fair values of financial instruments

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

Cash and equivalents, receivables, accounts payable, short-term borrowings and current maturities of long-term borrowings: The carrying amounts reported in the balance sheet approximate the fair values.

Marketable securities (including trading and available-for-sale securities): Fair values are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Financing receivables and loans: Fair values are determined using a discounted cash flow methodology based upon loan rates of similar instruments.

Long-term borrowings: The fair values are based on quoted market prices or, where quoted market prices are not available, on the present value of future cash flows discounted at estimated borrowing rates for similar debt instruments, or on estimated prices based on current yields for debt issues of similar quality and terms.

Interest rate and currency swaps: The fair values are the amounts by which the contract could be settled, and are estimated by obtaining quotes from brokers, or using a discounted cash flow methodology based upon available market information.

Foreign exchange forward contracts: The fair values are estimated by reference to quoted market data.

Financial instruments whose carrying amounts and fair values differ consist of the following:

December 31,	2000		1999	
	Carrying amounts	Estimated fair value	Carrying amounts	Estimated fair value
Loans receivable	\$ 1,469	\$ 1,456	\$ 1,150	\$ 1,139
Long-term borrowings	(3,776)	(3,861)	(3,586)	(3,525)
Unrealized net loss on interest rate and currency swaps hedging long-term borrowings	—	(47)	—	(39)
<i>Derivatives used for currency and interest rate risk management:</i>				
Interest rate and currency swaps and other fixed income contracts:				
Assets	5	53	61	189
Liabilities	(8)	(109)	(13)	(93)
Foreign exchange forward contracts and options:				
Assets	96	105	68	104
Liabilities	(150)	(152)	(181)	(194)
<i>Derivative financial instruments used for proprietary trading purposes:</i>				
Interest rate swaps and other fixed income contracts	41	41	(11)	(11)
Foreign exchange forward contracts	(56)	(56)	(72)	(72)

Note 7 Receivables

Receivables consist of the following:

December 31,	2000	1999
Trade receivables	\$ 4,289	\$ 4,665
Other receivables	3,168	2,485
Allowance	(234)	(236)
	7,223	6,914
Unbilled receivables, net:		
Costs and estimated profits in excess of billings	1,769	1,914
Advance payments received	(664)	(1,024)
	1,105	890
	\$ 8,328	\$ 7,804

Trade receivables include contractual retention amounts billed to customers of \$140 million and \$99 million at December 31, 2000 and 1999, respectively. Management expects the majority of related contracts will be completed and substantially all of the billed amounts retained by the customer will be collected within one year of the respective balance sheet dates. Other receivables consist of V.A.T., claims, employee and customer related advances, current portion of direct finance and sales-type leases and other non-trade receivables.

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

During 2000 and 1999, the Company sold trade receivables to Qualifying Special Purpose Entities (QSPEs) in revolving-period securitizations. The Company retains servicing responsibility relating to the sold receivables. Solely for the purpose of credit enhancement from the perspective of the QSPEs, the Company retains an interest in the sold receivables (retained interest). These retained interests are initially measured at estimated fair values, which the Company believes approximate historical carrying values, and are subsequently measured based on a periodic evaluation of collections and delinquencies.

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

The Company routinely evaluates its portfolio of trade receivables for risk of non-collection and records an allowance for doubtful debts to reflect the carrying value of its trade receivables at estimated net realizable value. Pursuant to the requirements of the revolving-period securitization through which the Company securitizes certain of its trade receivables, the Company effectively bears the risk of potential delinquency or default associated with trade receivables sold or interests retained. Accordingly, in the normal course of servicing the assets sold, the Company evaluates potential collection losses and delinquencies and updates the estimated fair value of the Company's retained interest.

In accordance with SFAS 125, ABB has not recorded a servicing asset or servicing liability as the Company believes it is not practicable to estimate these values given that verifiable data as to the fair value of the compensation and or cost related to servicing the types of the assets sold is not readily obtainable nor reliably estimable for the multiple geographic markets in which the entities selling receivables operate.

During 2000, the following cash flows were received from and paid to QSPEs:

Gross trade receivables sold to QSPEs	\$ 3,708
Collections made on behalf of and paid to QSPEs	(3,324)
Purchasers, liquidity and program fees	(26)
Increase in retained interests	(150)
Net cash received from QSPEs during 2000	\$ 208

Cash settlement with the QSPEs takes place monthly on a net basis. Gross trade receivables sold represent the face value of all invoices sold during the year to the QSPEs. As the Company services the receivables, collection of the receivables previously sold is made on behalf of the QSPEs. The Company records a loss on sale at the point of sale of the receivables to the QSPEs. The Company records the purchasers, liquidity and program fees at the point of sale to the QSPE. The total cost of \$26 million related to the securitization of trade receivables in 2000 is included in the determination of current earnings. The increase in retained interests primarily results from increases in the volume of receivables sold during the year and changes in default and delinquency rates, offset by collections of the underlying receivables.

The following table presents amounts associated with assets securitized at December 31, 2000:

Total trade receivables	\$ 5,207
Portion derecognized	(702)
Retained interests, included in other receivables	(216)
Trade receivables	\$ 4,289

Note 8 Inventories

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

December 31,	2000	1999
Commercial inventories, net:		
Raw materials	\$ 1,074	\$ 1,079
Work in process	1,471	1,483
Finished goods	373	381
	2,918	2,943
Contract inventories, net:		
Inventoried costs	387	599
Contract costs subject to future negotiation	53	27
Advance payments received related to contracts	(166)	(304)
	274	322
	\$ 3,192	\$ 3,265

Contract costs subject to future negotiation represent pending claims for additional contract costs that management believes will be collectible.

Note 9 Prepaid expenses and other

Prepaid expenses and other current assets consist of the following:

Year ended December 31,	2000	1999
Prepaid expenses	\$ 721	\$ 584
Deferred taxes	530	750
Advances to suppliers and contractors	221	200
Other	113	68
	\$ 1,585	\$ 1,602

Note 10 Financing receivables

Financing receivables consist of the following:

December 31,	2000	1999
Third-party loans receivable	\$ 1,230	\$ 1,072
Finance leases (see Note 15)	1,895	1,799
Other	750	556
	\$ 3,875	\$ 3,427

Third-party loans receivable primarily represent financing arrangements provided to customers under long-term construction contracts as well as export financing and other activities. Included in this balance at December 31, 2000 is \$ 173 million of assets pledged as security for long-term borrowings. Finance leases and other financing receivables at December 31, 2000 include \$ 495 million and \$ 344 million, respectively, of assets pledged as securities for other liabilities. In addition, other financing receivables include notes receivable from affiliates of \$ 239 million and \$ 78 million at December 31, 2000 and 1999, respectively.

Note 11 Property, plant and equipment

Property, plant and equipment consist of the following:

December 31,	2000	1999
Land and buildings	\$ 2,513	\$ 2,828
Machinery and equipment	4,683	5,088
Construction in progress	130	163
	7,326	8,079
Accumulated depreciation	(4,083)	(4,266)
	\$ 3,243	\$ 3,813

Note 12 Goodwill and other intangible assets

Goodwill and other intangible assets consist of the following:

December 31,	2000	1999
Goodwill	\$ 3,222	\$ 2,982
Other intangible assets	974	752
	4,196	3,734
Accumulated amortization	(1,041)	(830)
	\$ 3,155	\$ 2,904

Other intangible assets includes primarily intangibles created through acquisitions as well as capitalized software to be sold and for internal use, trademarks and patents.

Note 13 Borrowings

The Company actively uses the financial markets to meet liquidity needs and to manage currency exposure. Furthermore, the Company maintains credit commitments with various banks worldwide for borrowing funds on short-term and long-term bases.

