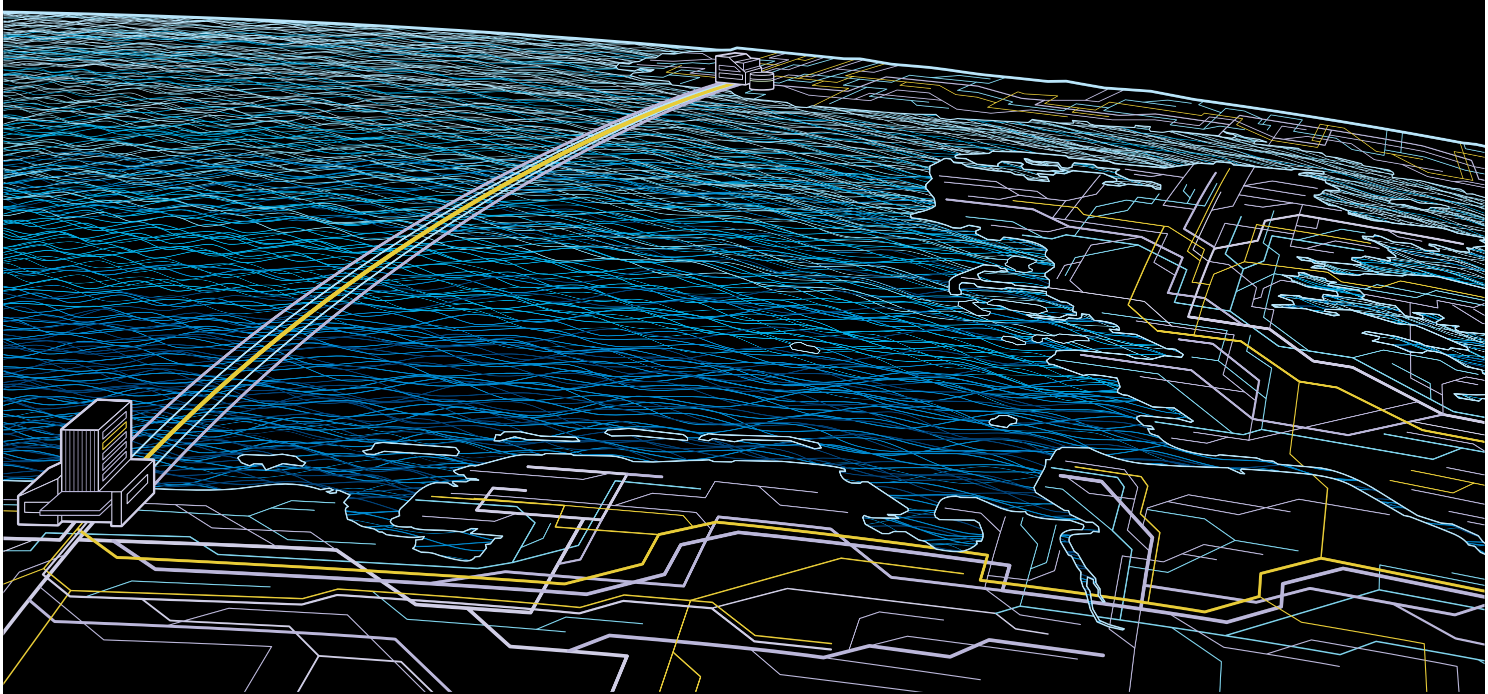

Opportunity in a world of change
The ABB Group Annual Report 2008

Power and productivity
for a better world™

ABB

This is ABB

ABB is one of the world's leading power and automation engineering companies. We provide solutions for secure, energy-efficient generation, transmission and distribution of electricity, and for increasing productivity in industrial, commercial and utility operations.

Our portfolio ranges from light switches to robots for painting cars or packing food, and from huge electrical transformers to control systems that manage entire power networks and factories.

We help our customers meet their challenges with minimum environmental impact. That's why ABB stands for "Power and productivity for a better world."

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Hubertus von Grünberg, Chairman

Joe Hogan, CEO

Chairman and CEO letter
Dear shareholders,

The business environment has changed with remarkable speed over the past year. Signs of weaker economic activity in some markets at the beginning of 2008 turned into a global slowdown by the end of the year after financial markets seized up.

It was therefore a year of contrasts for ABB.

Our financial results for 2008 were excellent. Revenues rose 20 percent to a record $34.9 billion as we continued to drive growth and execute our strong order backlog. Earnings before interest and taxes reached $4.6 billion – also a record – and the EBIT margin was 13 percent. Net income was the second-highest ever, even after provisions taken in the fourth quarter.

ABB has been systematically strengthening its balance sheet, global presence and internal processes

As newcomers to ABB over the past two years, both of us have been struck by the passion, loyalty and dedication of our employees. They deserve our thanks for a tremendous performance in 2008.

We entered 2009 with an order backlog worth $23.8 billion, which will bolster revenues and earnings this year. However, growth in the order intake slowed markedly toward the end of last year, indicating tougher times ahead.

While the speed and scale of the economic slowdown has surprised everyone, few companies are as well positioned as ABB to face this environment. In recent years, ABB has been systematically strengthening its balance sheet, global presence and internal processes.

We endeavour to apply international best practice to all aspects of our operations, from quality control and factory processes to talent management. The mid-term strategy outlined in September 2007 remains relevant, and this report highlights core elements of the strategy that contribute to ABB's resilience.

Of particular importance today is the company's ability to generate strong free cash flows to further strengthen our balance sheet. With a record cash flow from operations of $4 billion in 2008 and a net cash position of $5.4 billion we are not dependent on creditors to fund our activities. This means we remain in control of our destiny.

Yet the real strength of ABB is something less tangible. There is a fighting spirit in this company that shows in the resourcefulness and adaptability that have been defining characteristics of ABB and its predecessors since 1883.

A good example of this is our technology portfolio. Innovation and versatility have been key characteristics of our research and development over the years. ABB not only invented or pioneered many power and automation technologies, but has managed to maintain its technology leadership in these areas, often for decades.

ABB not only pioneered many technologies, but has maintained its leadership in these areas

For example, after building the world's first high-voltage direct current power connection in 1952 to increase the efficiency of electricity transmission, ABB introduced HVDC for underground transmission in the 1990s and is currently supplying the key technologies for the world's longest and highest capacity HVDC line in China.

The introduction of gas-insulated substations by ABB in 1967 has reduced the size of substations by up to 90 percent. In 2008, ABB commissioned a compact switchgear solution based on this technology rated at 1.1 million volts, or 1,100 kV, the highest ever reached.

Variable speed drives, a key technology to increase the energy efficiency of processes that are controlled by electrical motors, are another ABB innovation. Since the 1960s, ABB has led the development toward drives that are smaller, smarter and easier to use, including wind turbine drives that enable the connection of a generator with a variable speed to a grid with a fixed frequency. Constant innovation has extended ABB's lead in this market.

ABB also developed the first commercially available electrically controlled industrial robot in 1974 and, in 2008, launched the first product allowing humans and robots to work safely side by side, which will revolutionize the way they are used in manufacturing, lowering costs and increasing flexibility.

Entrepreneurial spirit in R&D

We need to keep inventing like this, and will cultivate the entrepreneurial spirit in our research and development programs to ensure that we anticipate and are fully in step with our customers' requirements.

An ability to quickly chart a new course as the wind turns is a hallmark of ABB business strategy as well. Leaders of Asea and Brown Boveri realized 20 years ago that the old order was crumbling and recast their companies as ABB in one of the first cross-border mergers. This put the business in a better position to compete globally, as the world evolved from a system dominated by industrialized nations to one in which the leading developing countries have a voice. Today, almost 50 percent of our orders are generated from emerging markets.

ABB's crisis of 2002/2003 was another opportunity to look at how the world was changing and set the company on the right course. The decision to focus on our core power and automation technologies correctly anticipated that energy demand would soar and that global competition would drive industry to focus on raising productivity.

While others abandoned their power businesses as outmoded elements of an "old" economy, ABB was developing technologies that are now enabling the electricity industry to move toward a low-carbon future. Our focus on energy-efficient products and systems is both good for society and for our business.

We have long recognized that non-financial issues – from our social, environmental and human rights obligations, to the way we treat our employees – have a clear impact on our bottom line and on how we are perceived. In 2008 we embedded more non-financial criteria in our business decision-making processes – including how we select suppliers. The sustainability part of our annual report is now included in the same volume as the operational and financial review, to underline that our commitment to be a responsible company is a central part of the business.

Adapting to changing business conditions

In today's environment, ABB will again have to demonstrate its ability to adapt to changing business conditions, and to build on the technology leads that give us such an advantage in all of our markets.

We will continue to expand our global presence, making the most of local opportunities and expertise to drive the effectiveness of our operations and understand our customers' needs.

And we will make the best use of our global scale and experience to meet those needs as efficiently as possible.

Our customers are looking for ways to reduce costs and improve their operations, so we will continue to broaden our service portfolio. Whether it's maintaining our products or managing electrical and automation equipment in entire plants, our service packages bring the full spectrum of ABB expertise in power and automation to our customers, so they can concentrate on what they know best – their core businesses.

