

ABB Group Annual Report 1999



Brain Power.



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The complete ABB Group and Parent Companies Annual Report 1999 consists of this Financial Review and an Operational Review. For a copy of the Operational Review, please contact ABB Corporate Communications at the address printed on the back of this report.

The ABB Group publishes the Operational Review and Financial Review in English, German and Swedish. In addition, the Operational Review is published in Spanish and French. 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. In addition, separate annual reports are published by some ABB national and business entities. ABB also publishes annual environmental and technology reports.

Key Figures

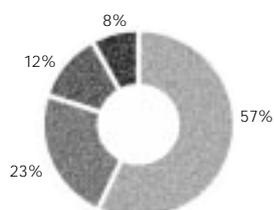
Key Figures (US\$ in millions, unless otherwise stated) ¹	Total Group	
	1999	1998
Year ended December 31	Reflecting ABB's new composition ¹	
Revenues	24,681	23,733
Orders received	25,379	24,511
Operating earnings after depreciation	2,416	1,858
Income before taxes	2,308	1,865
Net income	1,614	1,305
Stockholders' equity	5,608	5,959
Total assets	29,516	32,894
Capital expenditure for tangible fixed assets	679	738
Capital expenditure for acquisitions	1,745	274
Divestitures	2,395	202
Expenditure for research and development	2,077	1,946
Operating earnings after depreciation/revenues (%)	9.8	7.8
Return on equity (%)	27.9	23.2
Return on capital employed (%)	21.8	21.1
Interest coverage ratio	4.9	3.9
Debt/equity ratio	1.0	1.0
Net operating cash flow	1,823	1,037
Number of employees	164,154	162,793
Net income per share ² (US\$)	5.38	4.35
Dividend per share ² (CHF)	3.00	2.47

¹ 1998 and 1999 figures according to the new ABB composition (see Note 1 to the Financial Statements).

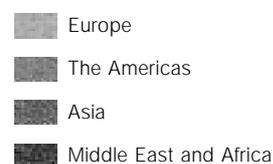
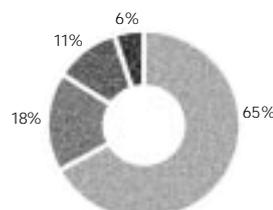
² 1998 figures based on combined figures for ABB Group's former parent companies ABB AB, Sweden and ABB AG, Switzerland and divided by hypothetical 300,002,358 shares. 1999 dividend per share as proposed.

The statements in this review relating to matters that are not historical facts are forward-looking statements that are not guarantees of future performance and involve risks and uncertainties, including but not limited to: future global economic conditions; foreign exchange rates; regulatory approvals; market conditions; the actions of competitors and other factors beyond the control of the company.

Revenues per Region 1999



Employees per Region 1999



Outlook for 2000 and beyond



Göran Lindahl
President and Chief
Executive Officer

For 2000, recoveries in emerging markets are expected to increase orders and revenues for *Power Transmission* while earnings are expected to increase slightly. Ongoing deregulation and privatization as well as demand for system solutions should increase both volume and earnings for *Power Distribution*.

A recovery in most of *Automation's* markets plus substantial cost reductions and synergies associated with Elsag Bailey, the newly acquired company, are expected to increase revenues and operating earnings in the *Automation* segment.

Revenues of *Oil, Gas and Petrochemicals* are expected to increase slightly and operating earnings should remain at about the same level, although both will be weak in the first half due to lower orders in 1999. Revenues and earnings are expected to increase for *Building Technologies*. Income before taxes for *Financial Services* is expected to increase from the 1999 level.

The current economic upturn in basically all regions is expected to further support ABB's business. ABB expects the benefit from the upturn in Europe and other major regions to become visible by mid-2000.

ABB Group's revenues are expected to increase in 2000. Operating earnings are also expected to increase compared to 1999, excluding the capital gain. Cash flow will grow at least in line with earnings.

Guided by clear value creation targets, ABB will continue its strategic transformation in 2000 and beyond.

For the period 2000 to 2003, revenues are expected to grow on average 6–7 percent annually. With ABB's continued focus on profitable growth, operating margin is targeted to reach 12 percent by 2003.

A handwritten signature in blue ink that reads "Göran Lindahl". The signature is fluid and cursive.

President and Chief Executive Officer

Management's Discussion – Analysis of the Group

Highlights

The transformation of the ABB Group into a knowledge- and service-based company accelerated during 1999. Most importantly, ABB:

- Acquired Elsag Bailey to become a market leader in automation
- Divested our 50-percent share in Adtranz
- Formed ABB ALSTOM POWER, a world leading supplier to the power generation sector
- Created the single-class ABB share
- Agreed to sell our nuclear activities
- Launched a major management initiative to focus on value creation

The Group made a number of other acquisitions and divestitures to further transform ABB. To facilitate comparisons, ABB has presented two columns of figures with the new ABB composition in the income and cash flow statements (see Note 1 to the Financial Statements). Comments and analysis in the following discussion reflect comparisons under the new ABB composition.

Market Conditions

The economic environment improved in basically all major regions last year. Customer investments grew in most sectors in response to higher commodity prices towards the end of the year and privatization and deregulation in many countries. As ABB's business portfolio moves towards providing knowledge and service solutions, our sensitivity to some product- or commodity-related industry cycles will decrease.

Industrial production growth in the OECD countries reversed its trend and turned positive during 1999. ABB conducts 80 percent of its business in OECD countries and benefited from the recent economic upturn. Economic growth improved throughout Europe, except for Norway and Denmark. The positive trend was also seen in Central and Eastern Europe.

The U.S. and Canada continued to show high industrial growth, which fuelled a recovery in South America, although low commodity prices held back investments in some North American customer industries. An economic recovery is well under way throughout Asia and growth in China remained robust.

Revenues and Orders Received

Revenues for the ABB Group increased 4 percent to \$ 24,681 million (1998: \$ 23,733 million). Excluding the translation effects of converting figures reported in local currencies to the U.S. dollar, revenues were 8 percent higher. Revenues improved notably in the Americas, with

strong increases in the U.S. and Canada. Europe also increased revenues on the strength of sales in Germany and Switzerland. Revenues in Asia and the Middle East and Africa were stable with China and Egypt showing growth.

Orders received rose 4 percent to \$ 25,379 million (1998: \$ 24,511 million), 8 percent higher excluding currency effects. Large orders (those above \$ 15 million) account for some 20 percent of total orders received and increased by 14 percent compared to 1998. Demand for base orders, representing some 80 percent of ABB's total orders, increased by 2 percent, reflecting higher industrial investments, especially in Europe.

Excluding currency effects, large orders were up 17 percent and base orders 6 percent.

Revenues and orders received per business segment are discussed on pages 10 to 21 of this Financial Review. The former segment "Products and Contracting" was renamed *Building Technologies* without a change in scope of activities.

The order backlog at the end of 1999 reached \$ 14,886 million (end of 1998: \$ 14,934 million).

Acquisitions and Divestitures, Capital Expenditures

A number of acquisitions and divestitures were completed or announced in 1999 in line with ABB's strategy to focus on activities with higher expected growth and synergy potential with other ABB businesses. The Group made acquisitions totaling \$ 1,745 million (1998: \$ 274 million).

At the beginning of the year, ABB acquired a leading industrial process automation company, Elsag Bailey Process Automation N.V., following a successful public offer in cash, valued at \$ 2,204 million, including \$ 648 million of debt (see also Note 25 to the Financial Statements). In addition, ABB acquired a company in Brazil for full-service activities and a valve and wellhead manufacturer in Argentina in the oil and gas sector. ABB also acquired ABB Energy Capital LLC, an energy-related financial services company in the U.S. with a focus on performance-based lending.

At the end of June 1999, ABB contributed most of its power generation businesses to a 50-50 joint company with ALSTOM S.A. of France, named ABB ALSTOM POWER N.V., a new leading supplier to the global power generation industry. To compensate for the difference in the size of the contributed businesses, ABB received cash compensation from ALSTOM of \$ 1.5 billion. More details on the formation of the joint company and ABB ALSTOM POWER follow in Notes 1 and 24 to the

Financial Statements. ABB formed its 22nd joint venture in China, a plant to manufacture power transformers.

Divestitures in 1999 amounted to \$ 2,395 million (1998: \$ 202 million). At the beginning of the year, ABB completed the sale of its 50-percent share in ABB Daimler-Benz Transportation Group (Adtranz) to DaimlerChrysler. ABB received cash compensation for this transaction of \$ 472 million. Further, ABB divested two cable businesses in Norway and Sweden and activities in uninterruptable power supply for computer and telecommunication systems. ABB also divested its gas chromatograph and mass spectrometer business in accordance with regulatory requirements for the Elsag Bailey transaction.

Towards year-end 1999, ABB also entered into an agreement to sell its nuclear business, including nuclear power plant control systems, to BNFL in the United Kingdom. The value of the transaction is \$ 485 million and the sale is subject to the customary regulatory approvals. Completion of this transaction is expected during 2000 and does not impact the 1999 financial statements.

ABB sold real estate during 1999 with a value of \$ 355 million (1998: \$ 238 million), partly in connection with the formation of ABB ALSTOM POWER.

Capital expenditures for tangible fixed assets in 1999 reached \$ 679 million (1998: \$ 738 million). This amount included \$ 74 million (1998: \$ 80 million) for land and buildings and \$ 475 million (1998: \$ 474 million) for machinery and equipment.

Personnel and Organization

ABB employed 164,154 people at the end of 1999 compared to 162,793 at year-end 1998, an increase of 1 percent. Employment in the business segments *Automation*, *Building Technologies* and *Financial Services* grew during the year, partly as consequence of acquisitions, while divestitures decreased employment in the *Power Transmission* segment. On a comparable basis, the number of employees decreased by 4 percent.

During 1999, ABB simplified its share structure by creating a new single-class share for ABB Ltd in Switzerland, the new holding company of the ABB Group (see page 53 of this Financial Review for further details).

Research and Development, Year 2000 Rollover Issues

ABB's spending on R&D reached \$ 2,077 million (1998: \$ 1,946 million), representing 8.4 percent

of Group revenues in 1999 (1998: 8.2 percent). This investment is ABB's foundation for future growth and profitability and the key to developing innovative solutions for customers and value for shareholders. A creative environment in which new ideas have room to grow combined with an active portfolio management assures a steady flow of innovative products and the right balance between short- and long-term product development. ABB's systematic approach to creating protected positions within important technology areas also contributes significantly to future growth. ABB measures the return on investment of its R&D projects to identify projects with high growth potential. Major progress was achieved in 1999 with the introduction of wireless control systems for industrial process automation, new technologies for downhole oil and gas production monitoring and high-voltage direct current (HVDC) cables.

During ABB's Year 2000 rollover, the company significantly expanded its customer support service. A worldwide network of 260 call- and support-centers continues to be available for customers. Using the Internet, ABB has set new customer support standards, confirming ABB's commitment to support its products and systems during their entire life cycle. A Web-based SolutionsBank offered customized solutions, and encouraged information sharing among customers. Expenses for preparing customer and ABB systems for the year 2000 amounted to \$ 150 million (1998: \$ 100 million). The rollover did not reveal any material problems in either customer or ABB plants and systems.

Foreign Exchange Effects

Each local ABB company reports in its respective local currency and the Group's 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.

In 1999, average exchange rates for the U.S. dollar strengthened compared to most major currencies, corresponding to a reduction of orders received, revenues and earnings of 4 percent when translating the consolidated income statement. Similarly, translation differences resulted in a 4 percent negative effect on cash flow. In translating from local currencies to U.S. dollars at year-end exchange rates, the stronger U.S. dollar had an 8 percent negative effect on ABB's balance sheet.

In order to protect local currency earnings, ABB requires all profit centers to hedge commercial orders and anticipated cash flows. As a result, the effects of currency fluctuations on the local books are minimized.

Cash Flow and Dividends

Continued focus on working capital reduction and higher cash flow generation in the Group increased net cash flow from operating activities by 76 percent to \$ 1,823 million (1998: \$ 1,037 million). Changes in ABB's business composition during the year led to a substantial reduction in advance payments of \$ 1,532 million. Net working capital¹ as a percent of revenues improved to 9.5 percent (1998: 13.1 percent). The cash flow related to investing and financing activities was influenced by the acquisition of Elsag Bailey, the divestiture of the Adtranz stake and the formation of ABB ALSTOM POWER.

In 1999, ABB completed 20 new bond issues for a total of \$ 1,584 million, with the majority under ABB's Euro Medium-Term Note (EMTN) program and a maturity of less than one year. During 1999, ABB's long-term senior debt continued to be rated Aa2 by Moody's Investor Service and AA- by Standard & Poor's. ABB's short-term debt maintained its rating of A-1+ by Standard & Poor's and P-1 by Moody's. At the beginning of 2000, these rating agencies extended the same ratings of the long- and short-term debt to ABB Ltd, the new holding company of the ABB Group. Short-, medium- and long-term loans decreased by \$ 258 million.

ABB's dividend policy is to pay out between 30 and 50 percent of consolidated net income for the year. In February 2000, the Board of Directors decided to propose at the next Annual General Meeting of ABB Ltd a dividend for 1999 of CHF 900 million (1998: CHF 740 million). Translated into dollars at the time of the decision, the proposed dividend corresponds to 38 percent of ABB Group net income for 1999 (1998: 40 percent), excluding the capital gain.

Balance Sheet

The formation of the ABB ALSTOM POWER joint company, as well as acquisitions and divestitures during the year, all contributed to reduce ABB's dependence on heavy assets. As a consequence, the share of land and buildings plus machinery and equipment in relation to total assets decreased to 11.5 percent, a reduction of more than 5 percentage points since the beginning of 1997.

ABB's 50-percent stake in the ABB ALSTOM POWER joint company is equity accounted on the line "Shares and participations" in the ABB Group Balance Sheet. Further balance sheet related details of the joint company can be found in Note 1 and 24 to the Financial Statements.

Earnings

Operating earnings after depreciation increased to \$ 2,416 million in 1999, an increase of 30 percent compared to the previous year (1998: \$ 1,858 million). A discussion of the earnings

per segment follows on pages 10 to 21 in this Financial Review. Improved internal processes and rigid cost control led to a further reduction of personnel and material expenses as a percent of revenues². Personnel expenses decreased to 30.0 percent of revenues (1998: 30.8 percent) and material expenses decreased to 41.2 percent of revenues (1998: 41.8 percent). Other expenses increased to 16.8 percent of revenues (1998: 16.6 percent). As a consequence, the operating margin of the Group increased to 9.8 percent from 7.8 percent in 1998. Excluding the capital gain from the formation of ABB ALSTOM POWER, the operating margin increased to 8.7 percent.