Short-term borrowings

The Company's commercial paper and short-term debt financing consist of the following:

December 31,	2000	1999
Commercial paper (weighted average interest rate of 5.9% and 4.7%)	\$ 1,923	\$ 879
Other short-term debt (weighted average interest rate of 6.0% and 5.9%)	1,163	1,199
Current portion of long-term borrowings (weighted average interest rate of 5.0% and 4.4%)	501	1,289
	\$ 3,587	\$ 3,367

Other short-term debt primarily represents repurchase agreements and short-term loans from various banks. Commercial paper outstanding at December 31, 2000 and 1999, had maturities of mainly less than 3 months.

Long-term borrowings

The Company utilizes a variety of derivative products including interest rate, currency and equity swaps to modify the characteristics of its long-term borrowings. The Company uses interest rate swaps to effectively convert certain fixed-rate long-term borrowings into floating rate obligations. For certain non-U.S. dollar denominated borrowings, the Company utilizes cross-currency swaps to effectively convert the borrowings into U.S. dollar obligations.

The following table summarizes the Company's long-term borrowings considering the effect of interest rate, currency and equity swaps:

December 31,	2000			1999		
	Balance	Nominal rate	Effective rate	Balance	Nominal rate	Effective rate
Floating rate	\$ 3,444	5.3%	5.4%	\$ 3,143	4.8%	4.8%
Fixed rate	611	4.6%	4.6%	836	4.3%	4.5%
Putable bonds	139	6.5%	6.5%	316	5.8%	5.9%
Callable bonds	—	—	—	189	7.0%	7.0%
Convertible bonds	—	—	—	181	3.3%	5.1%
Other	83	6.7%	7.1%	210	7.2%	7.2%
	4,277			4,875		
Current portion of long-term borrowings	(501)	5.0%	6.5%	(1,289)	4.4%	4.9%
	\$ 3,776			\$ 3,586		

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

Note 13, continued

At December 31, 2000, maturities of long-term borrowings are as follows:

Due in 2001	\$ 501
Due in 2002	551
Due in 2003	1,222
Due in 2004	978
Due in 2005	567
Thereafter	458
	\$ 4,277

At December 31, 2000, approximately \$1,515 million of the Company's long-term borrowings are denominated in U.S. dollars. The floating rate borrowings represent the Company's outstanding borrowings issued at or modified by an interest rate swap, such that the interest rate on the borrowings is at a floating interest rate referenced to the London Interbank Offered Rate ("LIBOR").

Note 14 Accrued liabilities and other

Accrued liabilities and other consist of the following:

	2000	1999
December 31,		
Insurance reserves	\$ 1,399	\$ 1,124
Contract related reserves	538	802
Accrued personnel costs	791	749
Taxes payable	471	491
Warranties	413	435
Deferred taxes	235	292
Interest	445	262
Restructuring	102	161
Other	1,733	2,319
	\$ 6,127	\$ 6,635

The Company's insurance reserves for unpaid claims and claim adjustment expenses are determined on the basis of reports from ceding companies, underwriting associations and management estimates. The Company continually reviews reserves for claims and claim adjustment expenses during the year and changes in estimates are reflected in net income. In addition, reserves are routinely reviewed by independent actuarial consultants. A portion of insurance reserves is shown on a discounted basis, which estimates the present value of funds required to pay losses at future dates. The reserves are discounted where anticipated future investment income is an integral part of the premium pricing for a particular product. The effect of the discounting is to decrease outstanding losses and loss adjustment expenses by \$223 million and \$65 million at December 31, 2000 and 1999, respectively.

Note 15 Leases

Lease obligations

The Company's lease obligations primarily relate to real estate and office equipment. In the normal course of business, management expects most leases to be renewed or replaced by other leases. Minimum rent expense under operating leases was \$252 million, \$275 million and \$200 million in 2000, 1999 and 1998, respectively.

At December 31, 2000, future net minimum lease payments for operating leases, having initial or remaining non-cancelable lease terms in excess of one year, consist of the following:

2001	\$ 234
2002	192
2003	157
2004	131
2005	121
Thereafter	379
	1,214
Sublease income	(51)
	\$ 1,163

Note 15, continued

Investments in leases

The Financial Services segment provides sales support to the Company's industrial entities' customers by means of lease financing and credit arrangements as well as other direct third-party lease financing. Investments in sales-type leases, leveraged leases and direct financing leases are included in financing receivables.

The allowance for losses on lease financing receivables is determined based on loss experience and assessment of inherent risk. Adjustments to the allowance for losses are made to adjust the net investment in finance leases to the estimated collectible amount.

The Company's non-current investments in direct financing, sales-type, and leveraged leases consist of the following:

December 31,	2000	1999
Minimum lease payments receivable	\$ 2,972	\$ 2,679
Residual values	186	152
Unearned income	(1,050)	(896)
	2,108	1,935
Leveraged leases	28	88
Allowance for losses	(6)	(11)
	2,130	2,012
Current portion	(235)	(213)
	\$ 1,895	\$ 1,799

At December 31, 2000, minimum lease payments under direct financing and sales-type lease payments are scheduled to be received as follows:

2001	\$ 352
2002	304
2003	258
2004	206
2005	283
Thereafter	1,569
	\$ 2,972

Note 16 Commitments and contingencies

General

The Company is subject to various legal proceedings and claims which have arisen in the ordinary course of business that have not been finally adjudicated. It is not possible at this time for the Company to predict with any certainty the outcome of such litigation. However, except as stated below, management is of the opinion, based upon information presently available, that it is unlikely that any such liability, to the extent not provided for through insurance or otherwise, would have a material adverse effect in relation to the Company's consolidated financial position, liquidity or results of operations.

Environmental

The Company is a participant in several legal and regulatory actions, which result from various U.S. and other federal, state and local environmental protection legislation as well as agreements with third-parties. Provisions for such actions are accrued when the events are probable and the related costs can be reasonably estimated. Changes in estimates of such costs are recognized in the period determined. While the Company cannot estimate the impact of future regulations affecting these actions, management believes that the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations.

The Company records accruals for environmental matters based on its estimated share of costs in the accounting period in which responsibility is established and costs can be reasonably estimated. Environmental liabilities are recorded based on the most probable cost, if known, or on the estimated minimum cost, determined on a site by site basis. Revisions to the accruals are made in the period the estimated costs of remediation change.

Costs of future expenditures for environmental remediation obligations are not discounted to their present value. The Company records a receivable if the estimated recoveries from insurers or other third-parties are determined to be probable.

Performance guarantees

It is industry practice to use letters of credit and other performance guarantees of Company performance on major projects, including long-term operation and maintenance projects. The majority of these third-party guarantees guarantee the performance of suppliers to customers. Such guarantees generally do not state a fixed or maximum amount. Accruals are recorded in the consolidated financial statements at the time it becomes probable the Company will be obligated to make payments pursuant to any performance guarantee. The amount of any potential obligations under performance guarantees cannot be reasonably estimated. Management does not expect any significant claims to be incurred. However, such claims could have a material impact on the Company's consolidated financial position, liquidity or results of operations.

Note 16, continued

The Company retained obligations for performance guarantees related to the power generation businesses contributed to the Joint Venture with ALSTOM. In addition, in connection with a power plant construction project in a business sold to ALSTOM POWER N.V. ("ALSTOM Power"), one of the Company's subsidiaries has issued an advance payment guarantee of approximately \$500 million towards a bank holding funds which are to be drawn down by a consortium led by a subsidiary of ALSTOM Power. In connection with the sale to ALSTOM of the Company's interest in the Joint Venture in May 2000, ALSTOM and ALSTOM Power have undertaken to fully indemnify the Company against any claims arising under such guarantees.

Contingencies related to former Power Generation businesses

The Company has retained ownership of Combustion Engineering, Inc. ("Combustion Engineering"), a now inactive subsidiary that conducted part of the power generation business. Along with many other companies unrelated to the Company, Combustion Engineering is a co-defendant in numerous lawsuits pending in the United States in which the plaintiffs claim damages for personal injury arising from exposure to or use of products containing asbestos that Combustion Engineering supplied, primarily during the 1970's and before.