ABB will be part of the recovery, enabling customers to cut costs, raise efficiency and lower environmental impact

We are also continuing to improve our own operations, in both factory processes and administration. Projects to streamline finance, human resource and information technology functions throughout ABB are ongoing and will start to yield financial savings in 2009. Teams dedicated to further improving efficiency and quality in our factory operations are boosting ABB's productivity, lowering production costs and speeding up deliveries to our customers.

Quest for excellence

In our quest for excellence, we must pay particular attention to improving our record on health and safety. We have not always lived up to our own expectations in this area, but we will continue to build robust processes throughout ABB to strengthen the culture of safety. We will not tolerate any corner-cutting whatsoever, especially where people's well-being is concerned.

On a similar note, in the field of business ethics and fair competition, our Code of Conduct and our "zero tolerance" policy are here to stay. They are widely and repeatedly communicated throughout the company, and 45 employees were terminated in 2008 for various breaches of the Code. We are driving for integrity as the bedrock of ABB's global culture.

Our commitment to research and development is unchanged, because technology innovations are vital to our continued competitiveness. We will continue to build on the foundation of existing technologies for new applications, as well as develop the breakthrough technologies needed to meet the challenges of the future. Through our independent research and our collaborations with our customers and leading universities around the world, we will continue to help customers lower their costs and energy consumption, increase productivity and flexibility, and improve the safety and reliability of their electrical power.

Until credit markets return to normal, it is hard to say what 2009 will bring, but we are acting quickly to adjust to the new conditions. In order to reduce our cost base by $1.3 billion by the end of 2010, we are accelerating some of the already planned measures to improve operational excellence, increase low cost sourcing, broaden our global footprint and cut our general and administrative expenses.

As in previous periods of uncertainty, we will make the necessary changes and emerge as a stronger organization, able to meet renewed demand, as the markets recover. Our confidence stems from the long-term trends that drive demand for power and automation solutions, which remain intact.

Emerging markets will need to expand their power grids for years to come, while mature economies in North America and Europe will have to renew their aging networks. And every country must tackle climate change before the emissions from our growing use of fossil fuels stifle the progress that energy consumption allows.

The intense competition of global markets continues to drive businesses to become more and more efficient. Many of the easy gains have been realized and manufacturers are now looking for new ways to raise productivity. The answer lies in a synthesis of efficient and reliable automation equipment, real-time data and asset management programs, and a profound understanding of manufacturing processes.

ABB has earned a reputation for excelling in times of change. While preparing for a more challenging period, we are confident that ABB will also be part of the recovery, enabling our customers to cut their costs, raise efficiency and lower environmental impact, helping to set society on course for a more sustainable future.

Hubertus von Grünberg
Chairman, ABB Ltd

Joe Hogan
CEO, ABB Ltd

Highlights and overview of Group results

2008 highlights

ABB reports record revenues, earnings before interest and taxes (EBIT), and cash from operations, confirms 2011 targets

Full-year orders rise 11 percent to $38.3 billion amid demand for equipment to upgrade power grids and improve energy efficiency

ABB achieves EBIT margin – or EBIT as a percentage of revenues – of 13 percent and return on capital employed (ROCE) of 30.8 percent

Board of Directors proposes unchanged dividend of 0.48 Swiss francs per share

Two-year program to cut energy use by 5 percent per manufactured unit is renewed; energy audits lead to improvement projects for 23 sites accounting for 45 percent of ABB's energy consumption

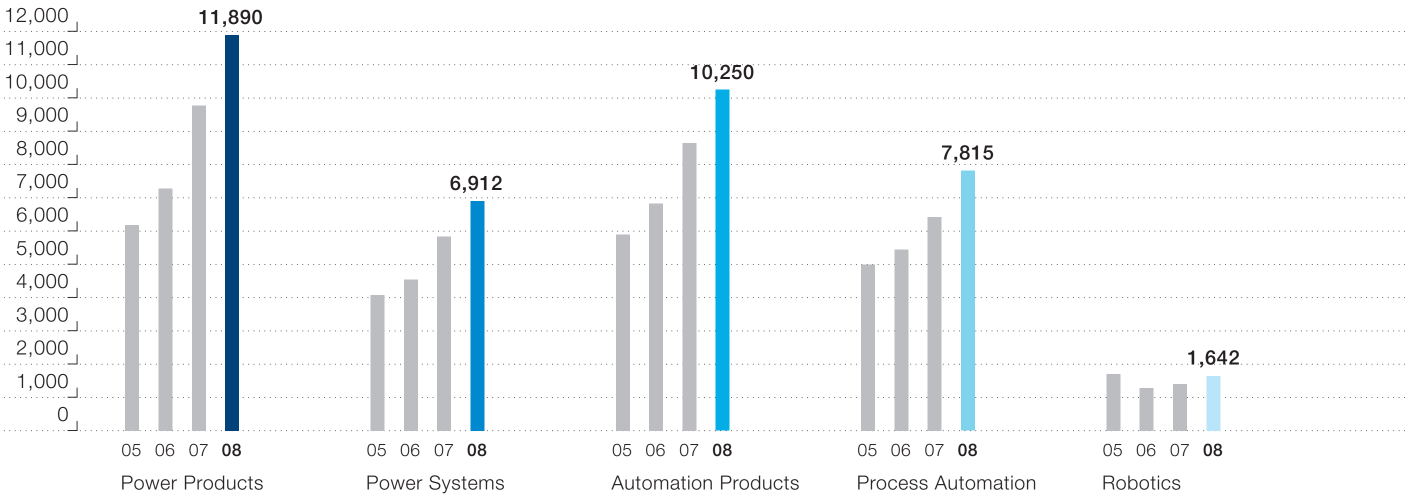
Research and development investment rises 5.9 percent in 2008; efforts focused on energy efficiency and breakthrough technology

Business decision-making processes are reinforced with additional health and safety, social, security and human rights criteria

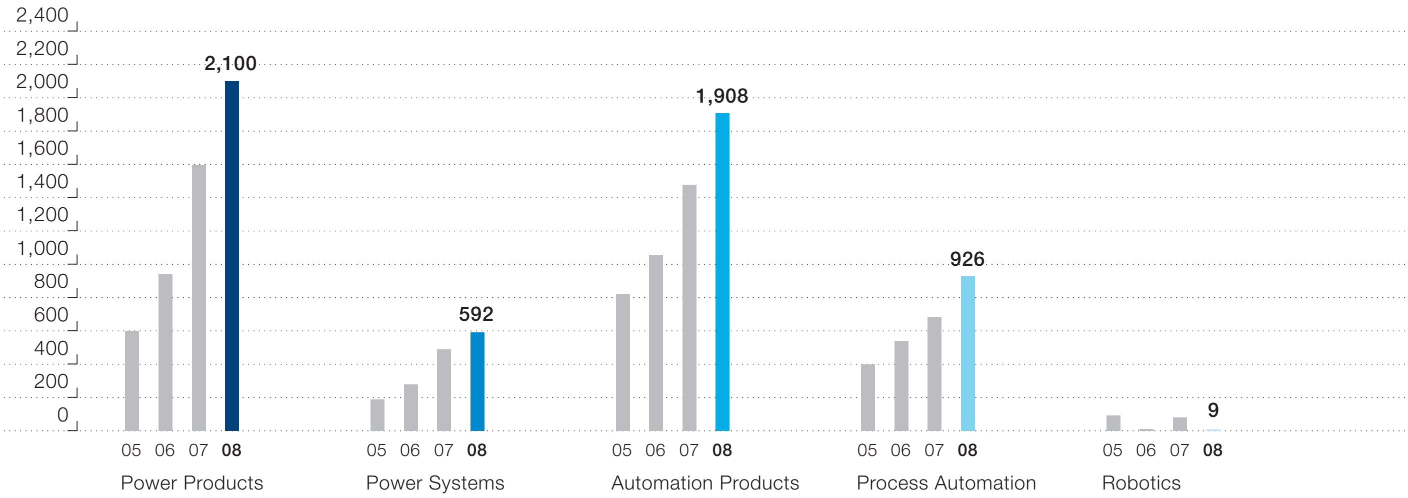
Total ABB Group ($ millions unless otherwise indicated)

	2008	2007
Orders	38,282	34,348
Revenues	34,912	29,183
Earnings before interest and taxes (EBIT)	4,552	4,023
as % of revenues	13.0%	13.8%
Net income	3,118	3,757
Basic earnings per share ($)	1.36	1.66
Dividend per share in CHF (proposed)	0.48	0.48
Cash flow from operations	3,958	3,054
Free cash flow	2,888	2,429
as % of net income	93%	65%
Return on capital employed	31%	35%
Number of employees	120,000	112,000