Earnings before interest, taxes, depreciation and amortization (EBITDA) reached \$ 3,234 million (1998: \$ 2,592 million). EBITDA in relation to revenues reached 13.1 percent, up from 10.9 percent in the previous year.

Earnings from the contributed power generation business, up to the point of formation of the ABB ALSTOM POWER joint company at the end of June 1999, are recorded in the Consolidated Income Statement on the line "Earnings from the defined power generation business."

Earnings from the defined power generation business amounted to \$ 51 million in 1999 for the six-month period until June 30, the time of transfer, and \$ 253 million for the full year 1998. The operating earnings from ABB ALSTOM POWER during its first half-year of operation reached \$ 27 million (EUR 26 million). ABB's 50 percent share in ABB ALSTOM POWER's operating earnings, net of financial items, amounted to \$ 6 million. This item is included on the line "Earnings from equity accounted companies" in the Consolidated Income Statement. For further details, see Note 1 and 24 to the Financial Statements. Total earnings from equity accounted companies reached \$ 76 million.

Net unusual items amounted to \$ 275 million (1998: \$ -1 million). The capital gain from the formation of the ABB ALSTOM POWER joint company amounted to \$ 262 million on the operating earnings level and \$ 162 million on the net income after taxes level.

Unusual costs, amounting to \$ 148 million in 1999 (1998: \$ 95 million), included mainly costs for integration of acquired businesses and restructuring.

Income before taxes reached \$ 2,308 million, an increase of 24 percent (1998: \$ 1,865 million).

Income taxes for ABB amounted to \$ 665 million in 1999 (1998: \$ 543 million), which corresponds to an overall 1999 tax rate of 28.8 percent (1998: 29.1 percent).

1999 net income rose 24 percent to \$ 1,614 million (1998: \$ 1,305 million). Excluding the capital gain after taxes from the ABB ALSTOM POWER formation, net income increased by 11 percent.

Return on equity reached 27.9 percent (1998: 23.2 percent) and return on capital employed increased to 21.8 percent (1998: 21.1 percent).

The outlook for 2000 and long-term targets for the Group can be found on page 1. Long-term targets for the business segments are described on pages 10 to 21 in this Financial Review. A summary of the long-term targets is presented below.

ABB Group and Segment Targets	Revenues 2000–2003 (average annual compound growth)	Operating Margin by 2003
Power Transmission	6%	12%
Power Distribution	10%	10–11%
Automation	6%	14–15%
Oil, Gas and Petrochemicals	7%	7–8%
Building Technologies	7%	9%
Financial Services	N/A	Earnings >\$500 million
ABB Group	6–7%	12%

¹ Net working capital includes trade and other current receivables plus inventories, less trade payables, other current liabilities (excluding taxes due) and advances from customers.

² Revenues including changes in work in progress and finished goods.

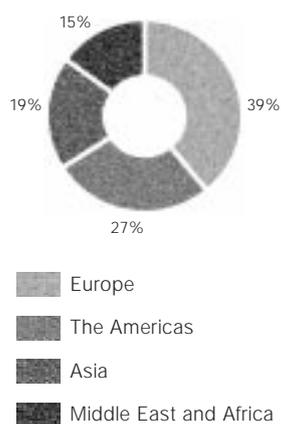
Country Statistics

	Revenues ¹ (US\$ in millions)		Employees	
	1999	1998	1999	1998
Europe	14,032	13,401	105,803	104,451
Austria	344	290	1,150	1,038
Belgium	276	257	1,461	1,346
Czech Republic	147	148	2,656	2,896
Denmark	393	401	2,967	3,117
Finland	749	794	9,574	9,481
France	596	523	3,122	2,694
Germany	3,002	2,730	21,575	19,642
Italy	1,068	1,043	7,075	5,015
Netherlands	443	499	2,599	2,608
Norway	1,076	1,102	6,725	7,237
Poland	383	321	4,423	5,497
Portugal	120	91	728	720
Russia	109	172	742	655
Spain	480	412	2,989	2,716
Sweden	1,889	1,990	19,491	20,920
Switzerland	879	600	8,727	8,530
United Kingdom	1,133	1,245	6,206	6,323
Others	945	783	3,593	4,016
The Americas	5,797	5,377	29,816	25,652
Argentina	151	164	904	879
Brazil	641	628	6,227	3,851
Canada	396	292	2,617	1,770
Mexico	280	305	1,691	2,382
USA	3,788	3,389	16,227	14,318
Others	540	599	2,150	2,452
Asia	2,838	2,903	18,452	21,113
Australia	575	515	3,497	4,321
China	523	458	4,252	4,292
India	434	327	4,196	4,588
Indonesia	39	87	898	873
Japan	260	350	478	559
Malaysia	102	128	352	416
Philippines	63	91	457	634
Singapore	131	158	990	882
Thailand	146	159	1,780	3,094
Others	565	630	1,552	1,454
Middle East and Africa	2,014	2,052	10,083	11,577
Egypt	248	170	2,859	2,508
Saudi Arabia	708	744	1,156	1,332
South Africa	165	195	2,229	2,606
Others	893	943	3,839	5,131
Group Total	24,681	23,733	164,154	162,793

¹ Total revenues of the ABB Group from third-party customers in each region/country.

Power Transmission

Orders Received per Region



Demand for transmission products and systems in 1999 was strong in North America and the Middle East, while flat or even declining in Europe. Latin America and parts of Asia began to recover and China continued to grow. The liberalization of electricity markets continued to stimulate demand for grid interconnection projects.

Revenues decreased by 8 percent to \$ 3,727 million (1998: \$ 4,038 million), largely due to the divestment of the installation and computer cable businesses in Norway and Sweden. The new business area *T&D Service and Support* increased revenues substantially. Large project revenues were booked in *Power Systems* and *High-Voltage Products and Substations*.

Orders received of \$ 3,934 million decreased 11 percent from the previous year (1998: \$ 4,428 million), due to the divestment in cables and deferred orders for large projects in Latin America. These postponed orders mostly affected the *Power Lines* and *Power Systems* business areas.

Operating earnings rose 13 percent to \$ 421 million (1998: \$ 374 million) fuelled mainly by growth in *Power Systems*, *Power Transformers* and *T&D Service and Support*.

In Australia, ABB brought its first large 245 kV PASS substation into service. PASS, with its compact and flexible “plug-and-switch” design, is now available for 110 kV to 550 kV applications. ABB also launched the new Dryformer™, a transformer that uses advanced cable technology to eliminate insulation oil, making it safer and more compact.

For 2000, anticipated economic recoveries in Latin America and Asia are expected to increase orders and revenues, while earnings should increase slightly. Cash flow should also improve as the segment continues to reduce working capital.

The ongoing liberalization in the power transmission markets around the world and the fundamental needs for infrastructure in the emerging markets are expected to lead to further annual growth of 6 percent over the next four years. New products, increased sales and more efficient operations should further increase earnings with operating margins targeted to reach 12 percent.

POWER TRANSMISSION

Business Areas in the Power Transmission Segment

Orders Received (US\$ in millions)	1999	1998
Cables	211	525
High-Voltage Products and Substations	1,275	1,154
Power Lines	290	719
Power Systems	639	845
Power Transformers	1,041	1,057
T & D Service and Support	634	295
Other (not assigned to specific Business Area)	180	150
Intra-Segment transactions	- 336	- 317
Total	3,934	4,428

Revenues (US\$ in millions)

99	3,727
98	4,038
97	3,739
96	4,470
95	4,292

Orders Received (US\$ in millions)

99	3,934
98	4,428
97	4,354
96	3,873
95	4,393

Operating Earnings (US\$ in millions)

99	421
98	374
97	316
96	364
95	366

Average Capital Employed (US\$ in millions)

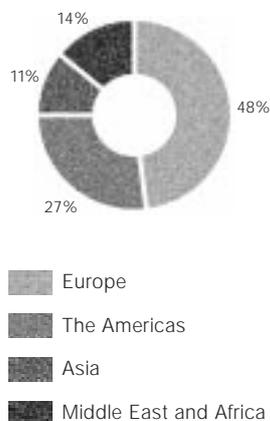
99	1,689
98	1,723
97	1,786
96	2,100
95	1,874

Number of Employees

99	22,338
98	26,927
97	26,319
96	25,785
95	24,469

Power Distribution

Orders Received per Region



Growing customer demand in liberalized electricity markets for highly efficient and cost-effective power distribution solutions was again the key market driver for this segment in 1999. As a result, demand for power distribution products and systems continued to grow in North America, but was essentially flat in Europe. Asia and Latin America started to recover, although some projects continued to be postponed.

Revenues rose 10 percent to \$ 2,867 million (1998: \$ 2,607 million), reflecting a substantial increase from *Power Distribution Solutions*.

Orders received grew 14 percent to \$ 3,034 million (1998: \$ 2,672 million). *Power Distribution Solutions* secured a number of large projects, such as the \$100 million order from U.S. utility Commonwealth Edison to upgrade part of the Chicago power grid. *Distribution Transformers* exceeded the 1998 order level due to strong demand in North America. In *Medium-Voltage Equipment*, growth in the Middle East and Africa made up for most of the shortfall in other markets. In a competitive environment, order margins improved in all business areas.

Operating earnings of \$ 209 million were 17 percent higher (1998: \$ 179 million). The volume increase in *Power Distribution Solutions* and margin increases in both *Power Distribution Solutions* and *Distribution Transformers* contributed to the improvement.

The first fully automated distribution transformer factory for 10–50 kVA ANSI-type transformers went into operation in the U.S. *Power Distribution Solutions*, together with Volvo, developed the first T100 gas micro-turbine for distributed power generation, a new market where small-scale power generation installed at a customer location – such as a factory or large building – can be financially more attractive than buying power from a third party.

The ongoing deregulation and privatization of regional electricity markets, the trend towards improved efficiency for energy conversion and the growing demand for system solutions will continue to drive growth for ABB's Power Distribution segment. All business areas are expected to increase orders, revenues and earnings in 2000. Continuous focus on working capital reduction will support cash flows.

Over the next four years, strong demand for distribution solutions and products is expected to continue in emerging and developed markets. This would support an average annual order growth rate of 10 percent. With new and cost-effective products and systems, the segment has targeted an increase in operating margin to 10–11 percent.

Business Areas in the Power Distribution Segment

Orders Received (US\$ in millions)	1999	1998
Power Distribution Solutions	1,085	753
Distribution Transformers	867	845
Medium-Voltage Equipment	1,148	1,154
Other (not assigned to specific Business Area)	7	–
Intra-Segment transactions	–73	–80
Total	3,034	2,672

Revenues
(US\$ in millions)

99	2,867
98	2,607
97	2,647
96	2,847
95	2,419

Orders Received
(US\$ in millions)

99	3,034
98	2,672
97	2,664
96	2,932
95	2,933

Operating Earnings
(US\$ in millions)

99	209
98	179
97	159
96	163
95	107

Average Capital Employed
(US\$ in millions)

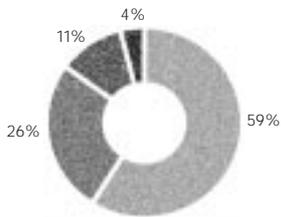
99	1,055
98	965
97	970
96	1,064
95	910

Number of Employees

99	16,378
98	16,511
97	17,465
96	18,469
95	16,197

Automation

Orders Received per Region



Demand for ABB's automation solutions varied by industry and by region in 1999, reflecting the broad range of customers, products and systems. In every sector, customer demand focused on increasing productivity and profitability by making business processes more efficient. Advances in Information Technology and software development continued to be a key driver.

Overall, revenues for the segment increased 18 percent to \$ 8,269 million (1998: \$ 7,036 million).

Orders reached \$ 8,152 million, an increase of 16 percent (1998: \$ 7,015 million). Demand in North America, Latin America, Southern Europe, China and India was stable. The system business was strongest during the first half of the year, while the product business picked up towards the end of the year.

Automation Power Products increased market share in motors and drives, while the market for investment goods remained difficult. Most of the *Instrumentation and Control Products* market slowed in 1999, although the force measurement business had double-digit growth. *Flexible Automation* increased market shares with a 50 percent increase in robot unit sales. Orders from the automotive sector led the increase, but sales in other areas also had double-digit growth.

Pulp and Paper orders reached an all-time high despite a recession in this industry. Paper companies are expected to increase spending in the second half of 2000 and through 2001.

Marine & Turbochargers saw strong demand in the cruise ship and ferry sector.

The deregulation of *Utilities* markets delayed investments for automation systems in the short term, mostly in North America and Western Europe. Longer term, deregulation will boost demand.

For the segment, operating earnings increased 6 percent to \$ 553 million (1998: \$ 521 million). This was achieved while integrating the Elsas Bailey acquisition. The integration is ahead of schedule. The synergies are higher than originally assessed and should reach \$ 200 million after 2–3 years instead of the 4 years first expected. Software and knowledge-based system businesses improved their results substantially.

The key technology focus has been to integrate ABB's multiple existing automation platforms. All platforms will continue to be supported while a migration path is provided to improve customer productivity through "next generation" technology.

Continued improvements in internal processes, quality and cost structure were achieved through the Total Optimization of Processes (TOPs) program. eCommerce will add another important distribution channel for the thousands of products in this segment and transform the way business is done. Management is committed to growing quickly in this area.

An overall recovery in most of our automation markets is expected in the second quarter of 2000, led by stronger demand in the product business. Accordingly, orders received and

AUTOMATION

revenues in 2000 are expected to increase. Substantial cost reductions and synergies from the Alfa Laval and Eltag Bailey mergers will increase profitability during 2000.

The Group's focus on value creation and aggressive balance sheet management will continue to strengthen the segment's cash flow.

Over the next four years, orders for the Automation segment should grow approximately 6 percent per year on average and an operating margin of 14 to 15 percent is targeted.