At December 31, 2000, Combustion Engineering was named in approximately 66,000 pending personal injury claims for asbestos related litigation. It can be expected that additional asbestos related claims will continue to be asserted against Combustion Engineering. The ultimate cost of these claims to the Company is difficult to estimate with any degree of certainty due to the nature and number of variables associated with unasserted claims. Some of the factors affecting the reliability of estimating the potential cost of unasserted 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' product or operations, the type and severity of the disease suffered by the claimant, the method of settlement of such cases, and the applicability of the Company's insurance policies to recover the settlement costs, until the policy limits are exhausted.

The Company has followed a practice of maintaining a reserve to cover its estimated settlement costs for asbestos claims and an asset representing estimated insurance reimbursement. The reserve represents management's estimate of the costs associated with asbestos claims, including defense costs based upon 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 will continue to be incurred, the estimates were modified in 1999 to extend the period over which current and future claims are expected to be settled from 7 years to 11 years. This revision better reflects anticipated claim settlement costs in light of the number and type of claims being filed in recent years and the allocation of such claims to all available insurance policies. As a result of this change in estimate, the Company recorded an additional accrual of approximately \$300 million in 1999 which is included in the results of discontinued operations. During 2000, the Company recorded an additional accrual of approximately \$70 million which is included in the results of discontinued operations. At December 31, 2000 and 1999, the Company had reserved approximately \$590 million and \$670 million, respectively for asbestos-related claims. The Company has also recorded assets of approximately \$160 million and \$220 million at December 31, 2000 and 1999, respectively, for probable insurance recoveries. Allowances against the insurance receivables are established at such time as it becomes likely that insurance recoveries are not probable.

Future operating results will continue to reflect the effect of changes in estimated claims settlement cost resulting from actual claim activity as well as changes in available insurance coverage. It is reasonably possible that the Company could be required to make expenditures 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 the Company's reported results for a particular reporting period, management believes the litigation should not have a materially adverse effect on the Company's consolidated financial position or liquidity.

Contingencies related to former nuclear business

The Company has retained liability for environmental remediation costs at two sites in the United States that were operated by the Company's nuclear business, which has been sold to British Nuclear Fuels. The Company has retained all environmental liabilities associated with its Windsor, Connecticut facility and a portion of the liabilities associated with 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. At the Windsor site, the Company believes 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, the Company established a reserve of \$300 million in connection with estimated remediation costs related to these facilities. The reserve balance is included in other non-current liabilities and the related charge is included in the results of discontinued operations. It is possible that the Company could be required to make expenditures in excess of this reserve, in a range of amounts that cannot reasonably be estimated.

Prior to the sale of the nuclear business, the Company conducted and had intended to continue conducting activities at these two sites which would require maintaining the appropriate licenses from the U.S. Nuclear Regulatory Commission ("NRC"). As long as the NRC licenses were in force, the Company was not obligated, nor was it necessary, to remediate those sites. At the time of the sale of the nuclear business, there was a substantial likelihood that, within one year, the buyer would terminate operations at the Hematite and Windsor facilities and that the NRC licenses would be discontinued. These events would trigger the remediation for which the Company is liable. Therefore, the Company established the reserve at the time of such sale.

Note 17 Taxes

Provision for taxes consists of the following:

Year ended December 31,	2000	1999	1998
Current taxes on income	\$ 263	\$ 333	\$ 319
Deferred taxes	114	10	18
Tax expense from continuing operations	377	343	337
Tax (benefit) expense from discontinued operations	51	(47)	76
	\$ 428	\$ 296	\$ 413

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

Note 17, continued

The Company operates in countries that have differing tax laws and rates. Consequently, the consolidated weighted average effective rate will vary from year to year according to the source of earnings or losses by country.

Year ended December 31,	2000	1999	1998
Reconciliation of taxes:			
Income from continuing operations before taxes and minority interest	\$ 1,306	\$ 1,022	\$ 1,275
Weighted average tax rate	37.2%	39.1%	36.2%
Taxes at weighted average tax rate	486	400	461
Items taxed at rates other than the weighted average tax rate	(67)	1	(27)
Non-deductible goodwill amortization	55	58	30
Changes in valuation allowance	(67)	(144)	(145)
Changes in enacted tax rate	(42)	18	(12)
Other, net	12	10	30
Provision for taxes	\$ 377	\$ 343	\$ 337
Effective tax rate for the year	28.9%	33.6%	26.4%

Deferred income tax assets and liabilities consist of the following:

December 31,	2000	1999
Deferred tax liabilities:		
Financing receivables	\$ (512)	\$ (548)
Property, plant and equipment	(282)	(319)
Pension and other accrued liabilities	(438)	(603)
Insurance reserves	(233)	(229)
Other	(298)	(249)
Total deferred tax liability	(1,763)	(1,948)
Deferred tax assets:		
Investments and other	19	175
Property, plant and equipment	79	142
Pension and other accrued liabilities	1,059	823
Unused tax losses and credits	453	342
Other	162	161
Total deferred tax asset	1,772	1,643
Valuation allowance	(777)	(514)
Net deferred tax asset	995	1,129
Net deferred tax liability	\$ (768)	\$ (819)

During the year ended December 31, 2000, the increase in valuation allowance resulted primarily from the recognition of deferred tax assets on certain environmental and other provisions on which full valuation allowances were deemed necessary. The increase in the total valuation allowance was offset, to a certain extent, by the use of tax loss carry-forwards in relation to tax planning strategies, for which no tax benefits were recognized.

After offsetting deferred tax assets with deferred tax liabilities in the same tax jurisdiction, deferred taxes consist of the following:

	2000		1999	
December 31,	Current	Non-current	Current	Non-current
Deferred tax liability	\$ (235)	\$ (1,528)	\$ (292)	\$ (1,656)
Deferred tax asset, net	530	465	750	379
Net deferred tax asset (liability)	\$ 295	\$ (1,063)	\$ 458	\$ (1,277)

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

Note 17, continued

At December 31, 2000, net operating loss carry-forwards of \$ 984 million and tax credits of \$ 87 million are available to reduce future taxable income of certain subsidiaries, of which \$ 608 million loss carry-forwards and \$ 87 million tax credits expire in varying amounts through 2020 and the remainder do not expire. These carry-forwards are predominately related to the Company's U.S., Italian and German operations.

Note 18 Other liabilities

Other liabilities include advances from customers relating to long-term construction contracts of \$ 862 million and \$ 945 million at December 31, 2000 and 1999, respectively.

The Company entered into tax advantaged leasing transactions with U.S. investors prior to 2000. Prepaid rents that have been received on these transactions are \$ 344 and \$ 337 million at December 31, 2000 and 1999, respectively, and have been recorded as deposit liabilities. Net gains on these transactions are being recognized over the lease terms.

The Company entered into certain lease transactions which resulted in the recognition of a long-term liability of \$ 495 million and \$ 515 million at December 31, 2000 and 1999, respectively, and a corresponding receivable, reflected in finance receivables for similar amounts. Under these lease structures, certain lessee payments have been assigned to banks which have financed these lease transactions.

Note 19 Employee benefits

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

Some of these plans require employees to make contributions and enable employees to earn matching or other contributions from the Company. The funding policy of these plans is consistent with the local government and tax requirements. The Company has several pension plans which are not funded pursuant to local government and tax requirements.

Defined benefit plans provide benefits primarily based on employees' years of service, age and salary. The cost and obligations from sponsoring defined benefit plans are determined on an actuarial basis using the projected unit credit method. This method reflects service rendered by the employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

Effective June 30, 1999, the Company transferred certain pension liabilities and assets to the Joint Venture (see Note 4). This transfer is presented as a part of the changes in benefit obligations and fair value of plan assets for the year ended December 31, 1999.