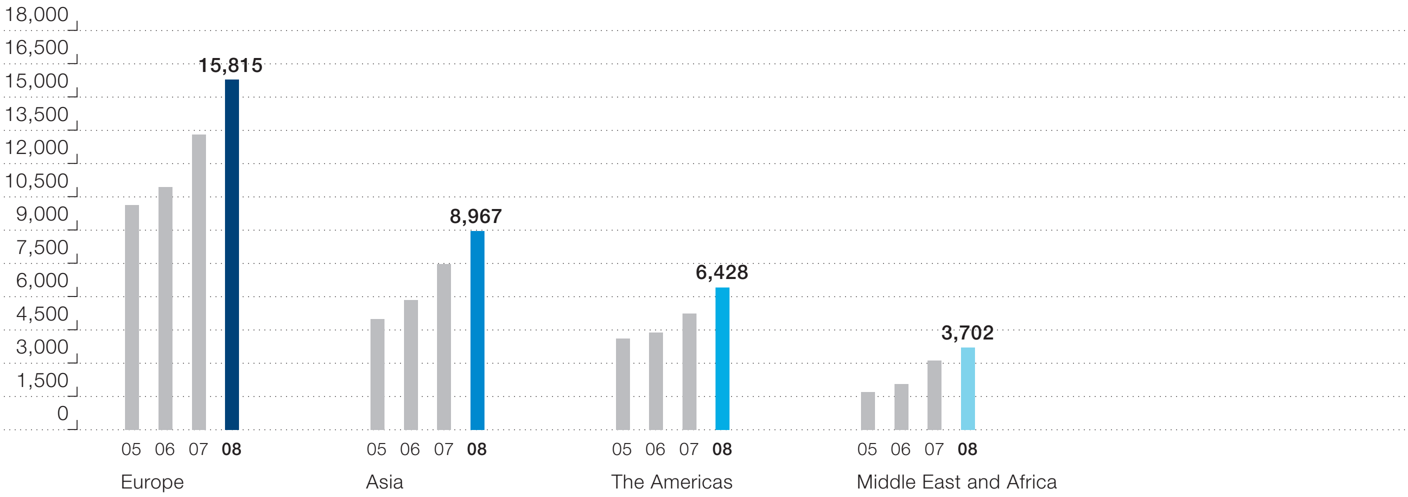
Revenues per division (in $ millions)



EBIT per division (in $ millions)



Revenues by region (in $ millions)



“Less than 3 percent of our water is drinkable – we shouldn’t waste a drop”

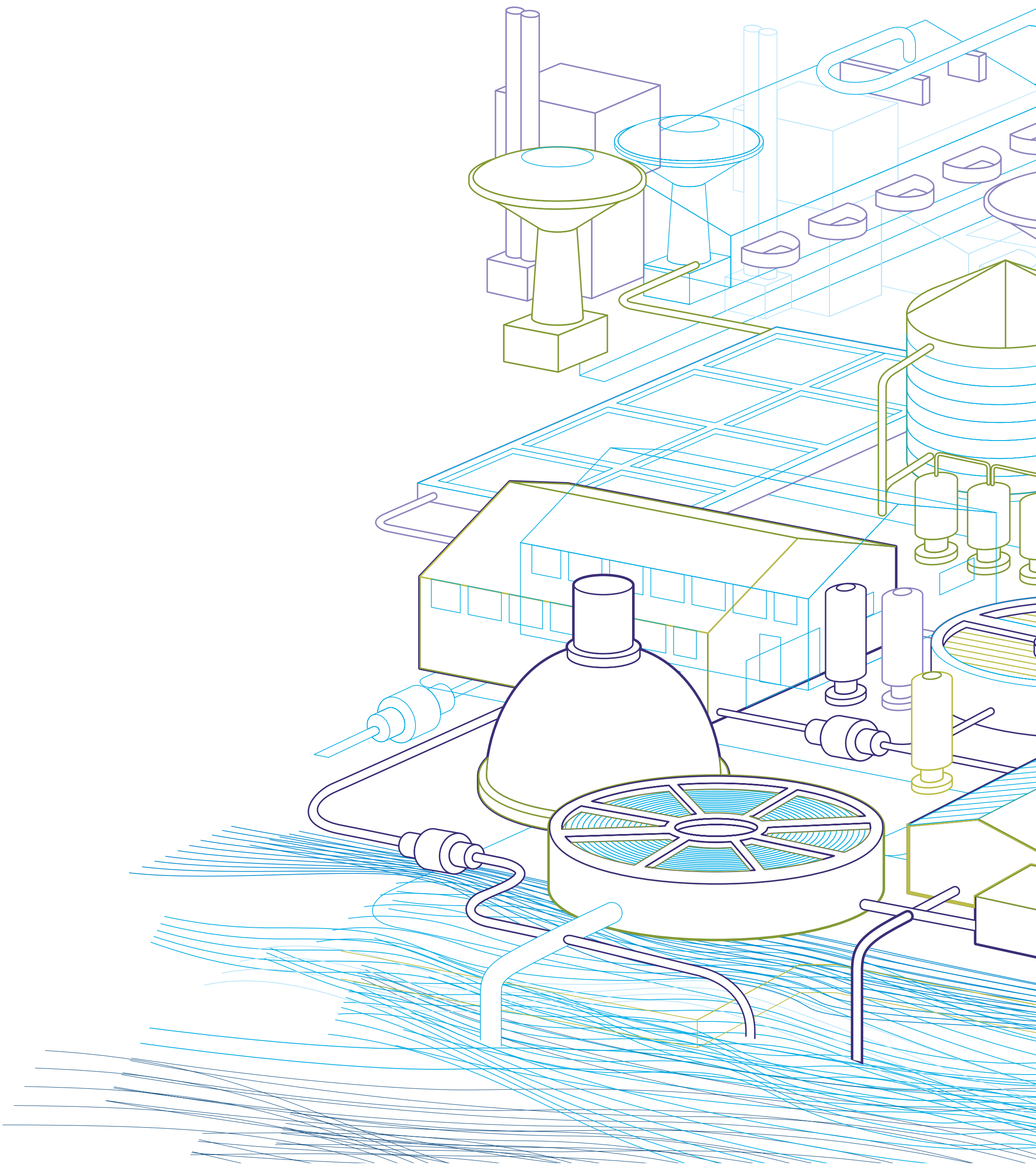
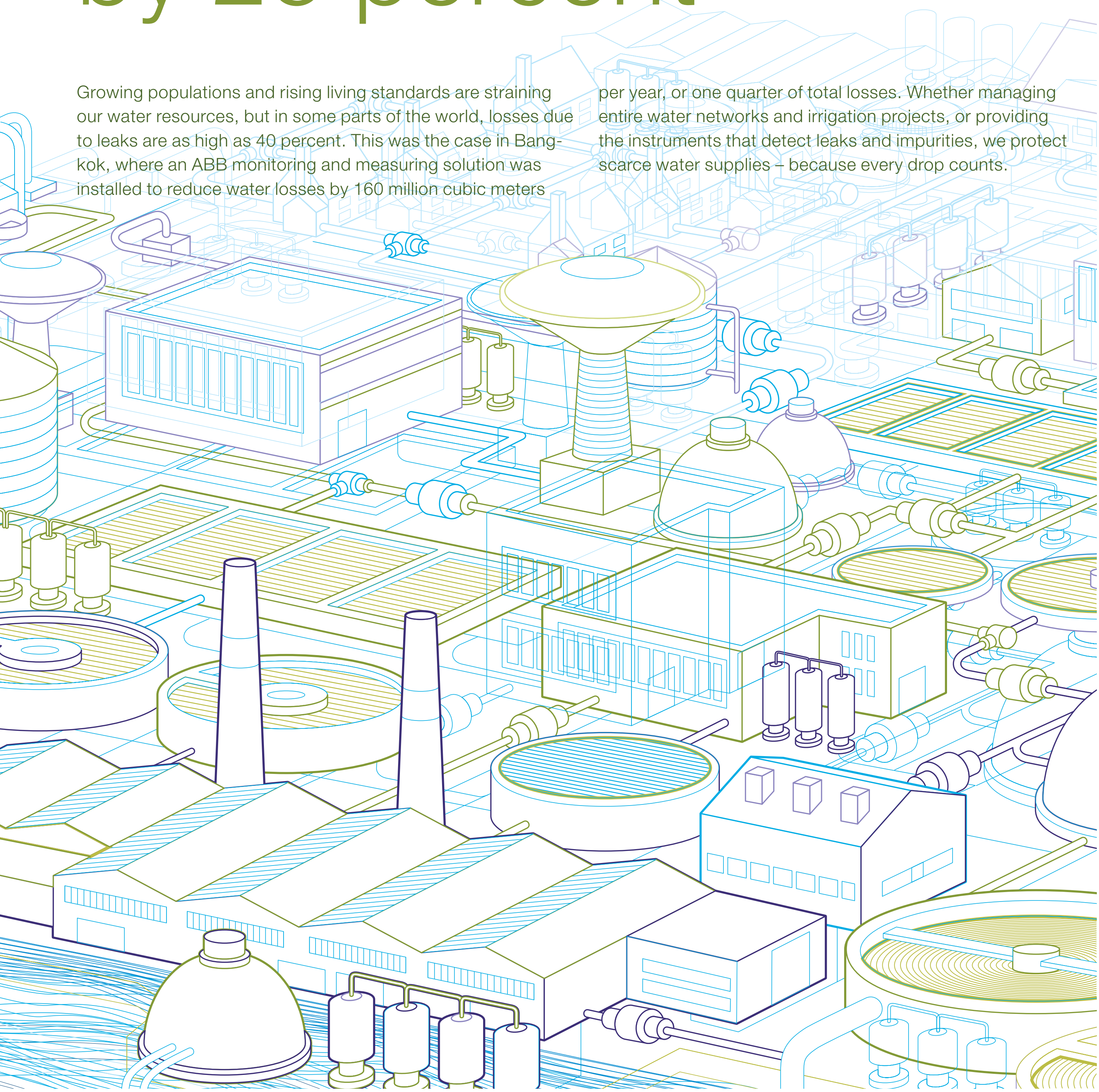
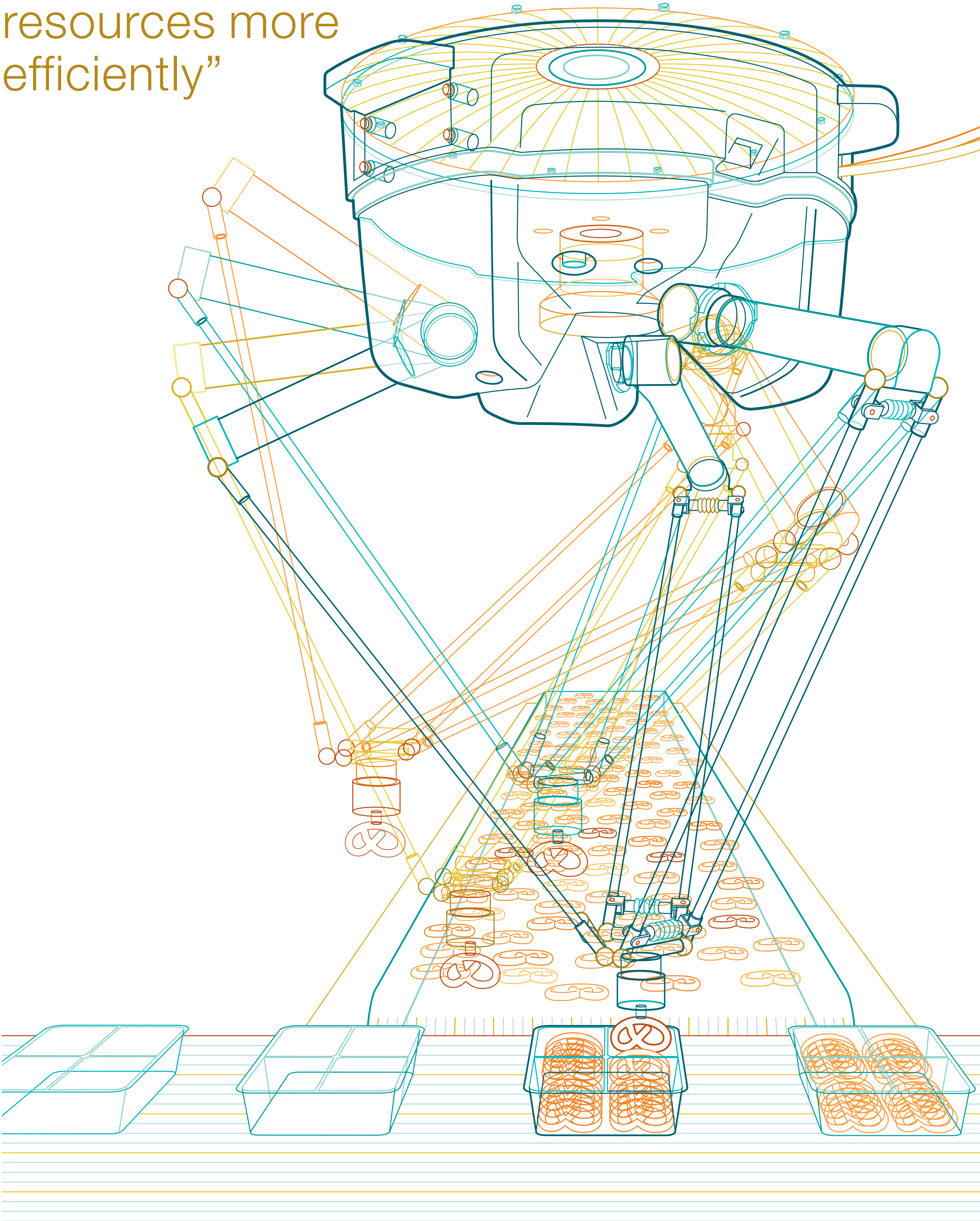