Business Areas in the Automation Segment

Orders Received (US\$ in millions)	1999	1998
Automation Power Products	1,408	1,480
Instrumentation and Control Products	1,983	1,265
Flexible Automation	1,625	1,365
Marine and Turbochargers	649	663
Metals and Minerals	537	603
Petroleum, Chemical and Consumer Industries	609	314
Pulp and Paper	585	471
Utilities	1,287	1,150
Other (not assigned to specific Business Area)	350	370
Intra-Segment transactions	-881	-666
Total	8,152	7,015

Revenues (US\$ in millions)

99	8,269
98	7,036
97	7,344
96	7,550
95	6,987

Orders Received (US\$ in millions)

99	8,152
98	7,015
97	7,338
96	7,482
95	7,469

Operating Earnings (US\$ in millions)

99	553
98	521
97	646
96	674
95	496

Average Capital Employed (US\$ in millions)

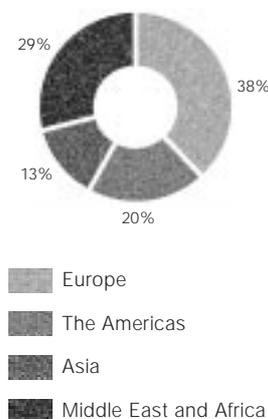
99	4,540
98	2,574
97	2,535
96	2,742
95	2,535

Number of Employees

99	49,554
98	43,384
97	43,183
96	41,788
95	38,917

Oil, Gas and Petrochemicals

Orders Received per Region



Demand in the upstream market for oil and gas development and production was affected by low oil prices during the first half of 1999. Production cuts lifted oil prices during the second half, but uncertainty regarding the sustainability of higher oil prices led many oil companies to postpone investments. Accordingly, overall market volumes fell during 1999. The petrochemicals and refining downstream market was also negatively affected by over-capacity resulting from the low activity in Asia.

Nonetheless, the strong order backlog at the end of 1998 allowed the segment to record an 8 percent increase in revenues to \$ 3,092 million (1998: \$ 2,860 million).

Orders received reached \$ 3,036 million, a decrease of 9 percent (1998: \$ 3,324 million). Major orders in the downstream area included gas pipe line compressor stations, various refinery and petrochemical projects and a chemical plant. In the upstream area, orders were secured for subsea production systems and a gas injection facility. Important markets included Algeria, Nigeria, India, Singapore, Norway, Brazil, and the United States.

Operating earnings amounted to \$ 185 million, 6 percent higher than 1998, reflecting the higher revenue level.

In response to low oil prices, the segment focused its upstream technology development efforts on bringing new low-cost systems and products to the offshore market. ABB delivered the world's first sub-sea separation and injection system and the first oil will be processed in May 2000. ABB also received its first order for a downhole control system and for compact and low-cost topside facilities for a floating production unit.

ABB added some new key processes to its petrochemicals portfolio including polyethylene in an alliance with Nova Chemicals and polypropylene in an alliance with Targor. ABB also signed a joint development agreement with SINOPEC to offer a new ethylene heater to the Chinese market. The alliance between ABB and Chevron to promote technology that upgrades heavy fuels into environmentally cleaner transportation fuels continues to make progress in the marketplace. Additionally in the area of clean fuels, ABB has teamed with Shell and Exxon to develop a technology that reduces sulfur and aromatics in diesel fuels.

For 2000, continuing strong oil prices and an improving business climate, particularly in Asia, are expected to increase orders. Revenues are expected to grow slightly after a downturn in the first half year. Operating earnings are forecast to remain at about the same level as 1999. The second half of 2000 should be stronger than the first half and cash flow is expected to be at least at the level of earnings.

Based on expectations of a revival in both the up- and downstream markets and new technology developments, ABB expects that orders and margins will continue to grow in the coming years. Over the next four years, the segment has a target to grow orders approximately 7 per cent per year and increase operating margins to 7–8 percent.

Business Areas in the Oil, Gas and Petrochemicals Segment

Orders Received (US\$ in millions)	1999	1998
Oil, Gas and Petrochemicals	3,036	3,324
Total	3,036	3,324

Revenues (US\$ in millions)

99	3,092
98	2,860
97	2,396
96	2,045
95	1,470

Orders Received (US\$ in millions)

99	3,036
98	3,324
97	3,126
96	2,596
95	1,952

Operating Earnings (US\$ in millions)

99	185
98	175
97	123
96	114
95	50

Average Capital Employed (US\$ in millions)

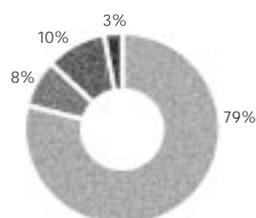
99	699
98	709
97	823
96	912
95	778

Number of Employees

99	8,941
98	8,774
97	8,160
96	7,379
95	6,122

Building Technologies

Orders Received per Region



Demand in Europe was low during the first six months of 1999, but improved in the second half and even higher growth is expected for 2000. The North American economy remained strong and the emerging markets began rebounding. Higher demand is expected for IT-related products and services.

Revenues were flat in 1999 at \$ 6,323 million (1998: \$ 6,385 million). Orders received increased 3 percent to \$ 6,629 million (1998: \$ 6,464 million).

Demand for *Low-Voltage Products and Systems* was slow in the first half, but recovered somewhat during the second half of the year. Growth in China and North America helped to compensate for the lower growth in Western Europe. Several countries within Europe, particularly Southern Europe, showed high growth.

Installation orders in *Building Systems* were at the same level as 1998. The business area focused on orders with higher profitability, rather than on sheer volume growth, and reduced its exposure to general contracting. Key European markets showed mixed growth and an increasing share of orders was driven by growth in the service sector.

Air Handling Equipment increased orders in the Nordic countries and took market share in other European countries. Demand for engineered fans was strong in the U.S., but remained weak elsewhere.

The service market is growing as industrial and building customers continue to outsource service and maintenance. The business area *Service* benefitted from this trend, with large full-service orders in Finland, Canada and Germany lifting total volume to \$ 1,145 million.

Operating earnings for the segment grew 16 percent to \$ 485 million (1998: \$ 419 million). Margins increased, supported by improved internal efficiency and continued reduction of administration costs. Reduced inventory, made possible by shorter and more secure delivery times, helped to significantly reduce working capital. Cash flow exceeded operating earnings.

The market outlook for 2000 is positive with growth rates for Europe expected to be higher than in 1999. ABB expects better growth for the product activities as the segment establishes new product lines and further penetrates new markets. Higher orders and revenues should contribute to increased profits. For the people-intensive activities other than *Service*, ABB will focus on

improving margins rather than volumes. The focus on capital reduction is expected to continue generating high cash flow.

The segment's four-year targets include average annual volume growth of 7 percent through both organic growth and acquisitions. The operating margin is targeted to reach 9 percent.

Business Areas in the Building Technologies Segment

Orders Received (US\$ in millions)	1999	1998
Building Systems	3,078	3,023
Low-Voltage Products and Systems	2,015	2,131
Air Handling Equipment	481	514
Service	1,145	777
Other (not assigned to specific Business Area)	62	232
Intra-Segment transactions	-152	-213
Total	6,629	6,464

Revenues (US\$ in millions)	Orders Received (US\$ in millions)	Operating Earnings (US\$ in millions)
99 6,323	99 6,629	99 485
98 6,385	98 6,464	98 419
97 6,381	97 6,488	97 399
96 6,969	96 7,069	96 370
95 6,861	95 6,949	95 422

Average Capital Employed (US\$ in millions)	Number of Employees
99 1,578	99 54,941
98 1,558	98 53,753
97 1,641	97 54,115
96 1,722	96 54,152
95 1,710	95 52,733

Financial Services

ABB Financial Services reported another year of high operating earnings in 1999 with income before taxes of \$ 353 million. The result did not reach the previous year's exceptional level of \$ 403 million, which reflected the divestment of investment management activities.

The financial services sector experienced further consolidation in Europe and the U.S., creating large national and international financial services companies. Many stock markets showed strong performance. Bond markets had a difficult year due to rising interest rates.

Treasury Centers continued their growth strategy by offering base metals price hedging tools and opening Treasury Service Units in Poland and the Czech Republic. Despite increased results in the emerging markets, the business area did not reach last year's high earnings level. ABB Financial Energy began trading in securities with energy as the underlying asset. The new company, under the control of the Swedish Securities and Exchange Commission, offers risk management solutions to the energy market.

Leasing and Financing posted lower earnings. Portfolio income showed strong growth while fee income dropped as a result of regulatory changes limiting cross-border leasing volumes. Signed contract volumes totaled \$ 1 billion, an increase of more than 80 percent. Energy Leasing was established to provide solutions for distributed power generation, and FlexRent was established to provide operating leases for small ticket items, including service, for robots in manufacturing automation applications.

Insurance reported its highest earnings ever as investment income continued to grow. Expansion of *Insurance* continued during 1999 with the acquisition of Kemper Europe Réassurances S.A. of Belgium and the opening of the Singapore branch office of Sirius International to serve the Southeast Asian market.

Structured Finance reported record results. Earnings rose 30 percent in 1999 as a number of transactions were closed in Latin America, the Middle East and Europe.

Energy Ventures also increased earnings to a new level in 1999 by closing three large projects in Australia, Mexico and India, including the first Indian independent power project developed, financed and owned by ABB.

The consolidated assets of Financial Services amounted to \$ 19.9 billion, representing marketable securities held by *Treasury Centers* and *Insurance*, financial leases held by *Leasing and*

Financing, equity participations held by *Energy Ventures*, lending to ABB projects by *Structured Finance* and to ABB companies by *Treasury Centers*.

Income before taxes for 2000 is expected to increase from the 1999 level and cash flow will be slightly lower than the income level.

Financial Services has targeted an income before tax exceeding \$ 500 million by 2003.

Business Areas in the Financial Services Segment

Income before Taxes (US\$ in millions)	1999	1998
Treasury Centers	59	113
Leasing and Financing	47	56
Insurance	134	110
Structured Finance	26	20
Energy Ventures	59	54
Holding Activities & Eliminations*	28	50
Total	353	403

* 1998 figure reflects the sale of the Investment Management operations.

Revenues (US\$ in millions)

99	829
98	860
97	828
96	479
95	446

Income Before Taxes (US\$ in millions)

99	353
98	403
97	297
96	323
95	257

Number of Employees

99	1,049
98	894
97	885
96	825
95	863

Consolidated Financial Statements

Consolidated Income Statement

Year ended December 31 (US\$ in millions)	Notes	1999	1998 Reflecting ABB's new composition ¹	1999 ²	1998 ²
Revenues	2	24,681	23,733	27,794	30,872
Material expenses		-10,120	-10,006	-11,969	-13,606
Personnel expenses		-7,381	-7,361	-8,181	-9,044
Other expenses	3	-4,127	-3,970	-4,849	-5,085
Changes in work in progress and finished goods		-93	182	331	-132
Depreciation of fixed assets	4	-819	-719	-916	-926
Unusual items	5	275	-1	253	32
Operating Earnings after Depreciation		2,416	1,858	2,463	2,111
Earnings from the defined power generation business		51	253	-	-
Earnings from equity accounted companies		76	0	76	0
Dividend income		14	21	14	25
Interest income	6	399	469	391	462
Interest expense	6	-698	-735	-691	-734
Exchange differences		50	-1	55	1
Income before Taxes		2,308	1,865	2,308	1,865
Income taxes	7	-665	-543	-665	-543
Net Income before Minority Interests		1,643	1,322	1,643	1,322
Minority interests		-29	-17	-29	-17
Net Income		1,614	1,305	1,614	1,305
Basic and diluted earnings per share, in US\$ ^{a)}		5.38	4.35	5.38	4.35

¹ Excludes the defined power generation business as described in Notes 1 and 24.

² Includes the defined power generation business as described in Notes 1 and 24.

^{a)} Calculation based on 300,002,358 registered shares.

Consolidated Financial Statements

Balance Sheet

December 31 (US\$ in millions)	Notes	1999	1998
Assets			
Current Assets			
Cash and cash equivalents	8, 20	6,288	7,790
Trade receivables	20	4,360	6,173
Inventories	9	3,393	4,444
Other current assets	10, 20	4,025	4,463
Total Current Assets		18,066	22,870
Fixed Assets			
Financing receivables	8, 20	2,826	2,145
Shares and participations	11	1,414	750
Intangible assets	12	3,162	1,927
Construction in progress	13	126	173
Machinery and equipment	13	1,740	2,428
Land and buildings	13	1,649	2,090
Deferred tax assets	16	533	511 ^{a)}
Total Fixed Assets		11,450	10,024
Total Assets	19	29,516	32,894
Liabilities and Equity			
Current Liabilities			
Trade payables	20	3,218	5,225
Provisions		4,287	4,286
Other current liabilities	14, 20	5,594	4,963
Short-term loans	8, 20	2,822	3,409
Total Current Liabilities		15,921	17,883
Non-Current Liabilities			
Advances from customers	15	1,114	2,646
Medium- and long-term loans	8	3,137	2,808
Employee benefits	22	2,171	1,771
Deferred tax liabilities	16	1,248	1,512 ^{a)}
Total Non-Current Liabilities		7,670	8,737
Minority Interests			
		317	315
Stockholders' Equity			
Share capital		1,932	2,087
Restricted reserves		1,183	1,103
Other reserves and retained earnings		879	1,464
Net income		1,614	1,305
Total Stockholders' Equity	17	5,608	5,959
Total Liabilities and Equity		29,516	32,894

^{a)} 1998 figures restated for the separate disclosure of deferred tax assets and liabilities.

Consolidated Financial Statements

Statement of Cash Flows

Year ended December 31 (US\$ in millions)	Notes	1999 Reflecting ABB's new composition ¹	1998	1999 ²	1998 ²
Cash Flow from Operating Activities					
Income before taxes ^{a)}		2,308	1,865	2,308	1,865
Adjustments for depreciation of fixed assets		819	719	916	926
Adjustments for changes in provisions		-236	-502	-75	-551
Adjustments for changes in employee benefits		-303	106	-281	35
Adjustments for other items		-460	-380	-460	-149
		2,128	1,808	2,408	2,126
Changes in operating assets and liabilities:					
Trade receivables		-10	-64	-19	-631
Other current assets		-500	-281	-400	-686
Inventories		-97	-30	-233	168
Trade payables		262	88	268	744
Other current liabilities (excl. income taxes due)		315	-212	358	-46
Advances from customers		33	77	-315	857
		3	-422	-341	406
Income Taxes Paid		-308	-349	-311	-428
Net Cash Flow from Operating Activities		1,823	1,037	1,756	2,104
Cash Flow Related to Investing Activities					
Changes in financing receivables		-5	-696	646	-300
Acquisitions (net of cash acquired)	23	-1,724	-271	-1,727	-274
Capital expenditure for tangible fixed assets		-679	-738	-735	-865
Proceeds from divestitures (net of cash disposed)	23	1,870	60	1,577	60
Proceeds from disposal of tangible fixed assets		456	277	467	288
Net Cash Flow Related to Investing Activities		-82	-1,368	228	-1,091
Cash Flow Related to Financing Activities					
Changes in short-term loans ^{b)}		-2,996	2,556	-2,779	1,672
Changes in medium- and long-term loans ^{b)}		376	631	376	286
Dividends paid		-503	-507	-503	-507
Other items		208	-394	-252	-509
Net Cash Flow Related to Financing Activities		-2,915	2,286	-3,158	942
Effects of Translation Differences on Cash and Cash Equivalents					
		-328	45	-328	45
Net Change in Cash and Cash Equivalents		-1,502	2,000	-1,502	2,000
Cash and cash equivalents – beginning of year		7,790	5,790	7,790	5,790
Cash and cash equivalents – end of year		6,288	7,790	6,288	7,790

¹ Excludes the defined power generation business as described in Notes 1 and 24.