For the years ended December 31, 2000, 1999 and 1998, net periodic pension cost consists of the following:

	Pension benefits			Other benefits		
	2000	1999	1998	2000	1999	1998
Service cost	\$ 212	\$ 254	\$ 219	\$ 5	\$ 6	\$ 4
Interest cost	328	348	380	26	27	31
Expected return on plan assets	(320)	(319)	(326)	–	–	–
Amortization of transition liability	11	16	18	8	11	15
Amortization of prior service cost	38	7	6	–	–	1
Recognized net actuarial loss	(1)	18	10	1	1	–
Other	10	11	1	–	7	(14)
	\$ 278	\$ 335	\$ 308	\$ 40	\$ 52	\$ 37

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

Note 19, continued

The following tables set forth the change in benefit obligations, the change in plan assets and the funded status recognized in the consolidated financial statements at December 31, 2000 and 1999, for the Company's principal benefit plans:

	Pension benefits		Other benefits	
	2000	1999	2000	1999
Benefit obligation at the beginning of year	\$ 6,328	\$ 7,706	\$ 328	\$ 456
Service cost	212	254	5	6
Interest cost	328	348	26	27
Contributions from plan participants	38	44	1	2
Benefit payments	(426)	(406)	(42)	(32)
Benefit obligations of businesses acquired	58	367	–	9
Benefit obligations of businesses disposed	(81)	(1,185)	(12)	(131)
Actuarial (gain) loss	123	(58)	78	(7)
Plan amendments and other	27	(11)	6	(3)
Exchange rate differences	(295)	(731)	–	1
Benefit obligation at the end of year	6,312	6,328	390	328
Fair value of plan assets at the beginning of year	4,788	5,479	–	–
Actual return on plan assets	276	625	–	–
Contributions from employer	391	286	41	30
Contributions from plan participants	38	44	1	2
Benefit payments	(426)	(406)	(42)	(32)
Plan assets of businesses acquired	48	154	–	–
Plan assets of businesses disposed	(17)	(859)	–	–
Other	(78)	(18)	–	–
Exchange rate differences	(177)	(517)	–	–
Fair value of plan assets at the end of year	4,843	4,788	–	–
Funded status	1,469	1,540	390	328
Unrecognized transition liability	(24)	(39)	(95)	(109)
Unrecognized actuarial loss	(199)	(33)	(91)	(13)
Unrecognized prior service cost	(87)	(24)	(3)	–
Net amount recognized	\$ 1,159	\$ 1,444	\$ 201	\$ 206

The following amounts have been recognized in the Company's consolidated balance sheets at December 31, 2000 and 1999:

	Pension benefits		Other benefits	
	2000	1999	2000	1999
Prepaid pension cost	\$ (242)	\$ (181)	\$ –	\$ –
Accrued pension cost	1,505	1,779	201	206
Intangible assets	(13)	(18)	–	–
Accumulated other comprehensive loss	(91)	(136)	–	–
Net amount recognized	\$ 1,159	\$ 1,444	\$ 201	\$ 206

The changes in the minimum pension liability in 2000, 1999 and 1998 were primarily attributable to changes in the discount rate and the fair value of plan assets in the German and U.S. pension plans.

The projected benefit obligation and fair value of plan assets for pension plans with benefit obligations in excess of plan assets were \$5,806 million and \$4,267 million, respectively, at December 31, 2000 and \$2,155 million and \$402 million, respectively, at December 31, 1999. The increase in these amounts from 1999 to 2000 resulted from a shift in the funded status of the Company's pension plan in Switzerland. The accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were \$1,739 million and \$533 million, respectively, at December 31, 2000 and \$1,949 million and \$288 million, respectively, at December 31, 1999.

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

Note 19, continued

At December 31, 2000 and 1999, the assets of the plans were comprised of:

	Pension benefits	
	2000	1999
Equity securities	43%	46%
Debt securities	40%	38%
Others	17%	16%

At December 31, 2000 and 1999, the plan assets included \$16 million and \$18 million of the Company's capital stock.

The following weighted average assumptions were used in accounting for defined benefit pension plans, for the years ended December 31, 2000 and 1999:

	Pension benefits		Other benefits	
	2000	1999	2000	1999
Discount rate	5.40%	5.27%	7.72%	6.76%
Expected return on plan assets	6.68%	6.77%	–	–
Rate of compensation increase	3.16%	2.97%	–	–

The Company has multiple non-pension post-retirement benefit plans. The Company's health care plans are generally contributory with participants' contributions adjusted annually. The health care trend rate for 2000 was assumed to be 9.16%, then gradually declining to 7.09% in 2007, and to remain at that level thereafter.

Assumed health care cost trends have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects at December 31, 2000:

	One-percentage-point increase	One-percentage-point decrease
Effect on total of service and interest cost components	\$ 2	\$(2)
Effect on accumulated post-retirement benefit obligation	27	(21)

The Company also maintains several defined contribution plans. The expense for these plans was \$29 million, \$32 million and \$32 million in 2000, 1999 and 1998, respectively. The Company also contributed \$108 million, \$118 million and \$201 million to multi-employer plans in 2000, 1999 and 1998, respectively.

Note 20 Stockholders' equity

In June 2000, the Company sold 4.6 million shares of its treasury stock to a bank at fair market value and sold put options which enable the bank to sell up to 4.6 million shares to the Company at exercise prices ranging from CHF 102 to CHF 212. The put options expire in periods ranging from 2004 to 2006 and were recorded as equity instruments in accordance with EITF 96-13, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*, as the terms of the put options allow the Company to choose a net share settlement.

At December 31, 2000, retained earnings of \$366 million were restricted under Swiss law and not available for distribution as dividends to the Company's stockholders.

Note 21 Management incentive plan

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

Warrants granted under this plan allow participants to purchase shares of the Company at a predetermined price, not less than fair market value on the date of grant. Participants may sell the warrants rather than exercise the right to purchase shares. Equivalent warrants are listed on the Swiss Exchange, which facilitates valuation and transferability of warrants granted under this plan.

Each WAR gives the participant the right to receive, in cash, the market price of a warrant on the date of exercise of the WAR. The WARs are non-transferable.

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

The terms and conditions of the plan allow the employees of subsidiaries that were contributed to ABB ALSTOM POWER to retain their warrants and WARs.

As the primary trading market for shares of ABB Ltd is the Swiss Exchange, the exercise prices of warrants and the trading prices of equivalent warrants listed on the Swiss Exchange are denominated in Swiss Francs (CHF). Accordingly, exercise prices are presented below in CHF. Fair values have been presented in U.S. dollars based upon exchange rates in effect as of the applicable period.

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

Note 21, continued

Warrants

The Company accounts for the warrants using the intrinsic value method of APB Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), as permitted by Statement of Financial Accounting Standards No. 123, *Accounting for Stock Based Compensation* (SFAS 123). As all warrants were issued with exercise prices greater than the market prices of the stock on the dates of grant, the Company has recorded no compensation expense related to the warrants. Had the Company accounted for the warrants under the fair value method of SFAS 123, the effect would have been to reduce net income by \$ 19 million (\$ 0.06 per share), \$ 8 million (\$ 0.03 per share) and \$ 3 million (\$ 0.01 per share) in 2000, 1999 and 1998, respectively. Fair value of the warrants was determined on the date of grant by using the Binomial option model and thereafter by the trading price of equivalent warrants listed on the Swiss Stock Exchange.

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

	Number of warrants	Number of shares ⁽³⁾	Weighted average exercise price (presented in CHF) ⁽⁴⁾
Outstanding at January 1, 1998	47,980	777,756	64.77
Granted ^{(1) (5)}	10,918,000	1,769,808	111.90
Exercised	(39,045)	(632,920)	64.77
Outstanding at December 31, 1998⁽¹⁾	10,926,935	1,914,644	108.34
Granted ^{(2) (6)}	17,156,040	857,802	164.40
Exercised	(8,935)	(144,836)	64.77
Forfeited	(375,000)	(60,788)	115.01
Outstanding at December 31, 1999	27,699,040	2,566,822	129.37
Granted ^{(2) (7)}	23,760,000	1,188,000	212.00
Forfeited	(415,000)	(32,520)	153.69
Outstanding at December 31, 2000	51,044,040	3,722,302	155.53
Exercisable at December 31, 1998	8,935	144,836	64.77
Exercisable at December 31, 1999	60,000	9,726	112.87
Exercisable at December 31, 2000	60,000	9,726	112.87

⁽¹⁾ On the date of grant, all warrants issued prior to June 1999 required the exercise of 100 warrants to 1 bearer share of ABB AG. The warrant terms and exercise prices were subsequently modified to keep the warrant holders in the same economic position after the payment of an extraordinary dividend by ABB AG and the issuance of ABB Ltd shares for all issued shares of ABB AG in June 1999 (see Note 1). As a result, the warrants issued prior to June 1999 now require the exercise of 100 warrants for 16.21 registered shares of ABB Ltd. In accordance with EITF 90-9, *Changes to Fixed Employee Stock Option Plans as a Result of Equity Restructuring*, the modifications to outstanding warrants did not result in a new measurement date for the determination of compensation expense under APB 25. Amounts in the table have been restated to show the effects of these modifications to the warrants.