ABB systems and software can help reduce water leakage by 25 percent

Growing populations and rising living standards are straining our water resources, but in some parts of the world, losses due to leaks are as high as 40 percent. This was the case in Bangkok, where an ABB monitoring and measuring solution was installed to reduce water losses by 160 million cubic meters per year, or one quarter of total losses. Whether managing entire water networks and irrigation projects, or providing the instruments that detect leaks and impurities, we protect scarce water supplies – because every drop counts.

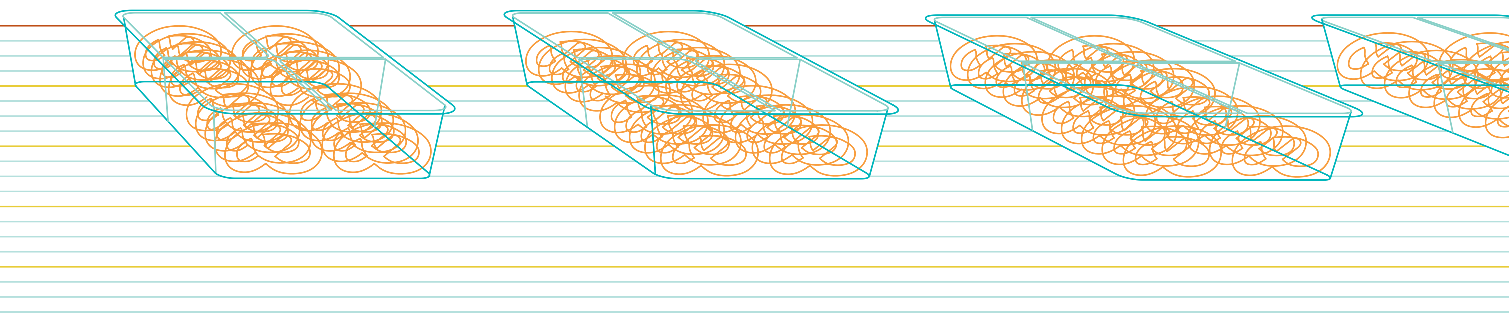


“If only machines could help us use resources more efficiently”