² Includes the defined power generation business as described in Notes 1 and 24.

^{a)} Actual interest received/paid does not differ materially from "Interest Income/Expenses" as included in income before taxes and presented in Note 6, and is thus not explicitly shown in the above presentation.

^{b)} Includes the effect of loans created through acquisitions/divestments.

Consolidated Financial Statements

Statement of Changes in Equity

Year ended December 31 (US\$ in millions)	Notes	1999	1998
Equity as of December 31, previous year	17	5,959	5,283
(1998 and 1997, respectively)			
Inclusion of ABB Ltd, ABB AB and ABB AG ^{a)}		34	–
Changes in accounting principles and other items ^{b)}		–935	–74
Dividend payments		–503	–460
Translation differences		–561	–95
Net income		1,614	1,305
Equity as of December 31	17	5,608	5,959

^{a)} Net assets of ABB AB and ABB AG other than their holdings in the ABB Group contributed to ABB Ltd at June 28, 1999, i.e. after pay-out of ordinary dividends to respective shareholders related to 1998 and a special dividend to ABB AG shareholders on June 25, 1999.

^{b)} Introduction in 1999 of revised IAS 19 on Employee Benefits (refer to Note 22) and in 1998 of revised IAS 12 on Income Taxes.

Main exchange rates used in the translation of the Financial Statements

	ISO Codes	Average 1999/US\$	Year-end 1999/US\$	Average 1998/US\$	Year-end 1998/US\$
Australian dollar	AUD	1.56	1.53	1.58	1.63
Canadian dollar	CAD	1.49	1.45	1.48	1.55
Chinese yuan renminbi	CNY	8.28	8.28	8.28	8.28
Danish krone	DKK	6.97	7.42	6.70	6.38
Finnish markka	FIM	5.57	5.93	5.35	5.09
French franc	FRF	6.15	6.54	5.90	5.62
German mark	DEM	1.83	1.95	1.76	1.68
Italian lira	ITL	1,815.08	1,931.44	1,736.11	1,658.37
Norwegian krone	NOK	7.82	8.04	7.54	7.61
Polish zloty	PLN	3.95	4.13	3.50	3.50
Pound sterling	GBP	0.62	0.62	0.60	0.60
Spanish peseta	ESP	155.97	165.97	149.43	142.67
Swedish krona	SEK	8.28	8.53	7.95	8.13
Swiss franc	CHF	1.50	1.60	1.45	1.38
EURO/1998: ECU	EUR/XEU	0.94	1.00	0.89	0.86

Principles for Consolidated Financial Statements

A. General

The consolidated financial statements of ABB Ltd and its subsidiaries have been prepared in accordance with the accounting standards and interpretations issued by the International Accounting Standards Committee (IASC).

Changes resulting from newly effective IAS 19 are described in section J below.

Because of the international nature of the Group's activities and the fact that more of its business is transacted in US\$ than in any other currency, the consolidated financial statements are published in US\$.

B. Principles of Consolidation

The consolidated financial statements include ABB Ltd and all companies in which it has, directly or indirectly, more than 50% of the voting rights or over which it exerts decisive influence. Companies are contained in the consolidation from the date of acquisition. Earnings in divested companies are included up to the date of sale.

Material divestments have occurred in 1999 as described in Note 1, 23 and 24. To enhance the comparability with 1998, a presentation is included on the face of the Income Statement and Cash Flow Statement which reflects the new ABB composition.

Material investments in companies where ABB Ltd, directly or indirectly, has not more than 50% and not less than 20% of the voting rights and where it exerts significant influence are accounted for by the equity method. ABB ALSTOM POWER, created on June 30, 1999, is accounted for by using the equity method as from July 1, 1999 (see Note 24).

Goodwill from acquisitions is capitalized and amortized over periods not exceeding 20 years.

Assets and liabilities as well as income and expenses of fully consolidated companies are reflected in their entirety in the consolidated financial statements. The shares in Net Income and Equity attributable to minority shareholders in certain Group companies are stated separately in the Consolidated Income Statement and Balance Sheet.

Intercompany balances and transactions, including intercompany profits, are eliminated.

C. Revenues

Revenues include sales and other operating income. Sales are reported net of sales or value added tax, returned goods and trade discounts.

D. Revenue Recognition

Revenues from products and services are recognized at the date of delivery. Revenues from construction contracts are recognized according to the percentage-of-completion method. Depending on the type of business, the stage of completion is generally based on the costs incurred for a construction contract up to the measurement date or on specific surveys of work performed.

E. Foreign Currencies

Translation of financial statements

Financial statements of Group companies expressed in currencies other than US\$ are translated at year-end rates of exchange with respect to the balance sheet, and average rates of exchange for the year with respect to the income statement and the statement of cash flows. Translation adjustments are included in stockholders' equity and have no effect on net income.

In high inflation countries, monetary balance sheet positions in local currency are stated at closing values prior to conversion at the year-end US\$ rate. Fixed assets are kept at historic US\$ values from acquisition dates. Revenues and expenses are generally converted at the exchange rates prevailing at the date incurred. All translation gains/losses from restatements of balance sheet positions are included in net income.

Foreign currency transactions

Transactions in foreign currencies are converted at the rate of exchange prevailing at the transaction date.

Foreign currency receivables and payables covered by forward contracts are stated at contracted forward rates. Other receivables and payables in foreign currencies are translated at year-end market rates. Resulting exchange differences are included in net income.

F. Tangible Fixed Assets

Tangible fixed assets are stated at cost, less accumulated depreciation using the straight-line method over their estimated useful lives.

The depreciation periods normally are:

- production tools*, EDP-equipment	3 years
- machinery and equipment	5-15 years
- buildings	15-50 years

* other than wear and tear tools which are expensed

G. Research and Development

Research and general development costs are expensed as incurred. Certain development costs related to products in early or pre-commercialization phase are capitalized under intangible assets. Engineering and design costs directly related to contracts are capitalized as work in progress.

H. Financial Assets and Liabilities

Balance sheet positions from investing and financing activities are normally reported at cost. Adjustments for financial assets are made if their carrying amount exceeds the value realizable in the foreseeable future.

Entities primarily engaged in transactions with financial instruments carry their related financial assets and liabilities as well as their off balance sheet positions at fair values. Gains and losses from changes in the fair values of such positions are recognized in income as they arise.

I. Inventories

Purchased goods are stated at the lower of cost – determined on the basis of weighted average prices or by the "first-in, first-out" method – or replacement value, while manufactured goods are valued at the lower of manufacturing cost or net realizable value. Appropriate provisions are made for obsolescence.

J. Employee Benefits and Introduction of Revised IAS 19

The cost of defined retirement benefits is determined on an actuarial basis using accrued benefit valuation methods which reflect service rendered by employees to the date of valuation and incorporate assumptions concerning employees' projected salaries. Current service costs are charged to income in the periods in which the services are rendered. Past service costs, experience adjustments and the effects of changes in actuarial assumptions on retirement benefit costs are charged or credited to income systematically over a period approximating the average of the expected remaining working lives of participating employees.

Following the introduction of revised IAS 19 as at January 1, 1999 all remaining unamortized benefit obligations under the original IAS 19, the unamortized part of medicare plans in the U.S. and revaluations in connection with changes of actuarial assumptions under revised IAS have been recognized in the Balance Sheet. The corresponding amount – after consideration of deferred taxes – has been recorded as an adjustment to stockholders' equity (see Note 22).

K. Provisions

Provisions are recorded for identifiable warranties, penalties, loss orders, committed costs for delivered plant orders and restructuring measures.

L. Taxation

All taxes ultimately to be paid on income referring to the reporting period are provided for. These taxes are calculated in accordance with the regulations in force in each country. Irrecoverable withholding taxes on current dividends received are included in the tax expense for the year.

In addition, deferred taxes are recognized by applying the balance sheet approach for all future tax consequences of transactions and other events treated differently in the financial statements compared to the tax returns. The future benefits of unused tax losses and tax credits are recognized if their realization is probable. Deferred taxes are adjusted for changes in tax rates, for new taxes imposed and for changes in the tax system in order to reflect the expected future tax effects.

M. Orders Received and Order Backlog

Amounts stated for orders received and order backlog are expressed at the price level estimated for the date of delivery of each order.

N. Definition of Key Ratios/Concepts

The ratios shown for the Group (reflecting the new ABB composition) are calculated as follows:

- a) **Return on equity**
Net income as a percentage of average stockholders' equity.
- b) **Return on capital employed**
Income before taxes plus interest expense and exchange differences as a percentage of average capital employed. Capital employed consists of stockholders' equity, minority interest, pension liabilities and short-, medium- and long-term loans. Loans taken up at year-end 1998 to finance the Elsas Bailey acquisition in 1999 have been excluded from the calculation.
- c) **Interest coverage ratio**
Income before taxes plus interest expense on financial liabilities divided by interest expense on financial liabilities.
- d) **Debt/equity ratio**
Interest-bearing short-, medium- and long-term liabilities, excluding pension liabilities divided by stockholders' equity plus minority interest.
- e) **Net cash position**
Cash and cash equivalents minus interest-bearing short-, medium- and long-term liabilities, excluding pension liabilities.
- f) **EBITDA**
Earnings Before Interest, Taxes, Depreciation and Amortization.

Notes to the Consolidated Financial Statements

Note 1, General and Scope of Consolidation

Main changes in scope of consolidation 1999

Creation of ABB Ltd

1999 reflects the scope of consolidation of ABB Ltd, the new ABB Group holding company effective June 28, 1999. Compared to the previous year's report which was based on the scope of ABB Asea Brown Boveri Ltd, the latter's parents, ABB AB and ABB AG, are now also included in ABB's consolidation (from June 28, 1999). The effects of this change are immaterial given that the sole holdings of ABB AB and ABB AG were their 50-percent share in ABB Asea Brown Boveri Ltd. Further, the cash surplus contained in ABB AG was distributed to its shareholders through a special dividend payment prior to the contribution of ABB AG to the new group parent ABB Ltd.

Contribution of the ABB Power Generation Business

As a consequence of the contribution of the ABB power generation business (except nuclear, some renewable power and distributed power businesses) hereinafter called "the defined power generation business" on June 30, 1999 to the newly created ABB ALSTOM POWER joint venture (refer to Note 24) the Balance Sheet at December 31, 1999 excludes all assets and liabilities of the defined power generation business and contains ABB's 50-percent share in the consolidated equity of the newly created ABB ALSTOM POWER. From July 1, 1999, ABB's 50-percent share of earnings in the newly formed ABB ALSTOM POWER are included in the caption "Earnings from equity accounted companies". ABB's nuclear power business (as described in Note 26) remains fully consolidated in all financial statements in 1998 and 1999.

Acquisition of the Elsag Bailey Group

1999 figures include the operations from the Elsag Bailey Process Automation group acquired in January 1999 (more details are given in Note 25).

1999 and 1998 columns reflecting the new ABB composition

The columns entitled "Reflecting the new ABB composition" in the Income Statement and Statement of Cash Flows represent the 1999 and 1998 Group figures excluding the defined power generation business from all positions except for Income before Taxes, Income Taxes, Net Income before Minority Interests and Net Income.

1999 column

This column in the Income Statement and Statement of Cash Flows represents Group figures including the defined power generation business up to June 30, 1999. Unless otherwise stated, 1999 figures in subsequent notes refer to this consolidation.

Note 2, Revenues

(US\$ in millions)	1999	1998
Revenues include the following items:		
Sales	26,488	29,673
Other operating income	1,306	1,199
Total	27,794	30,872

Licence income amounted to US\$ 20 million (US\$ 34 million).

Note 3, Other Expenses

(US\$ in millions)	1999	1998
Expenses for:		
Rents, leasing and external services	1,679	1,528
Packing, freight, sales commission and other delivery expenses	1,121	1,254
Communication, advertising, travel and entertainment	1,208	1,253
Repair and maintenance, insurance premiums, licence fees and other expenses	778	975
Taxes on capital and property, and other items	63	75
Total	4,849	5,085

Note 4, Depreciation of Fixed Assets

(US\$ in millions)	1999	1998
Machinery and equipment	636	700
Land and buildings	76	82
Goodwill	204	144
Total	916	926

Note 5, Unusual Items

(US\$ in millions)	1999	1998
Capital gains/losses on sales of participations, land and buildings	423	114
Rationalization and restructuring expenses	- 167	- 21
Other items	- 3	- 61
Total	253	32

The 1999 figures contain a capital gain of US\$ 262 million (US\$ 162 million net of taxes), related to the contribution of ABB's power generation business to ABB ALSTOM POWER in exchange for a 50-percent participation in that company and US\$ 1,500 million in cash (refer to Note 24). The mentioned capital gain is presented after providing for ABB's 50-percent share of a EUR 700 million (US\$ 723 million) restructuring provision set up in the opening balance sheet of ABB ALSTOM POWER and adequate coverage of other exposures.

Also included in the 1999 figures are the capital gains from the divestment of various non-core activities and real estate.

Note 6, Interest Income/Expense

The net interest earned by Financial Services of US\$ 353 million (US\$ 322 million) which also includes risk earnings is captured within Operating Earnings after Depreciation. The corresponding amount is deducted from the interest income reported.