⁽²⁾ All warrants issued in 1999 and 2000 require the exercise of 20 warrants for 1 registered share of ABB Ltd.

⁽³⁾ Information presented reflects the number of registered shares of ABB Ltd that warrant holders can receive upon exercise.

⁽⁴⁾ Information presented reflects the exercise price per registered share of ABB Ltd.

⁽⁵⁾ The aggregate fair value at date of grant of warrants issued in 1998 was \$33 million, assuming, depending on the date of grant, a dividend yield of 2.1% to 2.7%, expected volatility of 32% to 41%, risk-free interest rate of 2.5% to 2.8%, and an expected life of six years.

⁽⁶⁾ The aggregate fair value at date of grant of warrants issued in 1999 was \$25 million, assuming, depending on the date of grant, a dividend yield of 1.8% to 1.9%, expected volatility of 31% to 34%, risk-free interest rate of 2.5% to 3.6%, and an expected life of six years.

⁽⁷⁾ The aggregate fair value at date of grant of warrants issued in 2000 was \$54 million, assuming a dividend yield of 1.7%, expected volatility of 33%, risk-free interest rate of 4.4%, and an expected life of six years.

Presented below is a summary of warrants outstanding at December 31, 2000:

Range of exercise prices (presented in CHF) ⁽²⁾	Number of warrants	Number of shares ⁽¹⁾	Weighted average remaining life	Weighted average exercise price (presented in CHF) ⁽²⁾
102.16–123.57	10,438,000	1,692,000	3.6 years	111.77
150.00–165.00	17,056,040	852,802	4.9 years	164.39
212	23,550,000	1,177,500	5.5 years	212.00

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

⁽²⁾ Information presented reflects the exercise price per registered share of ABB Ltd.

Note 21, continued

WARs

As each WAR gives the holder the right to receive cash equal to the market price of a warrant on date of exercise, the Company is required by APB 25 to record a liability based upon the fair value of outstanding WARs at each period end, amortized on a straight-line basis over the three year vesting period. In June 2000, to hedge its exposure to fluctuations in fair value of outstanding WARs, the Company purchased cash-settled call options from a bank which entitle the Company to receive amounts equivalent to its obligations under the outstanding WARs. In accordance with EITF 96-13, the cash-settled call options have been recorded as assets measured at fair value, with subsequent changes in fair value recorded through earnings as an offset to the compensation expense recorded in connection with the WARs. Accordingly, during 2000 and 1999, the Company recognized net expense of \$ 35 million and \$ 42 million, respectively, related to the WARs and cash-settled call options, excluding amounts charged to discontinued operations.

The aggregate fair value of outstanding WARs was \$ 152 million and \$ 156 million at December 31, 2000 and 1999, respectively. Fair value of WARs was determined based upon the trading price of equivalent warrants listed on the Swiss Exchange.

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

	Number of WARs outstanding
Outstanding at January 1, 1998	-
Granted	10,790,000
Forfeited	(205,000)
Outstanding at December 31, 1998	10,585,000
Granted	25,269,400
Forfeited	(605,000)
Outstanding at December 31, 1999	35,249,400
Granted	35,215,000
Exercised	(25,000)
Forfeited	(680,000)
Outstanding at December 31, 2000	69,759,400

None of the WARs was exercisable at December 31, 2000 or 1999. The aggregate fair value at date of grant of WARs issued in 2000, 1999 and 1998 was \$ 80 million, \$ 36 million and \$ 32 million, respectively.

Note 22 Restructuring charges

In late 1997, the Company announced a restructuring plan intended to rationalize production capacity, consolidate operations and gain operational efficiencies primarily in Germany, the United States, Italy and Spain (the 1997 Restructuring). The 1997 Restructuring called for workforce reductions totaling approximately 4,150 employees spread among the Company's various continuing segments as follows: 1,550 in Power Distribution, 1,075 in Automation, 1,000 in Power Transmission and 525 in Building Technologies. The 1997 Restructuring also included the closure of 6 factories.

Other income (expense), net during 1998 includes a \$ 146 million charge predominately for employee termination and severance costs in connection with the execution of the 1997 Restructuring. At December 31, 1998, substantially all the initiatives of the 1997 Restructuring had been completed and reserves remaining for completion of the 1997 Restructuring were not significant. Actual workforce reductions approximated estimated amounts.

During the first quarter of 1999 and in connection with its purchase of Eltag Bailey, the Company implemented a restructuring plan intended to consolidate operations and gain operational efficiencies. The plan called for workforce reductions of approximately 1,500 salaried employees primarily in Germany and the United States (EB Restructuring). The Company recorded a \$ 141 million liability in its purchase price allocation principally related to these costs. At December 31, 1999, accrued liabilities includes a \$ 58 million liability remaining for the EB Restructuring.

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 Eltag Bailey. The EB Restructuring was substantially complete at the end of 2000.

Note 23 Segment and geographic data

For all periods presented, the Company was organized into the following business segments:

Automation: Offers products, solutions and services focused on improving quality and efficiency as well as reducing environmental impacts in industrial and utility plants. The Company provides knowledge-based, value-added solutions for the automation needs of customers in these industries.

Power Transmission: Provides electrical power transmission products, solutions and services. The Company's customers are mainly electrical utilities, owners and operators of power transmission systems and energy traders, who deliver high-voltage electricity from power plants to the distribution networks providing electrical power to end users.

Power Distribution: Provides a broad offering of products, solutions and services, including transformers, substations and circuit breakers, to power network management services, for the distribution of electricity from the transmission grid to the end consumer. The Company's principal customers are utilities that own or operate networks, commercial institutions, such as airports, hospitals and supermarkets and industrial customers, such as chemical, automotive and pulp and paper companies.

Building Technologies: Provides a wide range of products and comprehensive service and maintenance solutions for industrial, commercial and public facilities, including low-voltage products, such as switches, fuses, air handling and lighting systems, as well as programmable facility management systems that can automatically operate building systems.

Oil, Gas and Petrochemicals: Provides technologies to customers in the upstream exploration and production of oil and gas, and downstream refining and petrochemical processing.

Financial Services: Offers a wide range of financing, sales support, risk management services and insurance both within the Company and to third parties.

The Company evaluates performance based on earnings before interest and taxes (EBIT), which excludes interest income and expense, taxes, minority interests, the results from discontinued operations and other items.