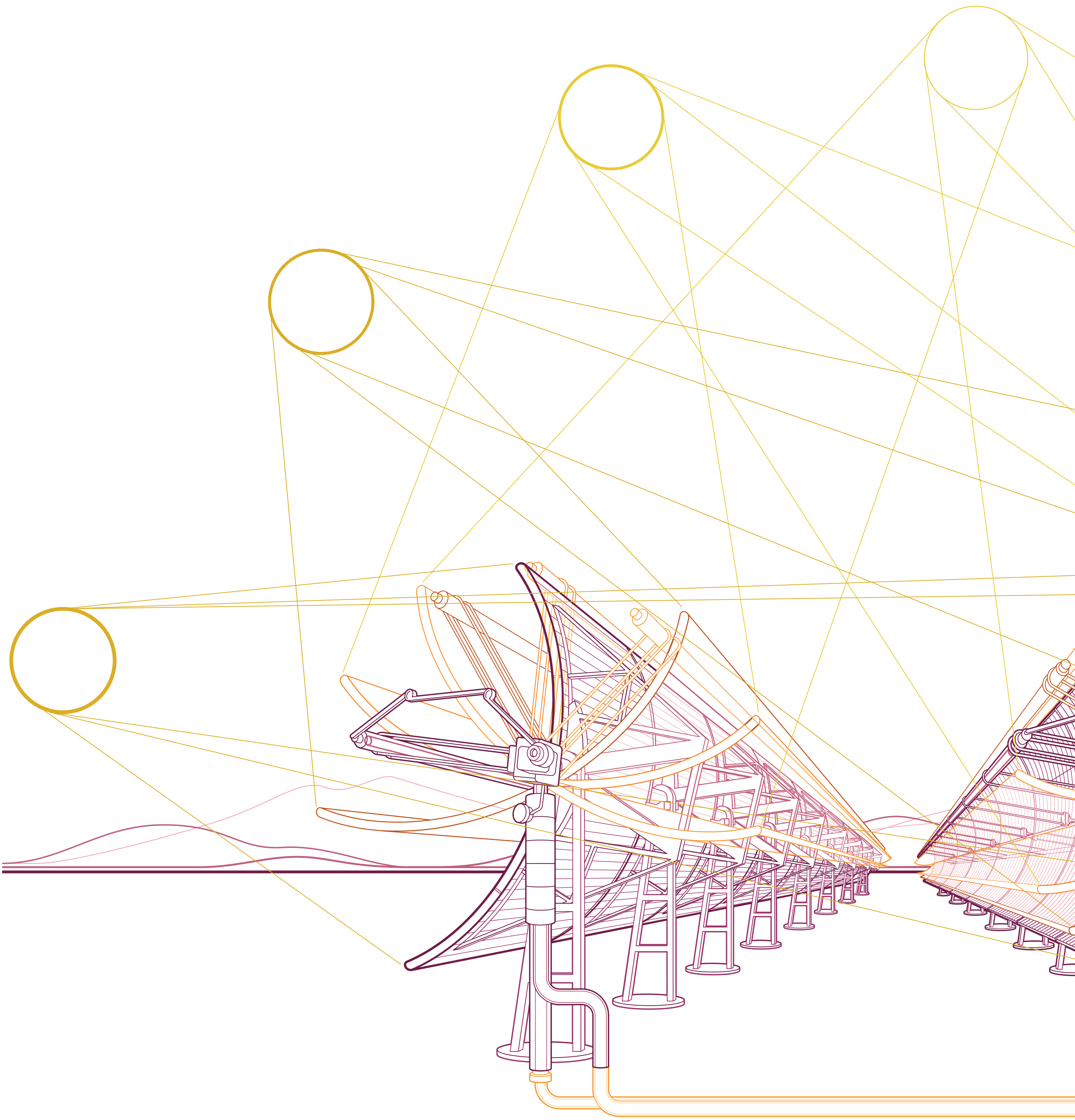


Our robots improve productivity and can reduce waste by 80 percent

ABB's fast-moving FlexPicker robots helped Roland Murten AG, a Swiss baker, reduce the number of pretzels broken during packing operations by 80 percent, to just 23 in 1,000. And because it now has to make fewer pretzels to fill the same number of boxes, energy costs for this production line are 12 percent lower. In industries ranging from food processing to metals production, ABB's robots increase productivity with better accuracy, reliability and flexibility – reducing waste so the world's resources go that much further.

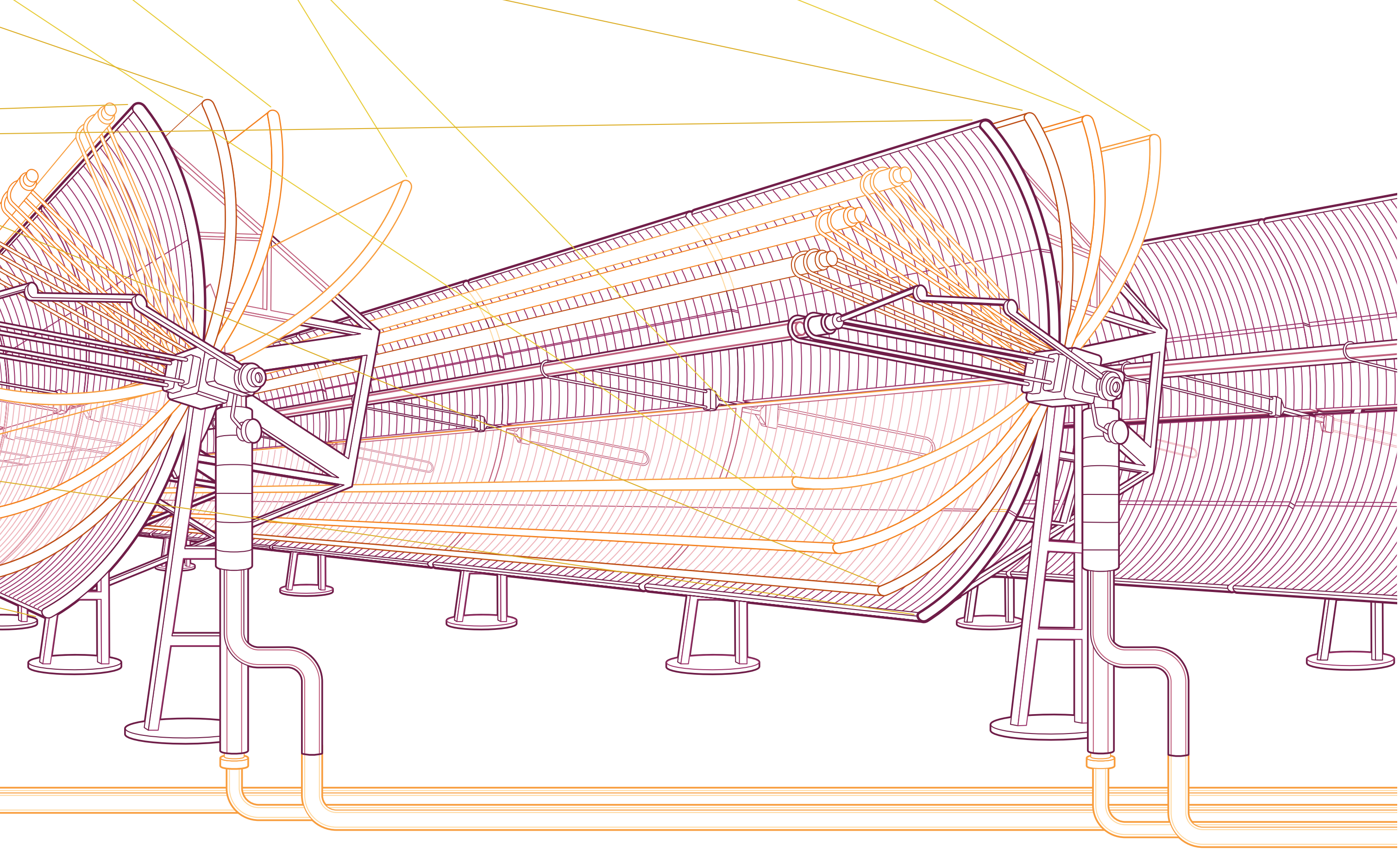


“The sun is so powerful – we should make it work harder for us”

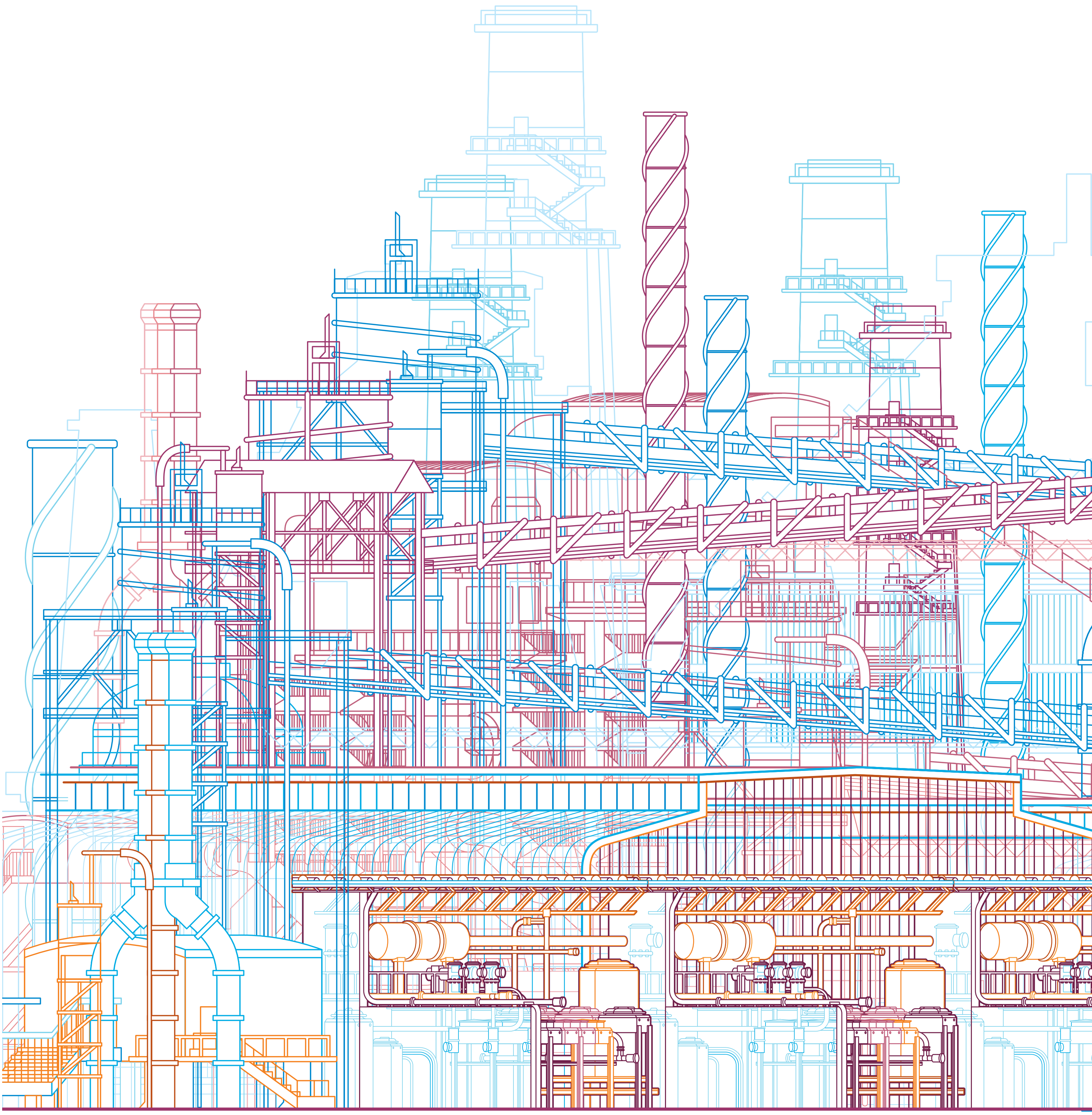


We help control the production of solar power to maximize efficiency

Producing clean electricity for 50,000 Spanish households, Andasol I is the largest power plant in Europe that uses mirrors to harvest the sun's energy. ABB power and automation equipment manages the generation process and helps to deliver the electricity to the grid. As the world's largest maker of power-plant control systems, ABB helps to maximize efficiency in all types of power plants. Because we're always looking for new ways to harness more of Mother Nature's potential.