Interest expense is made up of the following items:

(US\$ in millions)	1999	1998
Interest on pension liabilities	109	117
Interest on financial liabilities	582	617
Total	691	734

Note 7, Income Taxes

(US\$ in millions)	1999	1998
Current taxes on income	402	325
Deferred taxes	232	235
Taxes in equity accounted companies	31	3
Taxes in discontinued operations	0	-20
Total	665	543
Reconciliation of income taxes		
Income before taxes	2,308	1,865
Applicable tax rate ^{a)}	38.1%	40.8%
Applicable income tax charge^{a)}	880	761
Income taxed at different rates	-71	-23
Amortization of goodwill not tax deductible	72	32
Use of tax losses/credits for which no deferred tax assets have been recognized in previous periods	-196	-137
Recognition of previously not qualifying deferred tax assets	-62	-176
Non-recognition of current or write-down of previously recognized deferred tax assets	26	73
Others, net	16	13
Total income taxes (current and deferred)	665	543
Effective tax rate for the year	28.8%	29.1%

^{a)} The reconciliation is an aggregation of separate reconciliations prepared using the enacted tax rates of each individual tax jurisdiction. The applicable tax rate is the weighted average of those enacted tax rates. Included in the above presentation are the taxes referring to equity accounted companies. Taxes referring to businesses sold during the respective years are considered up to the date of sale. Tax-effects entailed by the transfer of the defined power generation business to ABB ALSTOM POWER have partly been considered based on estimates for jurisdictions where legal transactions are still outstanding.

Note 8, Financial Instruments

(US\$ in millions)	1999	1998
Cash and Cash Equivalents		
Cash in bank	1,558	2,975
Fixed income securities	4,730	4,815
Total cash and cash equivalents	6,288	7,790
Fixed income securities at fair value	4,783	4,865

Cash and cash equivalents essentially correspond to funds available on short-term notice (up to three months). Some fixed income securities having longer maturities are immediately realizable as cash in the pertinent markets.

The Group's cash and cash equivalents at the end of 1999 were mainly denominated in USD (43%), SEK (23%), EUR (10%), CHF (9%) and NOK (5%).

Average nominal interest rates were in the range of the rates for loans (refer to table below).

Financing Receivables

(US\$ in millions)	1999	1998
Loans granted	1,361	982
Receivables, finance lease	1,465	1,163
Total financing receivables	2,826	2,145
Total financing receivables at fair value	2,847	2,204

Loans

	1999	1998
Short-term loans		
Short-term borrowings	1,969	2,839
Short-term part of medium- and long-term loans	853	570
Total short-term loans	2,822	3,409

	1999	1998
Medium- and long-term loans		
Maturity 1999 and 2000	–	951
Maturity 2001	934	374
Maturity 2002	578	749
Maturity 2003	303	451
Maturity 2004	852	178
Maturity 2005 and later	470	105
Total medium- and long-term loans	3,137	2,808

	1999	1998
Total loans		
Short-, medium- and long-term loans	5,959	6,217
of which secured	1%	2%
Total loans at fair value	5,957	6,290

The Group's total loans outstanding at the end of 1999 (1998) were denominated in the following original currencies (approximate values):

	1999	% of total loans 1998	Average nominal interest rates 1999	1998
USD	41%	51%	5.6%	5.4%
CHF	23%	16%	3.2%	3.0%
ITL	–	10%	–	6.4%
DEM	1%	3%	4.8%	4.1%
EUR	20%	–	3.2%	–
JPY	1%	2%	1.2%	2.0%
Scandinavian currencies	2%	2%	4.4%	4.3%
Others	12%	16%	7.7%	7.7%

In accordance with ABB financial policies, the industrial companies primarily borrow in local currency to meet their financial requirements. It should also be noted that the Group actively utilizes the financial markets to manage its exposures, with the result that the original borrowing currency may not necessarily reflect the currency of final obligation.

The ABB Group has no subordinated loans and no debt convertible into own equity.

Most of the borrowing is in floating rate interest or has been converted into floating rate interest through the use of derivative instruments. The combined interest rate risk of the financial assets and liabilities both recognized and unrecognized is not significant.

There are no significant concentrations of credit risks, neither in the Trade Receivables nor in Financing Receivables nor in Cash and Cash Equivalents. This is achieved on the one hand by the global and diversified customer base of ABB and, on the other hand, by making deposits with and holding securities from counterparties with a rating equal to or better than ABB.

Derivative Instruments

The ABB Group uses derivative financial instruments to manage its interest rate and currency exposures arising from its operational, financing and investment activities, as well as for proprietary trading purposes within Treasury Centers. Group policies require that industrial companies hedge all contracted foreign currency exposures, as well as 50% of the anticipated sales volume of standard products over the next 12 months.

As of December 31, 1999 and 1998, the notional amounts and fair values of the outstanding derivative instruments were as follows:

Instruments				
(US\$ in millions)	Notional Amounts 1999	Fair Values 1999	Notional Amounts 1998	Fair Values 1998
Exchange-traded				
Interest rate futures	17,494	-	14,466	-
Forward rate agreements	4,779	-	762	-
Interest rate options	202	-	-	-
Over-the-counter (OTC)				
Forward rate agreements	90,687	- 1	47,660	- 2
Interest rate and currency swaps	10,380	- 101	13,398	10
Interest rate options	240	-	789	-
Foreign exchange contracts	35,063	- 73	34,832	53
Foreign exchange options	6,845	8	1,940	4
Fair value of outstanding derivatives		- 167		65

The notional amounts indicate the extent of the outstanding derivatives at the balance sheet date and therefore do not reflect the Group's exposures or risks arising from such transactions. The respective figures in the table above represent the net notional amount per contract for exchange traded instruments as opposed to the gross notional amount of purchases and sales for OTC instruments.

The larger part of the notional amounts outstanding but a smaller part of the fair values originates from proprietary risk trading. In order to exercise proper control, such activities are regulated by financial policies containing strict rules for the monitoring of market and credit risk. Market risk represents the risk of fluctuations in the value of the outstanding derivatives and is controlled and measured in real-time against predefined limits. Credit risk represents the loss that would be incurred if counterparties failed to meet their obligations. ABB maintains tight control over credit risk by selecting mostly counterparties of equal or better rating than itself, as well as by avoidance of counterparty concentration. Credit risk is further reduced through the use of close-out netting agreements with most of its counterparties.

The fair value in 1999 (1998) of US\$ -167 million (US\$ 65 million) corresponds to the estimated net amount that would be received or paid if the outstanding derivatives were liquidated on December 31 of the respective years. The fair value arises primarily on instruments used to hedge Group exposures and as such is offset by opposite values of the underlying transactions being hedged. To derive the fair value of the outstanding derivatives, option pricing models and discounted cash flow methodology have been applied using the appropriate market parameters.

Note 9, Inventories

(US\$ in millions)	1999	1998
Materials	1,113	1,496
Work in progress	1,880	2,460
Finished goods	400	488
Total	3,393	4,444
Work in progress is reported net of related advances spent:		
Work in progress (gross)	2,258	3,554
Advances spent (see Note 15)	- 378	- 1,094
Work in progress (net)	1,880	2,460

Note 10, Other Current Assets

(US\$ in millions)	1999	1998
Non-trade receivables	2,275	1,688
Prepaid expenses/accrued income	567	937
Advances to suppliers	192	511
Advances to contractors	36	50
Sales in excess of invoicing	955	1,277
Total	4,025	4,463

Sales recognized in excess of invoicing originate from application of the percentage of completion method for construction contracts and are reported net of related advances spent, as follows:

Sales in excess of invoicing (gross)	1,903	3,241
Advances spent (see Note 15)	- 948	- 1,964
Sales in excess of invoicing (net)	955	1,277

Note 11, Shares and Participations

(US\$ in millions)	1999	1998
Holdings in equity accounted companies	1,266	102
Holdings in other companies	148	648
Total	1,414	750

Major companies:**Group interest¹**

ABB ALSTOM POWER N.V., Amsterdam	A
ABB Chongqing Transformer Co. Ltd., Chongqing City	A
Aclara Biosciences Inc., Mountain View	B
Bailey Japan Co. Ltd., Shizuoka-Ken	A
Catalytic Distillation Technologies Inc., Bloomfield	A
Fastighets AB Skulderbladet, Västerås	A
GVK Industries Ltd., India	B
Hanson Electrical, West Midlands	B
Humber Power Ltd., London	B
Indeck North American Power Fund, Wheeling	B
Isocracking Catalyst Co., San Francisco	A
Jorf Lasfar Energy Company, Casablanca	A
Malaysia Transformer Manufacturing, Kuala Lumpur	A
Oldchurch Aviation BV, Amstelveen	A
Plásticos Del Lago C.A., Venezuela	B
ST-CMS Electric Company Private Ltd., Chennai	A
Termobarranquilla SA, Santafé de Bogotá	A
Turbec AB, Malmö	A

¹ Group interest, direct or indirect: A = 20 to 50%, B = less than 20%.

Note 12, Intangible Assets

(US\$ in millions)	1999	1998
Goodwill at cost	3,974	2,529
Accumulated amortization of goodwill	-1,074	-925
Goodwill at net book value	2,900	1,604
Other intangibles at net book value	262	323
Total	3,162	1,927
Reconciliation of goodwill		
Net book value as of January 1	1,604	1,802
Additions	2,384	122
Disposals	-828	-
Amortization	-204	-144
Other movements	-8	-195
Translation differences	-48	19
Net book value as of December 31	2,900	1,604

Note 13, Tangible Fixed Assets

(US\$ in millions)	Machinery and equipment		Land and buildings		Total	
	1999	1998	1999	1998	1999	1998
Acquisition value	5,079	6,888	2,457	3,149	7,536	10,037
Accumulated depreciation	-3,339	-4,460	-808	-1,059	-4,147	-5,519
Net book value	1,740	2,428	1,649	2,090	3,389	4,518
Amounts committed for capital expenditure after year-end	34	48	2	3	36	51
Insurance value	6,023	8,232	3,724	5,725	9,747	13,957

Reconciliation of tangible fixed assets	Construction in progress	Machinery and equipment	Land and buildings	Total
Net book value December 31, 1998	173	2,428	2,090	4,691
Capital expenditure	141	514	80	735
Disposals	-27	-624	-380	-1,031
Additions through acquisitions	20	106	223	349
Transfer between asset classes	-135	109	26	0
Depreciation	-	-636	-76	-712
Other movements	-34	32	-122	-124
Translation differences	-12	-189	-192	-393
Net book value December 31, 1999	126	1,740	1,649	3,515

Note 14, Other Current Liabilities

(US\$ in millions)	1999	1998
Taxes due	484	437
Non-trade payables	3,015	2,051
Accrued expenses/deferred income	2,095	2,475
Total	5,594	4,963

Note 15, Advances from Customers

(US\$ in millions)	1999	1998
Advances (gross)	2,440	5,704
Advances spent relating to sales in excess of invoicing	- 948	- 1,964
Advances spent relating to work in progress	- 378	- 1,094
Advances (net)	1,114	2,646

Advances (gross) represent the total of down and progress payments received for orders or parts of orders not yet invoiced.

Advances spent represent the part of gross advances consumed on work performed for orders not yet invoiced.

Note 16, Deferred Taxes

(US\$ in millions)	1999		1998	
	Assets	Liabilities	Assets	Liabilities
Deferred taxes on:				
Inventories	59	63	117	151
Other current assets	22	94	33	148
Shares and participations, investments	61	139	2	164
Receivables, finance lease	5	531	7	493
Other fixed assets	38	358	19	458
Provisions	277	110	283	88
Other current liabilities	48	16	59	67
Pension liabilities and similar	103	55	70	47
Insurance provisions	-	229	-	217
Other items	159	62	136	122
Unused tax losses and unused tax credits	170	-	228	-
Deferred taxes (gross)	942	1,657	954	1,955
Deferred taxes in consolidated balance sheet	533	1,248	511	1,512
Net deferred tax liabilities		715		1,001

Deferred taxes are presented in the Balance Sheet after having considered the offsetting requirements under IAS 12.

Accumulated unused tax losses, tax credits and deductible temporary differences that have not been recognized as deferred tax assets have developed as follows:

	Not recognized deductible amounts	Potential tax savings
At the end of 1998	1,969	728
Used in 1999 (net)	743	287
At the end of 1999	1,226	441
Not recognized deductible amounts by expiry dates:		
2000	32	
2001	37	
2002	54	
2003	30	
2004 and after	1,073	
Total	1,226	

Note 17, Stockholders' Equity

(US\$ in millions)	Share capital	Restricted reserves	Other reserves and retained earnings	Net income	Total	Of which translation differences
Opening balance sheet	2,087	1,103	1,464	1,305	5,959	- 699
Transfers between reserves			1,305	- 1,305	0	
Dividends			- 503		- 503	
Change in accounting principle and other items (refer to Note 22)			- 935		- 935	
Effect of creation of new parent company	- 155	189			34	
Translation differences		- 109	- 452		- 561	- 561
Net income 1999				1,614	1,614	
Closing balance sheet	1,932	1,183	879	1,614	5,608	- 1,260

The share capital of ABB Ltd is divided into 300,002,358 registered shares with a par value of CHF 10 and one vote per share. The Board of Directors is also authorized to increase the share capital in an amount not to exceed CHF 300,000,000 through the issuance of up to 30,000,000 fully paid registered shares.

Note 18, Contingent Liabilities and Litigations

Contingent liabilities (US\$ in millions)	1999	1998
Discounted bills of exchange	41	49
Guarantees related to financed contracts	41	46
Other contingent liabilities	75	53
Total	157	148

As part of the Group's business operations there are, in addition to the contingent liabilities listed above, guarantees for the performance of various contractual undertakings. Some of these are of an on-demand nature (in respect of which ABB maintains insurance protection against "unfair calling"). There is no indication that such guarantees will result in any material payment not provided for.

ALSTOM has notified ABB of a dispute, and is seeking adjustment for compensation, with respect to the valuation and contribution by ABB of certain assets and liabilities to the ABB ALSTOM POWER Joint Venture. The company believes that the levels of provisions in its accounts are appropriate to compensate for any risks coming out of this dispute.

Litigations

Various legal actions and claims are pending or may be asserted in the future against Group companies. They mainly include matters relating to warranties, personal injury, damage to property, environmental liability, and intellectual property rights.

Related risks have been analyzed as to likelihood of occurrence and amounts involved and provisions have been set up after taking into consideration available insurance coverage. Although the outcome of these matters cannot always be ascertained with precision, management believes that no material liabilities exceeding those provided for in the financial statements of the Group are likely to result.

Note 19, Assets Pledged

(US\$ in millions)	1999	1998
Cash and cash equivalents	846	1,052
Receivables and inventories	16	23
Tangible fixed assets	19	40
Other assets	0	37
Total	881	1,152

Note 20, Transactions with Related Parties

The balance sheet includes the following amounts resulting from transactions with related parties, mainly associates (non-consolidated companies in which ABB has a participation).