	Automation	Power Transmission	Power Distribution	Building Technologies	Oil, Gas & Petrochemicals	Financial Services	Corporate/Other	Consolidated
2000								
Revenues ⁽¹⁾	\$ 7,465	\$ 3,315	\$ 2,830	\$ 5,889	\$ 2,796	\$ 1,966	\$ (1,294)	\$ 22,967
Depreciation and amortization	303	96	62	131	69	23	152	836
EBIT ⁽²⁾	486	262	182	456	169	349	(519)	1,385
Net operating assets ⁽³⁾	3,743	1,192	736	811	903	9,098	(1,851)	14,632
Capital expenditures ⁽⁴⁾	110	76	66	102	27	25	79	485
1999								
Revenues ⁽¹⁾	\$ 8,236	\$ 3,712	\$ 2,875	\$ 6,324	\$ 3,086	\$ 1,687	\$ (1,564)	\$ 24,356
Depreciation and amortization	291	90	59	132	55	17	151	795
EBIT ⁽²⁾	408	309	181	394	165	337	(672)	1,122
Net operating assets ⁽³⁾	4,003	1,392	1,090	1,068	554	7,750	(2,713)	13,144
Capital expenditures ⁽⁴⁾	164	102	112	127	48	47	66	666
1998								
Revenues ⁽¹⁾	\$ 7,045	\$ 4,033	\$ 2,615	\$ 6,385	\$ 2,856	\$ 1,653	\$ (1,643)	\$ 22,944
Depreciation and amortization	164	106	51	141	49	13	124	648
EBIT ⁽²⁾	461	292	153	379	167	410	(536)	1,326
Net operating assets ⁽³⁾	2,601	1,496	1,085	1,334	543	6,827	(2,618)	11,268
Capital expenditures ⁽⁴⁾	179	125	76	145	55	14	126	720

In January 2001, management announced a realignment of the Company around its customers. For more information on the future transformation of the Company, turn to the section "ABB Executive Committee 2000".

⁽¹⁾ Amounts included in the Corporate/Other column primarily represent adjustments to eliminate intersegment transactions.

⁽²⁾ Amounts included in the Corporate/Other column primarily represent local businesses in several countries, internal services such as information management, consulting, corporate research, shared services, corporate management as well as development and management of ABB real estate. Amounts also include the elimination of intersegment net interest income of Financial Services.

⁽³⁾ 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).

⁽⁴⁾ Excludes purchased intangible assets.

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

Note 23, continued

Geographic information

	Revenues		
Year ended December 31,	2000	1999	1998
Europe	\$12,570	\$ 13,893	\$ 13,012
The Americas	5,702	5,675	5,134
Asia	2,770	2,763	2,768
Middle East and Africa	1,925	2,025	2,030
	\$ 22,967	\$ 24,356	\$ 22,944

	Long-lived assets	
December 31,	2000	1999
Europe	\$ 2,403	\$ 2,820
The Americas	485	593
Asia	281	320
Middle East and Africa	74	80
	\$ 3,243	\$ 3,813

Revenues have been reflected in the regions based on the location of the customer. Long-lived assets primarily represent property, plant and equipment, net, and are shown by the location of the assets.

Note 24 Subsequent event

On February 11, 2001, the Company's Board of Directors proposed that the stockholders approve a share split of ABB Ltd shares in a 4:1 ratio. If the Company's stockholders approve the share split, the number of issued shares of ABB Ltd will increase from approximately 300 million to approximately 1,200 million shares. Swiss Parliament approved a law on December 15, 2000, permitting corporations in Switzerland to reduce their registered capital per share (par value) below the current required minimum of CHF 10. The law is expected to become effective May 1, 2001. The Annual General Meeting of Shareholders is scheduled to be held on March 20, 2001.

ABB Group Auditors' Report

As auditors of the group, we have audited the accompanying consolidated balance sheets of ABB Ltd as of December 31, 2000 and 1999, and the related consolidated income statements, statements of cash flows and statements of changes in stockholders' equity and notes for each of the three years in the period ended December 31, 2000.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audits were conducted in accordance with auditing standards generally accepted in the United States and auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ABB Ltd at December 31, 2000 and 1999, and the consolidated results of operations and cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States and Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

**KPMG Klynveld Peat
Marwick Goerdeler SA**

B. A. Mathers
B. J. DeBlanc

Auditors in charge

Ernst & Young AG

J. Birgerson
C. Schibler

Zurich, February 11, 2001

ABB Ltd, Zurich

Income Statements

Period ended December 31 (CHF in thousands)	2000	1999 ⁽¹⁾
Revenues	1,684	795
Personnel expenses	(81,315)	(25,918)
Other expenses	(41,575)	(21,897)
Dividend income	1,319,719	1,200,000
Interest income	30,894	18,219
Interest expenses	(16,407)	(61)
Write-down of fixed assets	–	(18,212)
Income before Taxes	1,213,000	1,152,926
Income taxes	(60)	(100)
Net Income	1,212,940	1,152,826

⁽¹⁾ ABB Ltd as from incorporation on March 5, 1999.

Balance Sheets

December 31 (CHF in thousands)	Notes	2000	1999 ⁽¹⁾
Current Assets			
Cash and equivalents	1	394,099	14,837
Receivables	2	733,646	1,210,351
Total Current Assets		1,127,745	1,225,188
Fixed Assets			
Loans to subsidiary		1,070,000	–
Participations	3	6,847,918	6,847,918
Total Fixed Assets		7,917,918	6,847,918
Total Assets		9,045,663	8,073,106
Liabilities			
Current liabilities	4	51,723	72,380
Bonds	5	500,000	–
Total Liabilities		551,723	72,380
Stockholders' Equity			
Share capital		3,000,023	3,000,023
Legal reserve		600,005	600,005
Reserve for treasury shares		638,031	713,380
Other reserves		2,609,841	2,534,492
Retained earnings		433,100	–
Net income		1,212,940	1,152,826
Total Stockholders' Equity	6	8,493,940	8,000,726
Total Liabilities and Stockholders' Equity		9,045,663	8,073,106

⁽¹⁾ ABB Ltd as from incorporation on March 5, 1999.

Notes to Financial Statements

Note 1 Cash and Equivalents

(CHF in thousands)	2000	1999
Cash and bank	869	749
Cash with subsidiary	393,230	14,088
Total	394,099	14,837

Note 2 Receivables

(CHF in thousands)	2000	1999
Non-trade receivables	262,639	544
Non-trade receivables from subsidiaries	451,050	1,209,803
Prepaid expenses / accrued income	49	–
Prepaid expenses / accrued income from subsidiaries	19,908	4
Total	733,646	1,210,351

Note 3 Participations

(CHF in thousands)	Share capital	2000	1999
ABB Participation AG 100% CH-Baden Holding	CHF 462,681,000	3,423,950	3,423,950
ABB Participation AB 100% SE-Västerås Holding	SEK 4,689,565,100	3,423,950	3,423,950
Others		18	18
Total		6,847,918	6,847,918

Note 4 Current Liabilities

(CHF in thousands)	2000	1999
Non-trade payables ⁽¹⁾	1,678	15,408
Non-trade payables to subsidiaries	1,069	1,772
Accrued expenses / deferred income ⁽¹⁾	33,135	19,903
Accrued expenses / deferred income to subsidiaries	17	1,223
Short-term loan from subsidiary	15,824	34,074
Total	51,723	72,380

⁽¹⁾ Included in these amounts are liabilities towards employee pension plans amounting to CHF 21,281 thousand (CHF 18,637 in 1999).

Note 5 Bonds

(CHF in thousands)	2000	1999
Bond 1999–2009 3.75% ⁽²⁾	500,000	–

⁽²⁾ Transfer from ABB Asea Brown Boveri Ltd. on March 31, 2000.

Note 6 Stockholders' Equity

(CHF in thousands)	Share capital	Restricted reserves	Other reserves	Retained earnings	Net income	Total
Opening balance sheet	3,000,023	1,313,385	2,534,492	–	1,152,826	8,000,726
Allocation to retained earnings				1,152,826	(1,152,826)	–
Dividends paid				(719,726)		(719,726)
Change in treasury shares		(75,349)	75,349			–
Net income for the year					1,212,940	1,212,940
Closing balance sheet	3,000,023	1,238,036	2,609,841	433,100	1,212,940	8,493,940

Share capital divided in:

(CHF in thousands)	Number of registered shares	Par value	Total
Issued shares	300,002,358	CHF 10	3,000,023
Authorized shares	10,000,000	CHF 10	100,000
Contingent shares	20,000,000	CHF 10	200,000

The subsidiaries ABB Equity Ltd, ABB Employee Equity Limited and ABB Transinvest Limited have acquired the following ABB Ltd shares to cover the obligations of a management incentive plan (refer also to note 21 of the consolidated financial statements):

Treasury shares	2000		1999	
	Number of shares	Price per share/CHF	Number of shares	Price per share/CHF
Opening balance	5,452,550	130.83	3,601,797	119.60
Purchases	3,286,028	203.83	1,952,649	149.39
Sales	(4,617,526)	161.37	(101,896)	89.25
Closing balance	4,121,052	154.82	5,452,550	130.83

Information regarding important shareholders (Art. 663 c of the Swiss Code of Obligations) is listed on page 116.