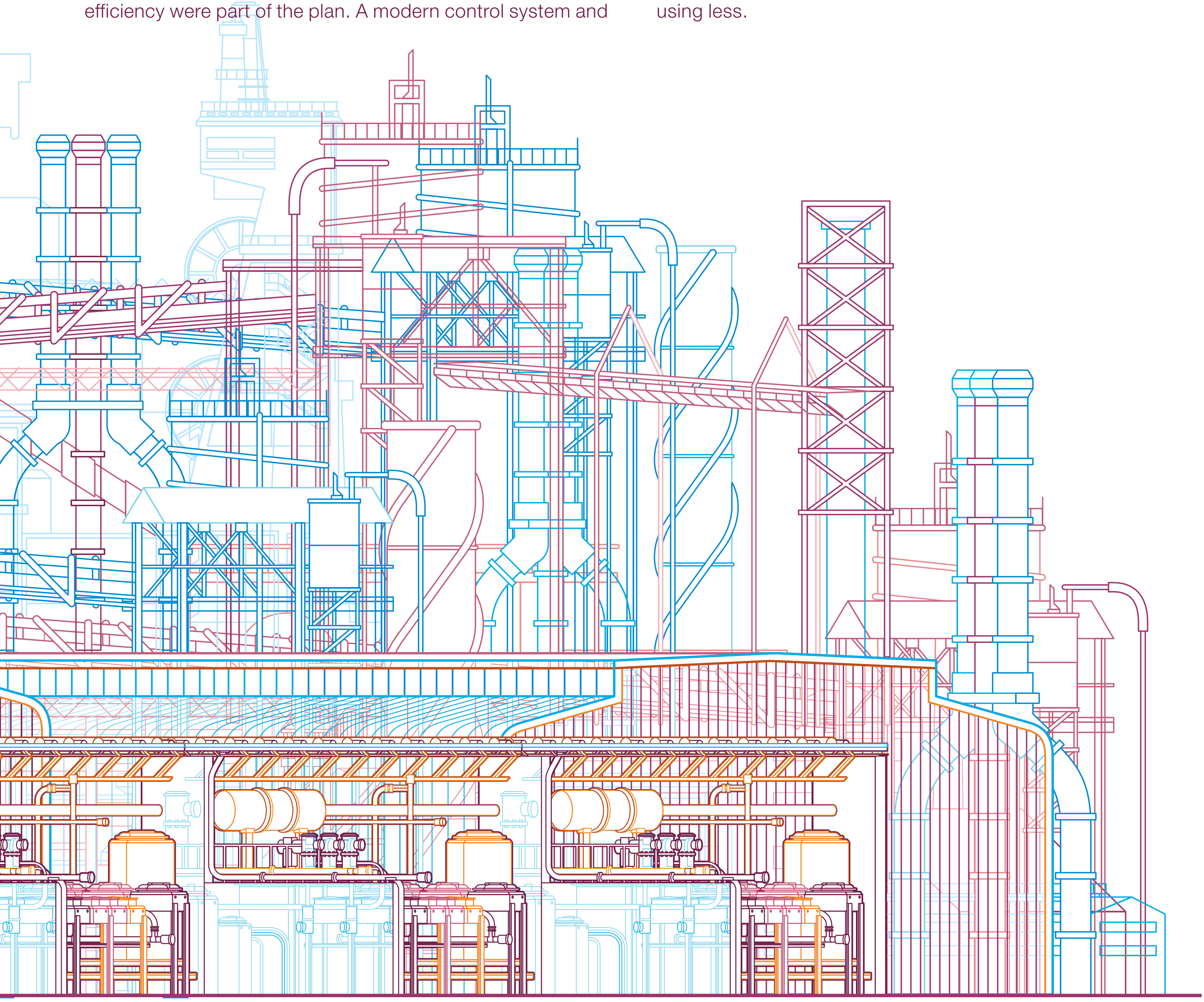


“Let’s make the biggest effort where the impact will be greatest”

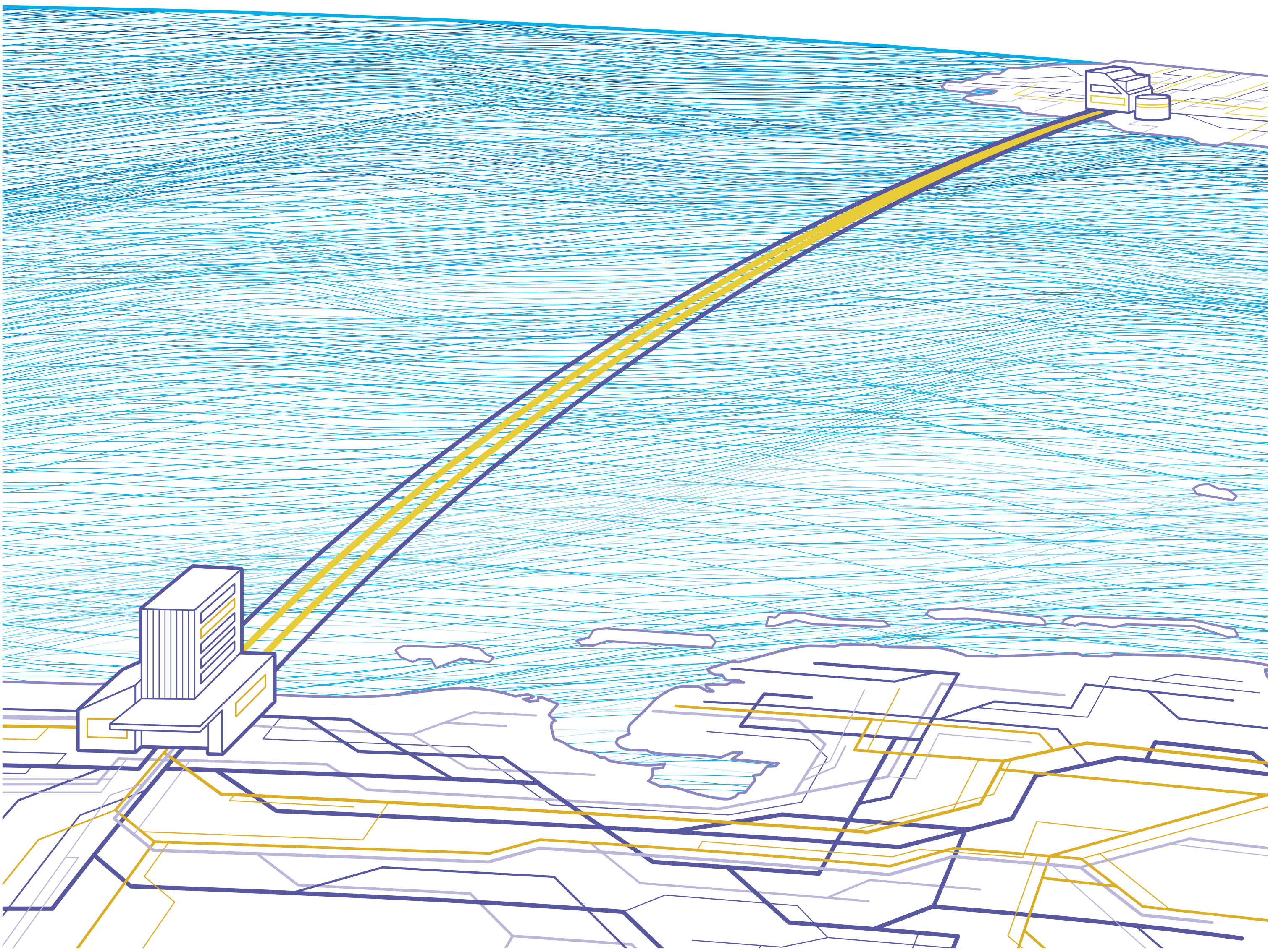


Cutting energy losses by 46 percent makes aluminum production more efficient

Nearly one third of global energy demand is from manufacturing, led by industries such as aluminum, chemicals, iron and steel, and cement. When ABB helped Dubai Aluminium increase its production capacity, improvements in energy efficiency were part of the plan. A modern control system and high-efficiency power equipment reduced energy losses by 46 percent and are saving $2.2 million annually. As higher living standards increase demand, ABB is raising industrial productivity while reducing energy use; helping society to make more, using less.