(US\$ in millions)	1999	1998
Cash and cash equivalents	–	268
Receivables	132	72
Financing receivables	38	27
Payables	262	235
Loans	26	272

Note 21, Leases

Finance leases

(US\$ in millions)	1999	1998
Assets held under finance leases	6	14

Assets subject to finance lease accounting are included in the relevant categories shown under Note 13, Tangible Fixed Assets.

Liabilities from finance leases

	1999	1998
– short-term	1	5
– medium- and long-term	3	6
Total	4	11

Liabilities from finance lease accounting represent the present value of outstanding lease commitments, whereby amortization is calculated according to the annuity method. Liabilities from finance leases are reported within short-, medium- and long-term loans.

Commitments from leases

Payments due	2000	2001	2002	2003	2004	2005 and later
Finance leases	1	1	1	0	0	1
Operating leases	294	251	215	190	177	377

The above represents the non-discounted contractual lease commitments. Operating leases correspond essentially to the rental payments for real estate during the non-cancelable part of the lease term.

Note 22, Employee Benefits

ABB has adopted the revised IAS 19 as from January 1, 1999. Related transition effects amounting to a total of US\$ 1,030 million have been directly reflected in the balance sheet in the position employee benefits. The transition effects represent remaining unamortized benefit obligations under the original IAS 19 and revaluations in connection with changes of actuarial assumptions under revised IAS 19. The equivalent amount – after consideration of deferred taxes – amounting to US\$ 910 million – has been charged to equity as a change in accounting principles (refer to Statement of Changes in Equity).

The following is a summary of main items considered at January 1, 1999 for the transition to the revised IAS 19.

(US\$ in millions)	
Previously unrecognized actuarial losses (net)	652
Previously unrecognized past service costs	97
Other previously unrecognized obligations (mainly medicare)	281
Total increase of pension liabilities and similar	1,030
Deferred taxes	– 120
Net change from transition to revised IAS 19	910

Retirement benefit costs charged to income in respect of substantive retirement plans:

(US\$ in millions)	1999	1998
Defined benefit plans	325	285
Defined contribution plans	152	297
Total	477	582

Financial data pertaining to substantive defined benefit plans:

(US\$ in millions)	1999	1998
Reconciliation of assets/liabilities (-)		
Present value of funded obligations	-5,394	-3,802
Present value of unfunded obligations	-840	-739
Plan assets at fair value	4,411	2,407
Unrecognized actuarial (gains)/losses	-163	533
Unrecognized past service costs	-4	85
Unrecognized assets	-121	-1
Liability (-)/asset recognized in balance sheet	-2,111	-1,517
Expenses recognized in the income statement		
Current service costs	-234	-153
Interest costs	-346	-263
Expected return on plan assets	255	177
Actuarial gains and losses	0	-6
Past service costs	0	-10
Effects of curtailments/settlements/other	0	-30
Total included in "personnel expenses"	-325	-285
Actual return on plan assets	281	169
Movement of recognized assets/liabilities (-)		
Net asset/liability(-) recognized at start of year	-1,517	-1,473
Net expense recognized in the income statement	-325	-285
Contributions	309	249
Amounts taken to equity in transition	-1,030	-11
Assets/liabilities(-) related to acquired/divested companies	282	3
Exchange differences	170	0
Net asset/liability(-) recognized at end of year	-2,111	-1,517
Principal actuarial assumptions at balance sheet date		
Discount rate at 31 December	5.4%	5.8%
Expected return on plan assets	5.7%	7.7%
Future salary increases	3.1%	3.5%
Future increase in health care costs	6.0%	-

Equity Compensation Benefit – Closing 1999*Board Compensation*

According to company policy, Board members receive at least 50% of their annual Board Membership compensation in company shares. In 1999, 85% of the compensation was received in company shares and the remaining part was paid in cash. At December 31, 1999 a total of 48,904 nominal shares were held for the account of active Board members. Gross annual Board membership compensation in shares and cash amounted to CHF 4,500,000.

Management Incentive Plan

The company has a Management Incentive Plan operated by an employee foundation under which some 500 key employees received Warrants and Warrant Appreciation Rights (WARs) for no consideration over three launches from 1997 to 1999.

The outstanding Warrants granted under this plan are to purchase shares of the company at a predetermined price, not less than the fair market value (as at the date of grant). Participants may sell the Warrants instead of exercising the right to purchase shares. Each WAR gives the holder the right to receive on exercise an amount in cash equal to the market price of a Warrant on the date of exercise of WAR.

Exercise or sale of Warrants or exercise of WARs may only be made during the 30 days immediately following publication of interim or annual results of the company (exercise period). No exercise or sale is permitted until after the vesting period which is three years from date of grant. All Warrants and WARs expire 6 years from the date of grant.

The Warrants outstanding as of 31 December, 1999 represented the participants' future right to acquire 2,566,822 shares of the company at a weighted average exercise price of CHF 129.

The WARs outstanding as of 31 December, 1999 represented the participants' future right to receive cash equivalent to the market price of Warrants entitling the participants to acquire 2,881,228 shares of the company at a weighted exercise price of CHF 134.

No warrants or WARs granted under the Management Incentive Plan were vested or were exercisable in 1998 or 1999.

The employee foundation operating the Management Incentive Plan held 5,448,050 shares in ABB Ltd as of 31 December, 1999.

The plan is not dilutive. The company is not required to recognize compensation expense or obligation in the consolidated financial statements.

Note 23, Acquisitions and Divestitures

Several acquisitions and divestitures of business activities during 1999 (1998) affected the Balance Sheet in the respective years as follows:

Acquisitions (US\$ in millions)	1999	1998
Cash and cash equivalents	18	-
Current assets	888	94
Fixed assets	484	165
Current liabilities	-1,583	-71
Non-current liabilities	-446	-36
Net assets acquired	-639	152
Goodwill	2,384	122
Total purchase considerations	1,745	274
less Cash and cash equivalents acquired	-18	-
Cash used for acquisitions	1,727	274
Divestitures		
Cash and cash equivalents	818	142
Current assets	5,104	1,530
Fixed assets	749	260
Current liabilities	-2,092	-762
Non-current liabilities	-2,584	-1,049
Net assets disposed	1,995	121
Gains/losses on divestitures	400	81
Total sales considerations	2,395	202
less Cash and cash equivalents disposed	-818	-142
Cash from divestitures	1,577	60

The main acquisitions and divestments affecting 1999 are described in the following Notes 24 and 25.

Note 24, Transfer of the ABB power generation business and formation of ABB ALSTOM POWER N.V.

On June 30, 1999, ABB transferred its power generation business (excluding the businesses described in Note 1) to ABB ALSTOM POWER. Explanations to the presentation and accounting treatment of the divested power generation business are given in Note 1.

Earnings from the equity accounting of ABB ALSTOM POWER are reported in the specific caption of the Income Statement. ABB ALSTOM POWER reported a EUR 12 million (US\$ 13 million) income before taxes for its first six months of operations.

Condensed Income Statement (half year ended December 31)

(EUR in millions)	1999
Revenues	5,355
Expenses, changes in work in progress, depreciation	-5,329
Operating earnings after depreciation	26
Finance net	-14
Income before taxes	12
Taxes	-42
Net income	-30

Condensed Balance Sheet (December 31)

(EUR in millions)	1999
Assets	
Cash and cash equivalents	2,876
Other current assets	10,310
Total Current Assets	13,186
Fixed assets	3,460
Total Assets	16,646
Liabilities and equity	
Current liabilities	9,997
Non current liabilities	5,861
Minority interests	3
Stockholders' equity	785
Total Liabilities and Equity	16,646

Note 25, Effects of the integration of Elsag Bailey Process Automation

In January 1999, ABB completed the acquisition of Elsag Bailey Process Automation. The total purchase price comprised US\$ 1,556 million related to the purchase of shares and stock options and US\$ 648 million related to the acquired debt. The Elsag Bailey business became part of the Automation segment and was included in the 1999 accounts using the purchase method of accounting. As a condition of the U.S. Federal Trade Commission and the European Commission approval, ABB has in the second half 1999 divested Elsag Bailey's gas chromatograph and mass spectrometer business. This business, whose main location is in Bartlesville, Oklahoma, has annual revenues of about US\$ 50 million and employs some 340 people.

The goodwill related to the acquisition of Elsag Bailey Process Automation amounted to US\$ 2,206 million.

Note 26, Agreement to sell nuclear activities

ABB and the nuclear technology company BNFL of the United Kingdom announced as at December 29, 1999 that BNFL will purchase ABB's nuclear power business. The sale – subject to the customary regulatory approvals – amounts to US\$ 485 million. This business remains fully consolidated in ABB's financial statements in 1998 and 1999.

ABB's nuclear business is headquartered in the United States, with main operations in the United States, Sweden, France and Germany. The divested businesses also include nuclear control systems. The total businesses to be transferred employ about 3,000 people and reported revenues in 1999 of about US\$ 500 million.

Note 27, Business Segments (reflecting the new ABB composition)

Data per Business Segment						
(US\$ in millions)	Orders Received		Order Backlog		Revenues	
	1999	1998	1999	1998	1999	1998
Power Transmission	3,934	4,428	3,341	4,070	3,727	4,038
Power Distribution	3,034	2,672	1,875	1,409	2,867	2,607
Automation	8,152	7,015	4,077	4,013	8,269	7,036
Oil, Gas and Petrochemicals	3,036	3,324	2,547	2,845	3,092	2,860
Building Technologies	6,629	6,464	2,265	2,231	6,323	6,385
Financial Services	829	860	0	0	829	860
Various Activities/Corporate ^{a)}	2,461	2,434	1,523	1,431	2,280	2,544
Total	28,075	27,197	15,628	15,999	27,387	26,330
Intra-Group transactions	-2,696	-2,686	-742	-1,065	-2,706	-2,597
Net Total	25,379	24,511	14,886	14,934	24,681	23,733

Data per Business Segment						
(US\$ in millions)	Operating Earnings after Depreciation		EBITDA		Capital Expenditure	
	1999	1998	1999	1998	1999	1998
Power Transmission	421	374	512	487	102	125
Power Distribution	209	179	268	234	112	76
Automation	553	521	846	697	164	179
Oil, Gas and Petrochemicals	185	175	240	228	48	55
Building Technologies	485	419	618	570	127	145
Financial Services	353	403	370	417	47	14
Various Activities/Corporate ^{a)}	210	-213	380	-41	79	144
Total	2,416	1,858	3,234	2,592	679	738

Data per Business Segment (US\$ in millions)	Average Capital Employed		Number of Employees	
	1999	1998	1999	1998
	Power Transmission	1,689	1,723	22,338
Power Distribution	1,055	965	16,378	16,511
Automation	4,540	2,574	49,554	43,384
Oil, Gas and Petrochemicals	699	709	8,941	8,774
Building Technologies	1,578	1,558	54,941	53,753
Financial Services	n/a	n/a	1,049	894
Various Activities/Corporate ^{a)}	3,998	4,790 ¹	10,953	12,550
Total	13,559	12,319	164,154	162,793

¹ Includes the average capital employed relating to the defined power generation business.

^{a)} Various Activities/Corporate includes local businesses in several countries with orders of US\$ 154 million (1998: US\$ 193 million). In addition, it includes Nuclear Systems with orders received of US\$ 612 million (1998: US\$ 401 million), internal services such as information management, consulting, corporate research, shared services, as well as development and management of ABB real estate.

Data per Region (US\$ in millions)	Orders Received		Revenues		Average Capital Employed		Capital Expenditure	
	1999	1998	1999	1998	1999	1998 ¹	1999	1998
	Europe	14,296	14,367	14,032	13,401	8,908	8,213	485
The Americas	5,391	5,597	5,797	5,377	3,160	2,782	133	154
Asia	3,313	2,346	2,838	2,903	1,067	1,010	37	63
Middle East and Africa	2,379	2,201	2,014	2,052	424	314	24	22
Total	25,379	24,511	24,681	23,733	13,559	12,319	679	738

¹ Includes the average capital employed relating to the defined power generation business.

ABB Group Auditors' Report

Group Auditors' Report

As auditors of the ABB Group, we have audited the consolidated financial statements (balance sheet, income statement, statements of cash flows and of changes in equity and notes) of ABB Ltd for the year ended December 31, 1999.

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 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 profession, and with International Standards on Auditing issued by the International Federation of Accountants (IFAC), 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations, the cash flows and the changes in equity in accordance with International Accounting Standards (IAS) and comply with the 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 2, 2000