There are no further items which require disclosure in accordance with Art. 663 b of the Swiss Code of Obligations.

Proposed appropriation of available earnings

(CHF in thousands)	2000	1999
Net income for the year	1,212,940	1,152,826
Carried forward from previous year	433,100	–
Profit available to the Annual General Meeting	1,646,040	1,152,826
Dividend (see below)		(719,726)
Balance to be carried forward		433,100

The Board of Directors proposes that out of the profit available to the Annual General Meeting of CHF 1,646,040,254 a dividend of CHF 3.00 gross per registered share be distributed, payable as from March 26, 2001.

Calculated on the total number of shares issued of 300,002,358, this corresponds to a maximum total amount of CHF 900,007,074. In deciding on the appropriation of dividends, the Annual General Meeting shall take into account that ABB Ltd will pay dividends only on shares that do not participate in the dividend access facility as per art. 8 of the articles of incorporation.

Shareholders who are resident in Sweden participating in the established dividend access facility will receive an amount in Swedish kronor from ABB Participation AB which corresponds to the dividend resolved on a registered share of ABB Ltd without deduction of the Swiss withholding tax. This amount however is subject to taxation according to Swedish law.

The remaining amount of the available earnings is to be carried forward to new account.

Report of the Statutory Auditors

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) of ABB Ltd, Zurich for the year ended December 31, 2000.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records, financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

**KPMG Klynveld Peat
Marwick Goerdeler SA**

B. A. Mathers
B. J. DeBlanc

Auditors in charge

Ernst & Young AG

J. Birgersson
C. Schibler

Zurich, February 11, 2001

Investor information

Trend of ABB Ltd share prices during 2000

During 2000, the price of the ABB Ltd shares traded on the Swiss Stock Exchange decreased by eleven percent, while the Swiss Performance Index increased by eleven percent. The price of the ABB Ltd share on the OM Stockholm Exchange decreased by six percent, outperforming the Affärsvärldens General Index, which decreased by twelve percent.

Share price

	SWX Swiss Exchange (CHF)	OM Stockholm Exchange (SEK)
High	216	1,152
Low	151	860
Year-end	173	969

Source: Reuters

Market capitalization

On December 31, 2000, ABB Ltd's market capitalization based on outstanding shares was approximately US\$ 31.6 billion (CHF 51.8 billion, SEK 290.7 billion, Euro 34.2 billion).

Shareholders

As of December 31, 2000, the total number of shareholders directly registered with ABB Ltd was around 130,000. In addition, another 80,000 shareholders hold shares indirectly through nominees. In total, ABB has approximately 210,000 shareholders.

Major shareholders

BZ Group Holding Limited, Switzerland, as of December 31, 2000, owned directly and indirectly 21,588,502 shares of ABB Ltd, corresponding to 7.2% of the total capital and votes.

To the best of the company's knowledge, no other shareholder holds 5 percent or more of the total voting rights.

Dividend

In February 2001, the ABB Board of Directors proposed a dividend for 2000 of CHF 3.00 gross per registered share, totaling CHF 900 million for the ABB Group. Translated into dollars at the time of proposal, it corresponds to 37 percent of ABB net income for 2000. ABB Ltd will pay dividends only on shares that do not participate in the dividend access facility as per article 8 of its Articles of Incorporation.

Friday, March 23, 2001, is the final day for trading in shares carrying rights to dividends. After approval by shareholders at the Annual General Meeting, the dividend will be payable to the shareholders as of March 26, 2001 (ex-dividend date).

The Board also proposed to buy back six million ABB Ltd shares, corresponding to approximately CHF 1 billion, for later cancellation and capital reduction.

Dividend Access Facility 2001

ABB's Dividend Access Facility (DAF) for shareholders tax resident in Sweden is an integral part of the implemented ABB single-class share structure during 1999. The DAF provides to shareholders tax resident in Sweden and holding VPC registered ABB Ltd shares, the possibility to receive dividends being subject to taxation in Sweden without deduction of Swiss withholding tax.

Shareholders participating in the DAF will temporarily be registered as shareholders without rights to ABB Ltd dividends. Those shareholders will instead receive their dividends from ABB Ltd's Swedish subsidiary ABB Participation AB. The participating shareholders will for each ABB Ltd share receive one ABB Ltd share excluding dividend rights (ABB Ltd U) and one dividend right separated from the share (SR1). After payment of dividends, ordinary ABB Ltd shares will be re-registered on the shareholders' VP-accounts.

The ABB Ltd U share will be traded on the OM Stockholm Exchange during the period March 19, 2001 to March 26, 2001. Trading in dividend rights, SR1, will not be possible.

The DAF dividend payment, corresponding to the ABB Ltd dividend payment, will be administered by VPC and paid in SEK after conversion from CHF, and without deduction of the 35 percent Swiss withholding tax. The dividend will be taxed according to Swedish tax legislation; i.e. a preliminary tax of 30 percent will be withheld for private individuals.

Shareholders who participated in the DAF 2000 will automatically be registered for the DAF 2001 and onwards.

February 21 The DAF application period commences.

March 12 The DAF application period ends. Last day of trading in ABB Ltd shares including rights to DAF participation.

April 2 Dividend payment date for DAF participants and for other shareholders registered in Sweden at VPC.

Per-share data

	2000	1999	1998
Dividend (CHF)	3.00 ⁽¹⁾	3.00	2.47 ⁽²⁾
Par value (CHF)	10	10	10 ⁽²⁾
Vote per share	1	1	1 ⁽²⁾
Weighted average shares outstanding	295,000,000	296,000,000	298,000,000
Dilutive potential shares	1,000,000	1,000,000	–
Diluted weighted average shares outstanding	296,000,000	297,000,000	298,000,000

⁽¹⁾ Dividend per share as proposed.

⁽²⁾ Pro forma, based on new single-class share structure.

Key ratios

(US\$)	2000	1999	1998
Return on equity (%)	30.6	34.1	12.0
EBITDA per share*	7.50	6.45	6.62
Basic earnings per share	4.89	4.59	1.62
Diluted earnings per share*	4.87	4.58	1.62
Stockholders' equity per share*	15.95	13.47	13.62
Cash flow per share*	3.45	5.30	2.68
Dividend pay-out-ratio (%)	37	40	n.a.
Direct yield (%)	1.7	1.5	2.6
Market-to-book (%)	611.1	854.3	560.3
Basic P/E ratio	21.6	26.5	44.5
Diluted P/E ratio	21.6	26.6	44.5

* Calculation based on diluted weighted average shares outstanding.

ABB Ltd Annual General Meeting

The 2001 Annual General Meeting of ABB Ltd will be held at 3:00 p.m. on Tuesday, March 20, 2001 at the "Event 550" hall in Zurich-Oerlikon, Switzerland and at Aros Congress Center, Västerås, Sweden. The two locations will be linked via live satellite television broadcast. The General Meeting will be held principally in German and will be simultaneously translated into Swedish and English. Shareholders entered in the share register, with the right to vote, by March 9, 2001, are entitled to participate at the Annual General Meeting.