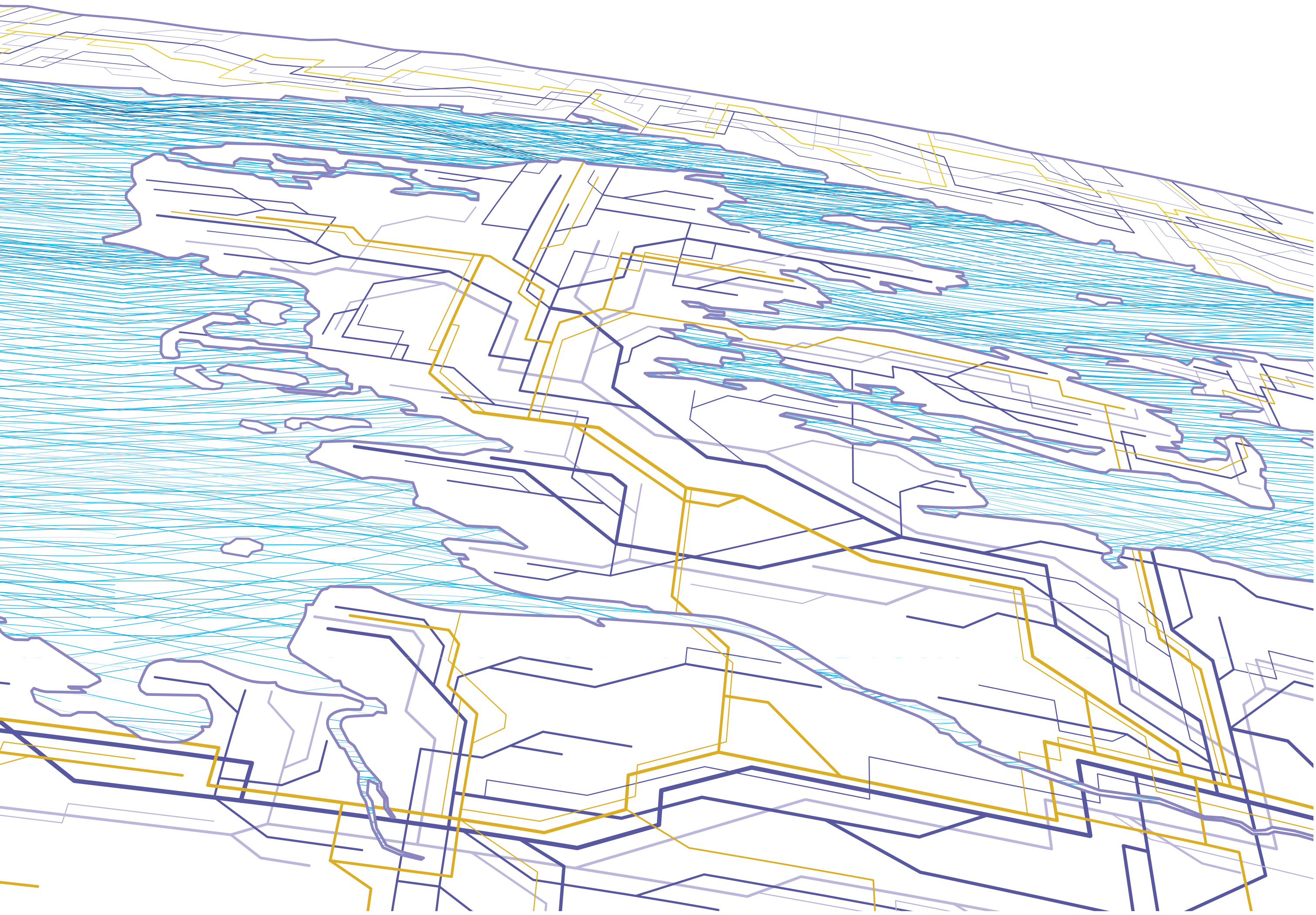


“Can renewable energy really travel the distance?”



The world's longest underwater power line saves 1.7 million tons of CO_2 every year

Renewable energy sources are often far from population centers and their power must be transported as electricity. As energy losses rise with transmission distance, remote generation is viable only if transmission is highly efficient. ABB technology connects Norway and the Netherlands and allows them to trade electricity, cutting annual CO_2 emissions by 1.7 million tons by making greater use of Norway's clean hydropower, as well as improving grid reliability. Underground or underwater – we know it's worth the journey.



The right strategy for a tougher climate

ABB's focus on power and automation remains the right strategy, despite the economic slowdown. While some new projects will be delayed in the current environment, companies facing pressure to cut costs will focus on investments that improve the productivity and energy use of existing assets. And government stimulus plans are focusing on infrastructure investments, including projects such as flexible and reliable power grids that will lay the foundations for economic growth to bounce back in a sustainable manner.

Being in promising markets is one advantage, but what strengths are particular to ABB?

We have an exceptionally strong balance sheet and a culture distinguished by its adaptability. The following pages highlight some other characteristics of the strategy ABB has been pursuing that make the company resilient in today's climate.

These include ABB's strong presence in emerging markets, currently the main motors of global growth, and a focus on excellence and efficiency in our production processes, supply chain and all other aspects of the way we do business. Further strengths described in this section are ABB's growing service business, our successful research and development organization, and our focus on markets that are driven by powerful long-term trends.

Strength in emerging markets
Better diversification and an opportunity to lower costs

A balanced global presence
A centerpiece of our strategy in recent years has been to expand the business in new regions, to become more responsive to fluctuations in demand in individual markets and to lower costs. In the process, ABB has established deep roots in a variety of markets, and has been growing particularly fast in areas such as China, India, Brazil and the Middle East by contributing to their development.

The proportion of ABB employees in emerging markets grew to 44 percent in 2008 from 30 percent in 2002. ABB has also strengthened ties with suppliers in these countries in recent years, lifting the share of our external spending on materials in lower-cost countries to about 38 percent from 26 percent in 2006.

While growth in emerging markets has slowed compared to the very high levels of recent years, these countries remain the main source of growth in the world economy as mature markets face recession in 2009.

China is now our biggest market, with revenues of $4.1 billion in 2008 and around 14,000 employees, followed by the U.S. and Germany.

Regional diversification helps to mitigate risks in individual regions and prepares the ground for future growth. Building a successful footprint aligns resources such as sourcing, manufacturing, engineering and people with market and competitive challenges to ensure ABB is well positioned to grasp opportunities wherever they arise.

Lighting up the Beijing Olympics
Lights were part of the magic of the opening and closing ceremonies of China's first Olympic Games, and the shows established the Bird's Nest stadium as a symbol of the event.

Behind the scenes, an intelligent building control system from ABB operated the lighting – including floodlights – and monitored the electric circuits.

ABB supplied the same technology for the Water Cube aquatics center and several other venues. ABB's intelligent building control system combines, in a single system, the complete scope of applications for lighting and shutter control, heating, ventilation and air conditioning, surveillance and energy management.

It recently won best-performance awards for energy efficiency and environmental friendliness from the Singapore government and ASEAN (Association of Southeast Asian Nations).

In Beijing, ABB contributed products, systems and know-how in power and automation to more than 30 projects related to the games, including more than a dozen sports facilities and the new airport terminal. ABB organized a team of about 60 engineers to support the projects, and many were on-site, inside the stadiums during the sporting events.

With 27 joint ventures and wholly owned companies in China, and a sales and service network reaching 60 cities, ABB's strong local presence and proven technologies were invaluable.

A commitment to excellence
Raising standards in everything we do

Success breeds success

Successful people want to work for successful companies, which is why ABB focuses on excellence in all we do. The following are examples relating to our supply chain, operations and human resources.

With $18 billion spent every year on parts and raw materials, the supply chain is a key area of opportunity. Considerable benefits have been achieved by improving coordination of purchasing activities in different businesses and countries, for example standardizing certain components and ordering in larger quantities from fewer suppliers.

Programs are in place to further improve quality and ensure that best practices on quality control developed in one location are deployed in others. Similarly, we are striving for operational excellence in our factories through the systematic analysis of order flows, factory layouts, material availability and other factors, to remove bottlenecks and reduce delivery times.

The way we hire, manage, develop and deploy people also aims to be world class. ABB puts a strong focus on personal growth, and measures the success of talent management using three main metrics: rate of attrition (better than the average for our industry in most countries), rate of progression through the ranks, and use of our succession plan (we are aiming to increase the number of key positions filled internally).

These efforts help to build ABB's reputation for excellence. We also need to protect our reputation with impeccable business ethics. Rigorous processes and continuous education programs are in place to make sure every employee knows what is expected.