ABB's Global Scope and Major Subsidiaries

Country/Company	Group Interest ¹	Activity ²	Country/Company	Group Interest ¹	Activity ²	Country/Company	Group Interest ¹	Activity ²
Argentina			Hungary			Singapore		
Asea Brown Boveri S.A., Buenos Aires	A	MS	Asea Brown Boveri Ltd, Budapest	A	SA	Asea Brown Boveri Holdings Pte. Ltd, Singapore	A	HO
Australia			India			South Africa		
Asea Brown Boveri Pty. Ltd, Sydney, NSW	A	HO	Asea Brown Boveri Ltd, Bombay	B	MS	Asea Brown Boveri Holdings (Pty) Ltd, Sandton	A	HO
ABB EPT Management Ltd, Sydney, NSW	A	HO	Indonesia			ABB Automation (Pty) Ltd, Sunninghill	A	MS
ABB Industry Pty Ltd, Regents Park, NSW	A	MS	PT ABB Sakti Industri, Jakarta	B	MS	ABB Transmission and Distribution (Pty) Ltd, Sandton	A	MS
ABB Transmission & Distribution Ltd, Moorebank, NSW	A	HO	Ireland			Spain		
Austria			Asea Brown Boveri Ltd, Dublin	A	MS	Asea Brown Boveri S.A., Madrid	A	HO
Asea Brown Boveri Aktiengesellschaft, Vienna	A	HO	Israel			ABB Electrocomponentes S.A., Barcelona	A	MS
Belgium			Asea Brown Boveri B.m. (Holding) Ltd, Tirat Carmel	A	HO	ABB Trafo S.A., Zaragoza	A	MS
Asea Brown Boveri S.A., Brussels	A	SA	Italy			Sweden		
Brazil			Asea Brown Boveri S.p.A., Milan	A	HO	ABB AB, Västerås	A	HO
Asea Brown Boveri Ltda., Osasco	A	MS	ABB Adda S.p.A., Lodi	A	MS	ABB Atom AB, Västerås	A	MS
ABB Service Ltda., Camarçari	A	MS	ABB Energy Automation S.p.A., Ariccia	A	MS	ABB Automation Products AB, Västerås	A	MS
Canada			ABB SACE Low Voltage S.p.A., Milano	A	MS	ABB Automation Systems AB, Västerås	A	MS
Asea Brown Boveri Inc., St. Laurent, Quebec	A	HO	ABB Sace TMS S.p.A, Bergamo	A	MS	ABB Contracting AB, Västerås	A	MS
Chile			ABB SAE S.p.A., Milan	A	MS	ABB Distribution AB, Västerås	A	MS
Asea Brown Boveri S.A., Santiago	A	MS	ABB Sistemi Industriali S.p.A.	A	MS	ABB High Voltage Cables AB, Karlskrona	A	MS
China			Sesto San Giovanni, MI	A	MS	ABB Motors AB, Västerås	A	MS
Asea Brown Boveri (China) Investments Ltd, Beijing	A	HO	ABB Soimi Engineering & Contracting S.p.A., Sesto San Giovanni, MI	A	MS	ABB Power Systems AB, Ludvika	A	MS
ABB Automation Ltd, Hong Kong	A	MS	Japan			ABB Service AB, Västerås	A	SA
ABB Engineering (Shanghai) Ltd, Shanghai	A	MS	ABB K.K., Tokyo	A	HO	ABB Switchgear AB, Ludvika	A	MS
ABB Hefei Transformer Co. Ltd, Hefei	B	MS	Kazakhstan			ABB Ventilation Products AB, Jönköping	A	MS
ABB Xiamen Switchgear Co. Ltd, Xiamen	B	MS	Asea Brown Boveri Ltd, Almaty	A	SA	Switzerland		
Colombia			Korea, Republic of			Asea Brown Boveri AG, Baden	A	HO
Asea Brown Boveri Ltda., Bogotá	A	MS	Asea Brown Boveri Ltd, Seoul	A	MS	ABB Hochspannungstechnik AG, Zurich	A	MS
Czech Republic			Malaysia			ABB Industrie AG, Baden	A	MS
ABB E.J.F. Brno a.s., Brno	A	MS	Asea Brown Boveri Holdings Sdn. Bhd., Petaling Jaya	A	HO	ABB Power Automation Ltd, Turgi	A	MS
ABB Elektro-Praga s.r.o., Jablonec nad Nisou	A	MS	Mexico			ABB Turbo-Systems AG, Baden	A	MS
ABB Energo s.r.o., Trutnov	A	MS	Asea Brown Boveri S.A. de C.V., Mexico City	A	HO	Taiwan		
Denmark			Netherlands			Asea Brown Boveri Ltd, Taipei	A	MS
Asea Brown Boveri A/S, Odense	A	HO	Asea Brown Boveri BV, Rotterdam	A	HO	Thailand		
ABB Electric A/S, Fredericia	A	MS	ABB Capital, B.V., Amsterdam	A	FS	ABB Ltd, Samutprakarn	A	MS
ABB Energi & Industri A/S, Skovlunde	A	MS	ABB Lummus Crest Holding B.V., The Hague	A	MS	Turkey		
Egypt			New Zealand			Asea Brown Boveri Holding A.S., Istanbul	A	HO
Asea Brown Boveri S.A.E., Cairo	A	HO	Asea Brown Boveri Ltd, Auckland	A	MS	Ukraine		
ABB Arab S.A.E., Cairo	B	MS	Norway			Asea Brown Boveri Ltd, Kiev	A	HO
Finland			Asea Brown Boveri AS, Billingstad	A	HO	United Kingdom		
ABB Oy, Helsinki	A	HO	ABB Industri AS, Oslo	A	MS	ABB Ltd, London	A	HO
ABB Control Oy, Vaasa	A	MS	ABB Installasjon AS, Billingstad	A	MS	ABB Automation Ltd, Stevenage	A	MS
ABB Industry Oy, Helsinki	A	MS	ABB Kraft AS, Drammen	A	MS	ABB Instrumentation Ltd, St. Neots	A	MS
ABB Installaatiot Oy, Paimio	A	MS	ABB Norsk Kabel AS, Drammen	A	MS	ABB Metering Holdings Ltd, Luton	A	HO
ABB Service Oy, Helsinki	A	MS	ABB Offshore Systems AS, Sandnes	A	MS	ABB Power T&D Ltd, Telford	A	MS
ABB Transmit Oy, Vaasa	A	MS	Peru			ABB Vetco Gray U.K. Ltd, Aberdeen	A	MS
France			Philippines			William Steward (Holdings) Ltd, London	A	HO
Asea Brown Boveri S.A., Paris La Défense	A	HO	Asea Brown Boveri Inc., Paranaque, Metro Manila	A	HO	United States		
ABB Automation SA, Massy	A	MS	Poland			Asea Brown Boveri Inc., Norwalk, CT	A	HO
ABB Flexible Automation S.N.C., Saint-Ouen-l'Aumône	A	MS	Asea Brown Boveri Sp.zo.o., Warsaw	A	HO	ABB Flexible Automation Inc., New Berlin, WI	A	MS
Germany			ABB Automatyka Sp.zo.o., Warsaw	A	MS	ABB Industrial Systems Inc., Columbus, OH	A	MS
Asea Brown Boveri Aktiengesellschaft, Mannheim	A	HO	ABB Elta Sp.zo.o., Łódź	B	MS	ABB Power T&D Company Inc., Raleigh, NC	A	MS
ABB Airport Technologies GmbH, Mannheim	A	MS	ABB Instal Sp.zo.o., Wrocław	A	MS	ABB Service Inc., Massillon, OH	A	MS
ABB Automation Products GmbH, Eschborn	A	MS	ABB Zamech Gazpetro Sp.zo.o., Elblag	A	SA	ABB Susa Inc., North Brunswick, NJ	A	MS
ABB Automation Systems GmbH, Mannheim	A	MS	ABB ZWAR Sp.zo.o., Warsaw	B	MS	Bailey Fischer & Porter, Warminster	A	MS
ABB Calor Emag Mittelspannung, Ratingen	A	MS	Portugal			Elsag Bailey Automation, Wickliffe	A	MS
ABB Calor Emag Schaltanlagen, Mannheim	A	MS	Asea Brown Boveri S.A., Amadora	A	MS	Venezuela		
ABB Energieanlagenbau GmbH, Dresden	A	MS	Romania			Asea Brown Boveri S.A., Caracas	A	MS
ABB Flexible Automation GmbH, Friedberg	A	MS	Asea Brown Boveri SRL, Bucharest	A	HO	Viet Nam		
ABB Gebäudetechnik AG, Mannheim	A	HO	Russia			ABB Transformers Ltd, Hanoi	B	MS
ABB Stotz-Kontakt GmbH, Mannheim	A	MS	Asea Brown Boveri Ltd, Moscow	A	HO	Zimbabwe		
ABB Transformatoren GmbH, Bad Honnef	A	MS	Saudi Arabia			Asea Brown Boveri (Private) Ltd, Harare	A	MS
ABB Utility Automation GmbH, Mannheim	A	MS	ABB Electrical Industries Ltd, Riyadh	C	MS	1 Parent company's interest, direct or indirect: A = more than 95%, B = 50 to 95%, C = less than 50%		
Busch-Jaeger Elektro GmbH, Mannheim/Lüdenscheid	A	MS	2 FS = Financial services, HO = Holding, MS = Manufacturing and sales, SA = Sales					
Greece								
Asea Brown Boveri S.A., Metamorphosis Attica	A	SA						

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: Thyssen-Krupp (Germany)

Board Member: Allianz-Versicherung, Ruhrgas, VEBA, Volkswagen (all Germany), Suez Lyonnaise des Eaux, Thomson-CSF (both France)

Jürgen Dormann (born 1940)

CEO: Aventis (France)

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

Martin Ebner (born 1945)

Chairman: BZ Group Holding, algroup, Lonza Group (all Switzerland)

President: BZ Bank (Switzerland)

Yotaro Kobayashi (born 1933)

Chairman: Fuji Xerox (Japan), Kaizai Doyokai (Japan Association of Corporate Executives)

Board Member: Xerox (USA), Callaway Golf (USA)

Japanese Chairman: The Trilateral Commission

Göran Lindahl (born 1945)

President and CEO: ABB Ltd

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, Tribune (all 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 (as per March 31, 2000): SIG (Switzerland)

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

Peter D. Sutherland (born 1946)

Chairman and Managing Director: Goldman Sachs International (UK)

Co-Chairman: BP Amoco (UK)

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, Novare Kapital (all Sweden), EQT Scandinavia (Netherlands)

Proposed Changes in the ABB Board of Directors

Mr. **Yotaro Kobayashi** will not stand for reelection to the ABB Group Board of Directors at the Annual General Meeting of Shareholders on March 16, 2000. The Board thanks Mr. Kobayashi for his outstanding contributions to the company.

The Board of Directors does not intend to propose a replacement for Mr. Kobayashi to the Annual General Meeting of Shareholders.

Beat Hess, Secretary to the Board

Auditors

KPMG Klynveld Peat Marwick Goerdeler SA
Zurich

Ernst & Young AG
Zurich

Management

Group Executive Committee

Göran Lindahl (born 1945) Corporate Staffs and Functions: Global Process:	President and Chief Executive Officer Audit, Corporate Communications, Environmental Affairs, International Consulting, Investor Relations, Legal Affairs, Management Resources Information Systems
Jörgen Centerman (born 1951) Business Segment: Global Process:	Executive Vice President Automation eCommerce
Renato Fassbind (born 1955) Corporate Staffs: Global Process:	Executive Vice President and Chief Financial Officer Accounting and Reporting, Consolidation, Control, Insurance, Mergers and Acquisitions, Real Estate, Risk Management, Taxes and Finance Finance
Gorm Gundersen (born 1944) Business Segment: Global Process:	Executive Vice President Oil, Gas and Petrochemicals Human Resources
Sune Karlsson (born 1946) Business Segments: Global Process:	Executive Vice President Power Transmission, Power Distribution Supply Management
Armin Meyer (born 1949) Business Segment: Global Processes:	Executive Vice President Building Technologies Marketing and Sales, Bid and Proposal
Jan Roxendal (born 1953) Business Segment:	Executive Vice President Financial Services

Senior Corporate Officer

Markus Bayegan (born 1944)	Research and Development, Technology Evaluation
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Income Statement

March 5–December 31 (CHF in thousands)	1999 ¹
Revenues	795
Personnel expenses	- 25,918
Other expenses	- 21,897
Dividend income	1,200,000
Interest income	18,219
Interest expenses	- 79
Exchange differences	18
Depreciation of fixed assets	- 18,212
Income before Taxes	1,152,926
Income taxes	- 100
Net Income	1,152,826

¹ Since ABB Ltd was incorporated on March 5, 1999 no comparable 1998 figures are available.

Balance Sheet

December 31 (CHF in thousands)	Notes	1999 ¹
Assets		
Current Assets		
Cash and cash equivalents	1	14,837
Receivables	2	1,210,351
Total Current Assets	5	1,225,188
Fixed Assets		
Shares and participations	3	6,847,918
Total Fixed Assets		6,847,918
Total Assets		8,073,106
Liabilities and Equity		
Liabilities		
Current liabilities	4, 5	72,380
Total Liabilities		72,380
Stockholders' Equity		
Share capital		3,000,023
Restricted reserves	6	600,005
Other reserves		3,247,872
Retained earnings		-
Net income		1,152,826
Total Stockholders' Equity	7	8,000,726
Total Liabilities and Equity		8,073,106

¹ Since ABB Ltd was incorporated on March 5, 1999 no comparable 1998 figures are available.

Statement of Cash Flows

March 5–December 31 (CHF in thousands)	1999 ¹
Cash Flow from Operating Activities	
Income before taxes	1,152,926
Adjustments for depreciation of fixed assets	18,212
Adjustments for changes in pension liabilities	9,536
	1,180,674
Changes in current operating assets and liabilities:	
Other current assets	-1,210,351
Other current liabilities	28,670
	-1,181,681
Net Cash Flow from Operating Activities	-1,007
Cash Flow Related to Investing Activities	
Acquisitions (net of sales)	-6,866,130
New share capital issued	6,847,900
Net Cash Flow Related to Investing Activities	-18,230
Cash Flow Related to Financing Activities	
Changes in short-term loans	34,074
Net Cash Flow Related to Financing Activities	34,074
Net Change in Cash and Cash Equivalents	14,837
Cash and cash equivalents – beginning of year	-
Cash and cash equivalents – end of year	14,837

¹ Since ABB Ltd was incorporated on March 5, 1999 no comparable 1998 figures are available.

Notes to the Financial Statements

Note 1, Cash and Cash Equivalents

(CHF in thousands)	1999
Cash and bank	14,837
Total	14,837

Note 2, Receivables

(CHF in thousands)	1999
Non-trade receivables	1,210,347
Prepaid expenses / accrued income	4
Total	1,210,351

Note 3, Shares and Participations

(CHF in thousands)		1999
ABB Participation AG	100%	3,423,950
ABB Participation AB	100%	3,423,950
Others		18
Total		6,847,918

Note 4, Current Liabilities

(CHF in thousands)	1999
Non-trade payables*	17,180
Accrued expenses / deferred income*	21,126
Short-term loans	34,074
Total	72,380

* Included in these amounts are liabilities toward employee pension plans amounting to CHF 18,637 thousand.

Note 5, Transactions with Related Parties

(CHF in thousands)	1999
The balance sheet includes the following amounts resulting from transactions with subsidiaries:	
Current assets	1,223,895
Current liabilities	37,069

Note 6, Restricted Reserves

(CHF in thousands)	1999
Balance at the beginning of the year	-
Allocation to restricted reserves	600,005
Balance at the end of the year	600,005

Note 7, Stockholders' Equity

(CHF in thousands)	Share capital	Restricted reserves	Other reserves	Retained earnings	Net income	Total
Opening balance sheet	-	-	-	-	-	-
New capital issued	3,000,023					3,000,023
Allocation to restricted reserves		600,005				600,005
Allocation to other reserves			3,247,872			3,247,872
Net income 1999					1,152,826	1,152,826
Closing balance sheet	3,000,023	600,005	3,247,872	-	1,152,826	8,000,726

Other reserves include CHF 713,380 thousand relating to shares in ABB Ltd stated at cost. These shares have been acquired by an employee foundation to cover the obligations of a Management Incentive Plan.

Share capital divided in:

(CHF in thousands)	Number	Par value	Total
Registered 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

Information regarding important shareholders (Art. 663c of the Swiss Code of Obligations) is listed on page 53 of the Financial Review.