Admission cards

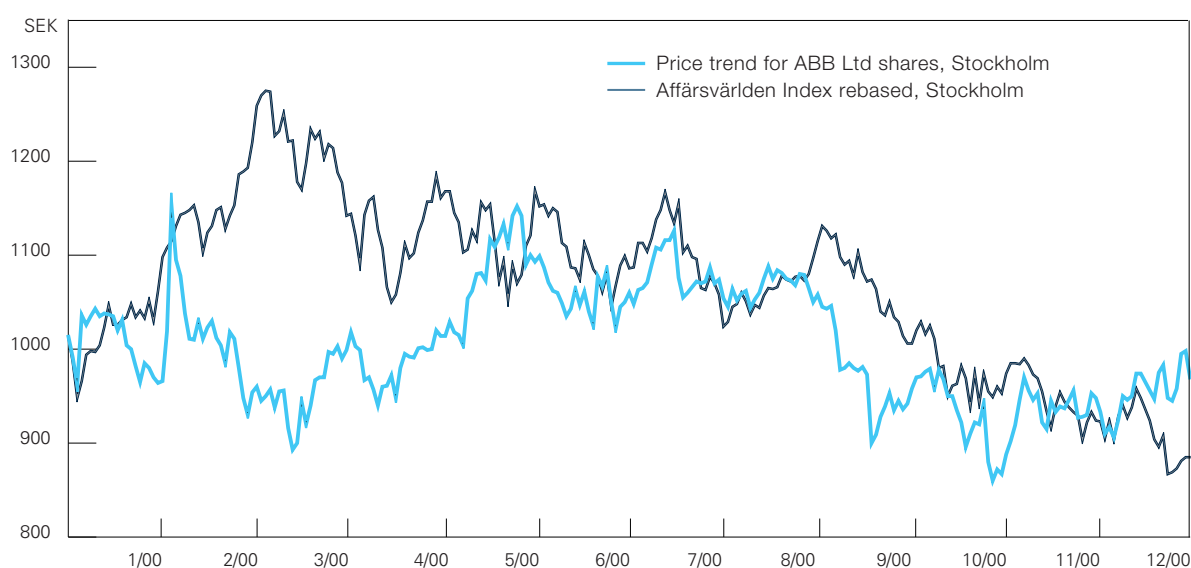
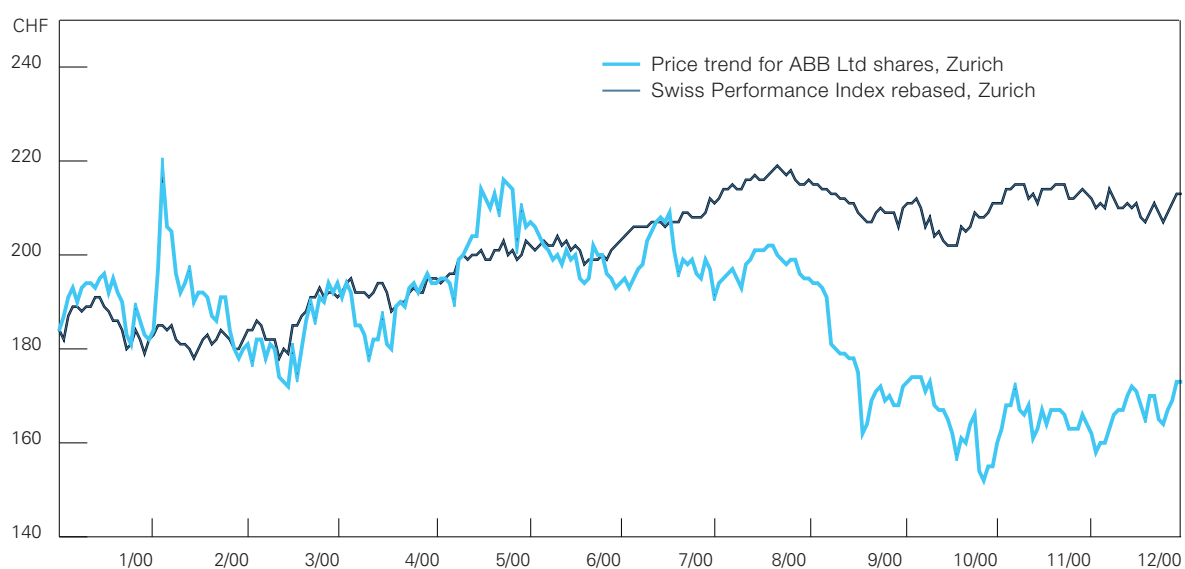
Holders of registered shares of ABB Ltd will receive their admission cards on request using the reply form enclosed with the invitation. The reply form or a corresponding notification must reach the company not later than March 12, 2001. For technical reasons, notifications arriving after that date will not be taken into consideration.

The full text of the invitation in accordance with Article 700 of the Swiss Code of Obligations was published in Schweizerisches Handelsamtsblatt on February 22, 2001.

ABB Shareholders' calendar 2001

ABB Ltd Annual General Meeting	March 20
Ex-dividend date	March 26
Three months results 2001	April 24
Six months results 2001	July 24
Nine months results 2001	October 24

Price trend for ABB Ltd shares



Stock exchange listings

ABB is listed on the SWX Swiss Exchange, OM Stockholm Exchange, Frankfurt Stock Exchange and London Stock Exchange.

Ticker symbol for ABB Ltd

Swiss Exchange	ABBN
Stockholm Stock Exchange	ABB
Deutsche Börse	ABA
London Stock Exchange	ABBN
U.S. Portal Market	ABBLYP

Ticker symbol for ABB Ltd at Bloomberg

Swiss Exchange	ABBN SW
Stockholm Stock Exchange	ABB SS
Deutsche Börse	ABJ GR
London Stock Exchange	ABBN SW

Ticker symbol for ABB Ltd at Reuters

Swiss Exchange	ABBZn.S
Stockholm Stock Exchange	ABB.ST
Deutsche Börse	ABBN.F

ABB Group statistical data

(\$ in millions, unless otherwise stated)	2000	1999	1998
Consolidated income statements			
Revenues	22,967	24,356	22,944
Earnings before interest and taxes (EBIT)	1,385	1,122	1,326
Income from continuing operations before taxes and minority interest	1,306	1,022	1,275
Income from continuing operations	881	643	923
Net income	1,443	1,360	482
Consolidated balance sheets			
Cash and equivalents	1,397	1,615	
Marketable securities	4,209	4,771	
Other current assets	13,105	12,671	
Non-current assets	12,251	11,521	
Total assets	30,962	30,578	
Short-term borrowings	3,587	3,367	
Other current liabilities	11,865	12,515	
Long-term borrowings	3,776	3,586	
Other long-term liabilities	6,242	6,522	
Stockholders' equity incl. minority interest	5,492	4,588	
Total liabilities and stockholders' equity	30,962	30,578	
Consolidated statements of cash flows			
Net cash provided by operating activities	1,022	1,575	800
Net cash used in investing activities	(1,713)	(2,036)	(1,017)
Net cash provided by (used in) financing activities	(392)	(1,187)	587
Net cash provided by discontinued operations	949	723	741
Effects of exchange rate changes on cash and equivalents	(84)	(100)	28
Net change in cash and equivalents	(218)	(1,025)	1,139
Other data			
Orders received	25,440	24,633	23,735
EBITDA ⁽¹⁾	2,221	1,917	1,974
Capital expenditures, excluding purchased intangible assets	485	666	720
Capital expenditures for acquisitions	896	1,780	288
Research and development expense	703	865	819
Order-related development expenditures	985	1,212	1,126
Dividends declared pertaining to fiscal year (Swiss francs in millions)	900	900	740
Net operating assets	14,632	13,144	
Number of employees	160,818	161,430	159,742
Ratios			
Earnings before interest and taxes / Revenues	6.0%	4.6%	5.8%
Return on equity	30.6%	34.1%	

⁽¹⁾ Earnings before interest, taxes, depreciation and amortization



Technology and
talent – the
lifeblood of value
creation.



Software that turns
production statistics into
production knowledge.

From intelligent subsea
wellheads to onshore
processing facilities.



ABB Ltd
Corporate Communications
P.O. Box 8131
CH-8050 Zurich
Switzerland
Tel: +41 (0)1 317 7111
Fax: +41 (0)1 317 7958

www.abb.com

ABB Ltd
Investor Relations
P.O. Box 8131
CH-8050 Zurich
Switzerland
Tel: +41 (0)1 317 7111
Fax: +41 (0)1 311 9817