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)	1999
Net income for the year	1,152,826
Carried forward from previous year	-
Profit Available to the Annual General Meeting	1,152,826

The Board of Directors proposes that out of the profit available to the Annual General Meeting of CHF 1,152,825,942 a dividend of CHF 3.00 gross per registered share be distributed, payable as from March 23, 2000.

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.

Auditors' Report

Auditors' Report

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement, statement of cash flows and notes) of ABB Ltd, Zurich for the period from March 5 to December 31, 1999.

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 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 the 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. Birgerson
C. Schibler

Zurich, February 2, 2000

Investor Information

ABB Single-Class Share

During 1999, ABB simplified its share structure and offered shareholders of ABB AB in Sweden and ABB AG in Switzerland, the former parent companies of the ABB Group, an exchange of their shares into a new single-class share of ABB Ltd in Switzerland, the new holding company of the ABB Group. The exchange offers of ABB Ltd were accepted by a vast majority. Subsequently, all remaining outstanding shares of ABB AB and ABB AG were acquired by ABB Ltd, in part through compulsory proceedings in Sweden and Switzerland and in part through a cash offer to the shareholders and holders of American Depositary Receipts (ADRs) in ABB AB. Subject to the Swedish compulsory acquisition process, an arbitration panel will determine the price to be paid to former ABB AB shareholders. ABB expects such a decision during 2000.

ABB introduced the new ABB Ltd share on June 28, 1999 on the SWX Swiss Exchange and the stock exchanges in London and Frankfurt while listing in Stockholm began on June 22. The company has also introduced restricted Rule 144A American Depositary Shares in the U.S. via a private placement.

The former parent companies ABB AB and ABB AG delisted their shares from all stock exchanges where they were traded. The last day of trading of the former ABB AB shares on the Stockholm, Copenhagen and London Stock Exchanges and NASDAQ SmallCap Market was July 16, 1999. The last day of trading of the former ABB AG shares on the Frankfurt, London and Vienna Stock Exchanges was July 16, 1999 and on SWX Swiss Exchange November 23, 1999.

Shareholders

As of December 31, 1999, the total number of direct registered ABB Ltd shareholders was 96,286. In addition, another 80,000 shareholders hold shares indirectly through nominees. In total, ABB has approximately 176,000 shareholders. About 75 percent of the shares are held by institutional investors.

Major shareholders

BZ Gruppe Holding AG owned per December 31, 1999 directly and indirectly 21,508,099 shares of ABB Ltd, corresponding to 7.2 percent of the total capital and votes.

To the best of the company's knowledge, no further shareholder holds 5 percent or more of the total voting rights.

Historical Figures

Per-share data¹

(in US\$)	1999	1998	1997	1996	1995
Net income	5.38	4.35 ²	1.95	4.18	4.52
Stockholders' equity per share	18.7	20.6	18.4	21.3	19.3
Dividend (1999 proposed: CHF 3.00)	1.84	1.73	1.72	1.76	1.48
Par value (CHF)	10				
Vote per share	1				
Number of shares outstanding ¹	300,002,358				

Key ratios

Return on equity (%)	27.9	23.0	10.1	20.2	25.8
Pay-out ratio (%)	38 ³	40	88	42	33
Direct yield (%)	1.5	2.6	2.2	2.2	2.3
Market-to-book (%)	651	335	414	340	339
P/E (price / net income)	22.6	15.6	39.9	18.4	13.8

¹ 1995 through 1998 based on combined figures for ABB Group's former parent companies ABB AB, Sweden and ABB AG, Switzerland and divided by hypothetical 300,002,358 shares, where applicable.

² Net income per share is pro forma US\$ 4.37 including the former parent companies' results into ABB Group net income.

³ Excluding the capital gain from ABB ALSTOM POWER.

Trend of ABB Ltd share prices during 1999

During 1999, the price of the ABB Ltd shares traded on the Swiss Stock Exchange increased by 96 percent, which meant that the shares outperformed the Swiss Performance Index. Also the ABB share in Stockholm outperformed the general trend at OM Stockholm Exchange.

Share price:	Swiss Exchange (CHF)	OM Stockholm Exchange (SEK)
High	195.00	1,045
Low	91.72	747
Year-end	194.75	1,037

Market capitalization

On December 31, 1999, ABB Ltd's market capitalization based on outstanding shares was approximately US\$ 36.5 billion (CHF 58.4 billion, SEK 311.6 billion, EUR 36.5 billion). The size of the market capitalization makes ABB Ltd the 6th largest company in Switzerland and among the 50 largest in Europe.

Policy and Dividend

ABB's dividend policy is to pay out between 30 and 50 percent of consolidated net income for the year. In February 2000, the ABB Board of Directors proposed a dividend for 1999 of CHF 3.00 gross per registered share, totaling CHF 900 million for the ABB Group. Translated into dollars at the time of decision, it corresponds to 38 percent of ABB net income for 1999 (1998: 40 percent), excluding the capital gain from ABB ALSTOM POWER. ABB Ltd will pay dividends only on shares that do not participate in the dividend access facility of its article 8 of its Articles of Incorporation.

Wednesday, March 22, 2000, 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 23, 2000 respectively March 30, 2000 for shares held through the Swedish share register, VPC.

Dividend Access Facility

The Dividend Access Facility (DAF) ensures that dividend tax levels for any Swedish shareholder of ABB Ltd remain as they were before the introduction of the single share. In particular, it allows shareholders with tax residence in Sweden – including trusts, pension funds and investment companies – to receive their dividends in Swedish kronor without deduction of Swiss withholding tax. Shareholders participating in the DAF will receive an amount in Swedish kronor from ABB Participation AB which corresponds to CHF 3.00, proposed for each registered share of ABB Ltd without deduction of the Swiss withholding tax. This amount however is subject to taxation according to Swedish law.

Dividend per share of previous parent companies

Fiscal year	1998	1997
ABB AB A shares (in SEK)	2.18	2.10
ABB AB B shares (in SEK)	2.18	2.10
ABB AG bearer shares (in CHF)	41.00	40.00
ABB AG registered shares (in CHF)	8.20	8.00

Extra dividend for shareholders in former ABB AG

Former ABB AG shareholders received a special dividend of CHF 278 million – CHF 30 gross per bearer share and CHF 6 gross per registered share – to equalize the net cash positions of the two parent companies prior to the introduction of the single share. The special dividend was paid on June 25, 1999.

ABB Ltd Annual General Meeting

The 2000 Annual General Meeting of ABB Ltd will be held on Thursday, March 16, 2000, at 3:00 p.m. in the "Tägerhard" sports center in Wetztingen (near Zurich), Switzerland with a live transmission at Aros Congress Center, Västerås, Sweden. The General Meeting will be held in German and will be simultaneously translated into Swedish and English. Shareholders entered in the share register with the right to vote on March 6, 2000, are entitled to participate in the 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 8, 2000. 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 17, 2000.

ABB Shareholders' Calendar 2000

ABB Ltd Annual General Meeting	March 16
Dividend payment (subject to Annual General Meeting approval)	
– Shareholders registered in Switzerland	March 23
– Shareholders registered in Sweden	March 30
Three months results 2000	April 17
Six months results 2000	July 20
Nine months results 2000	October 23

Stock exchange listings

ABB Ltd is listed on the SWX Swiss Exchange, Stockholm Stock Exchange, Frankfurt Stock Exchange and London Stock Exchange.

Ticker symbol for ABB Ltd

SWX 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

SWX 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

SWX Swiss Exchange	ABBZn.S
Stockholm Stock Exchange	ABB.ST
Deutsche Börse	ABBn.F
London Stock Exchange	ABBZn.S

ABB Group Statistical Data

(US\$ in millions, unless otherwise stated)	1999	1998	1998 ²	1997	1996	1995	1994	1993	1992	1991	1990
	Reflecting ABB's new composition ¹										
Consolidated Income Statement											
Revenues	24,681	23,733	30,872	31,265	33,767	32,751	28,758	27,521	29,109	28,443	26,337
Depreciation of Fixed Assets	-819	-719	-926	-997	-1,044	-1,021	-893	-844	-901	-819	-750
Operating Earnings after Depreciation	2,416	1,858	2,111	1,137	2,113	2,181	1,574	1,311	1,219	1,417	1,386
Income before Taxes	2,308	1,865	1,865	853	1,901	2,003	1,362	520	861	997	1,052
Net Income before Minority Interest	1,643	1,322	1,322	595	1,242	1,361	795	72	528	633	628
Net Income	1,614	1,305	1,305	572	1,233	1,315	760	68	505	609	590
Consolidated Balance Sheet											
Cash and Cash Equivalents	6,288	7,790	7,790	5,790	5,553	6,831	7,612	5,700	5,534	5,211	4,975
Other Current Assets	11,778	15,080	15,080	14,846	15,606	15,437	12,348	10,672	11,432	12,688	12,848
Fixed Assets	11,450	10,024	10,024	9,148	9,737	9,808	9,095	8,532	8,983	10,157	10,286
Total Assets	29,516	32,894	32,894	29,784	30,896	32,076	29,055	24,904	25,949	28,056	28,109
Current Liabilities	15,921	17,883	17,883	16,520	17,147	17,302	15,458	13,390	13,203	15,394	15,441
Advances from Customers	1,114	2,646	2,646	2,612	2,610	3,576	3,417	2,567	2,983	2,820	2,798
Medium- and Long-Term Loans	3,137	2,808	2,808	2,511	1,823	2,644	3,049	2,866	2,993	2,496	2,712
Other Long-Term Liabilities	3,419	3,283	3,283	2,538	3,094	2,971	2,732	2,244	2,384	2,547	2,442
Stockholders' Equity incl. Minority Interest	5,925	6,274	6,274	5,603	6,222	5,583	4,399	3,837	4,386	4,799	4,715
Consolidated Statement of Cash Flows											
Cash Flows from Operating Activities	1,823	1,037	2,104	1,791	834	951	2,135	1,515	1,942	2,128	1,044
Cash Flows related to Investing Activities	-82	-1,368	-1,091	-722	-1,118	-402	-501	-839	-373	-316	-1,024
Cash Flows related to Financing Activities	-2,915	2,286	942	-421	-855	-1,696	-122	-54	-477	-1,528	218
Effects of Translation Differences	-328	45	45	-411	-139	366	400	-456	-769	-48	405
Net Changes in Cash and Cash Equivalents	-1,502	2,000	2,000	237	-1,278	-781	1,912	166	323	236	643
Other Data											
Orders Received	25,379	24,511	31,462	34,803	33,884	35,163	30,827	28,644	31,153	29,209	28,938
Capital Expenditure for Tangible Fixed Assets	679	738	865	1,093	1,168	1,171	935	816	957	1,035	961
Capital Expenditure for Acquisitions	1,745	274	274	302	333	315	196	212	253	612	677
Expenditure for Research and Development	2,077	1,946	2,463	2,657	2,638	2,627	2,353	2,271	2,386	2,342	1,931
Dividends Declared Pertaining to Fiscal Year (Swiss francs in millions)	900	740	740	700	650	520	370	340	340	330	300
Net cash/net debt position	329	1,573	1,573	1,564	1,204	1,997	1,686	242	-7	-950	-2,110
Average Capital Employed	13,559	12,319	12,319	12,085	12,537	12,478	11,816	11,579	12,531	13,403	12,724
Number of Employees	164,154	162,793	199,232	213,057	214,894	209,637	207,557	206,490	213,407	214,399	215,154
Ratios											
Operating Earnings after Depreciation/Revenues	9.8%	7.8%	6.8%	3.6%	6.3%	6.7%	5.5%	4.8%	4.2%	5.0%	5.3%
Return on Equity	27.9%	23.2%	23.2%	10.3%	22.2%	28.4%	20.2%	1.8%	11.8%	13.9%	14.5%
Return on Capital Employed	21.8%	21.1%	21.1%	12.2%	19.9%	21.8%	16.9%	15.4%	14.7%	14.7%	17.3%

¹ Excludes the defined power generation business, except for balance sheet items as described in Notes 1 and 24 to the Financial Statements.

² Includes the defined power generation business as described in Notes 1 and 24 to the Financial Statements.

Price Trend for ABB Ltd Shares

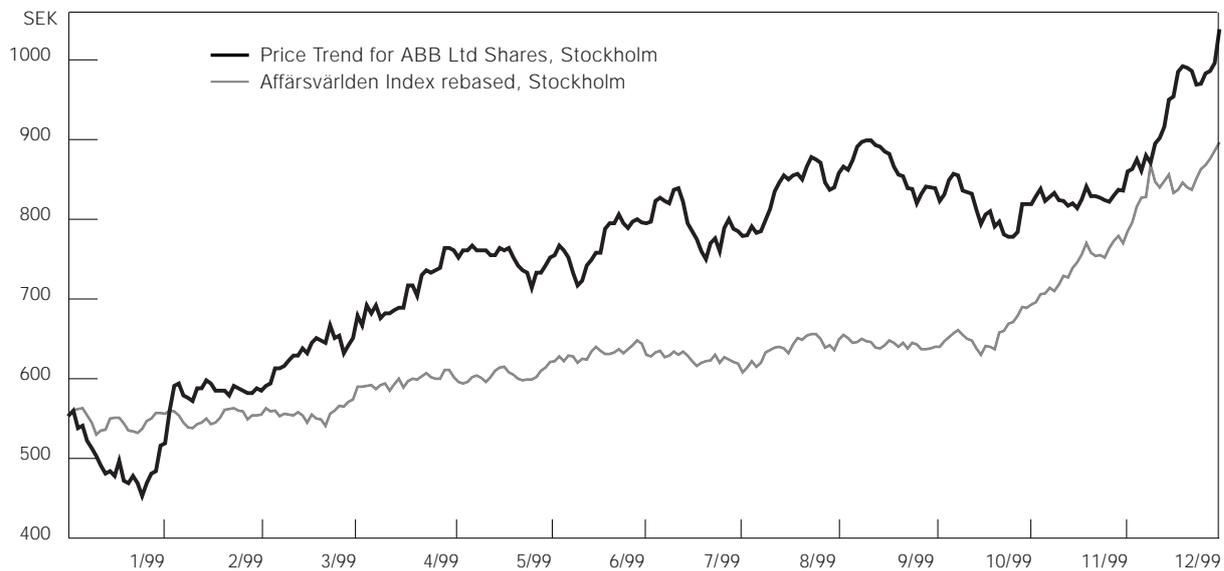




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