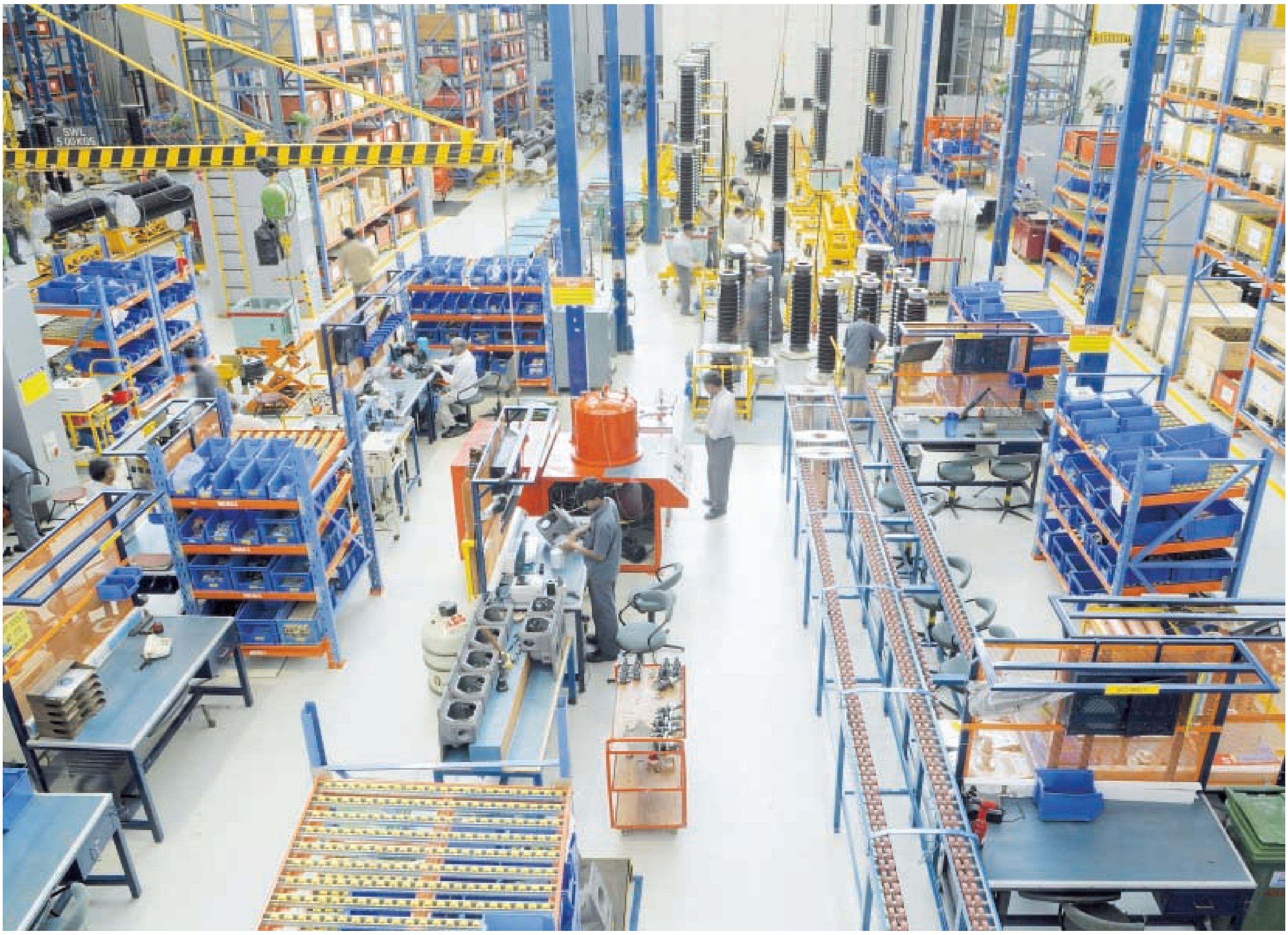
Raising productivity through operational excellence

India's fast-growing economy, and a government commitment to make electricity available to all by 2012, have created strong demand for power and automation technologies. In order to keep up with the surge in demand, ABB's production facilities for high-voltage power products in Vadodara have overhauled their processes.

Together with members of ABB's global team of experts on operational excellence, the plants devised a more efficient production and order delivery process. Unproductive time was eliminated with the help of lean-manufacturing tools such as value stream mapping, an analysis of the flow of materials and information along the whole process, and Kaizen, a daily analysis of processes aimed at developing a culture of continuous improvement. Productivity increases to date range from 23 to 59 percent on the four production lines.

The use and availability of supplies has been improved with a variety of systems, ranging from clear visual signals to automated management, reducing inventory by as much as 17 percent. Product quality has improved, and more customers are getting deliveries on time thanks to a reorganization of workplace conditions and production flow.

The plants are now ready to meet the market demand projected through 2012 and help India to achieve its development objectives.



Our growing service business
Giving customers the best of ABB's expertise

Opportunity unleashed
ABB's vast global installed base of products and systems, coupled with the depth of its technical and process expertise, makes providing service to customers a natural growth opportunity. A top-notch service offering helps to distinguish ABB from low-cost competitors, especially in emerging markets, and can be a key buying factor for customers in all markets.

It also provides a steady stream of income, which can help offset revenue fluctuations that may occur elsewhere in the business. ABB launched a comprehensive new service strategy as part of its Group strategy for the years 2007 to 2011. Service revenue rose 19 percent in 2008 (16 percent in local currencies).

The strategy targets three areas within ABB's core power and automation businesses that show particularly strong growth potential: life-cycle services, full service and consulting.

ABB life-cycle services looks for opportunities within ABB's existing and newly installed base of products and systems. Service choices range from spare parts, support and maintenance to consulting, retrofits and training.

ABB Full Service offers customers long-term, performance-based contracts to maintain and improve the performance of their plants. Industries where ABB has particular expertise are targeted.

By integrating consulting with our product and system offering, we can leverage ABB's broad expertise in areas like energy efficiency, productivity, reliability, security and safety, and differentiate ourselves from pure product and systems suppliers.

This strategy will provide our customers with higher-value services, and ABB with new points of entry into high-value markets.

Shell chooses ABB service solutions
A groundbreaking agreement in Norway provides service and support for two of Shell's most important North Sea assets: the Draugen oil and gas platform and the plant processing natural gas from the giant Ormen Lange field.

Modern oil and gas companies rely on advanced technology to improve production, lower costs, increase safety and prolong asset life. The ABB Service Environment solution effectively manages these complex and integrated systems.

For Norske Shell, ABB oversees all traditional service and support tasks as well as the daily operation of safety and automation systems. ABB also assumes responsibility for ISO processes, training, tools, simulator and electrical installations, as well as third-party suppliers.

ABB experts can monitor and work with the Ormen Lange and Draugen facilities from offices in Oslo, Bergen and Stord, reducing costs and improving safety. ABB's solution also includes strategies to modify processes and production as fields mature.

At full production, Ormen Lange will supply 20 percent of the U.K.'s gas needs via the world's longest (1,200 km) underwater pipeline, monitored by an ABB Safeguard safety system.

ABB supplied the gas-processing plant with energy-efficient drives, electrification and one of the biggest automation systems it has ever delivered, based on the System 800xA control platform.

Research and development
Support for innovation brings advances in technology

Tackling society's challenges

Society is facing major challenges related to dwindling natural resources and climate change. Technology breakthroughs are needed to help us tackle the issues and are a key goal of ABB's R&D program. Just as important in the short term, however, are the significant benefits that can be achieved by adapting and evolving existing technologies.

Recent developments in power transmission technology, for example, have taken conventional products and systems to new dimensions to provide cost-effective solutions for the world's increasing power requirements (see related story).

Incremental improvements have also brought new benefits to users of our control platform, System 800xA. In 2008, the control and safety certification of the system was further improved, enabling customers to tailor their safety systems to specific process requirements, such as energy and/or cost efficiency, while at the same time protecting processes, personnel and the environment.

Over the years, ABB has not only pioneered many of today's power and automation technologies, but maintains a technology advantage in these areas through sustained investment in research and development.

Our R&D strategy continues to be driven by our customers' need to improve performance while minimizing cost. That means improving energy efficiency, cutting waste and providing reliable power supplies, in terms of both quantity and quality.

In 2008, we spent $1.2 billion supporting our 6,000 researchers and developers in their efforts to develop tomorrow's power and automation solutions, efforts that will help us maintain our lead and meet our customers' needs and expectations.

A million volts for China

As the world's cities grow, and demand for electricity rises, highly efficient transmission systems have become a necessity. In China, for instance, linking the energy-hungry coastal cities with hydropower reserves thousands of kilometers away would be prohibitively expensive with conventional technology because too much electricity would be lost during transmission.

One solution is to push voltages to extremely high levels at which transmission losses are lower. This is where ABB's scientists and engineers have been lending a hand.

China's vision of an ultrahigh-voltage transmission grid came a step closer in December 2008, when ABB and Chinese partner Xian Shiky demonstrated their first gas-insulated switchgear rated at more than one million volts. The installation is part of a pilot project for transmission using alternating current at 1,100 kV, which would reduce transmission losses by as much as 75 percent compared with a line at half the voltage.

ABB has also developed ultrahigh-voltage direct current solutions and successfully tested its 800 kV transformer in 2008. ABB is supplying the technology for the world's longest and largest capacity power link, running 2,000 km from central China to Shanghai. These achievements in AC and DC technology mark the beginning of a new era in power transmission.

The long-term trends
Meeting energy demand while lowering environmental impact

Strong demand for electricity

Energy demand will rise as much as 45 percent by 2030 and electricity demand almost twice as fast, according to the International Energy Agency. In the short term, growth might be delayed by the economic slowdown, but it will resume. So pressure on natural resources will continue and will increase the need to cut waste and reduce environmental impact.

At the same time, many governments are seeking to reduce their dependence on fuel imports by developing alternative sources of energy, and countries in North America and Europe in particular need to replace aging infrastructure. In industry, the slowdown will increase global competition and the need to raise productivity.

Improving energy efficiency remains the most cost-effective way to lower emissions and costs. Renewable energy has widespread government support, and electricity grids are being adapted to accommodate these energy sources.

The strength of these trends can be seen in the U.S., which needs to invest at least $880 billion in the transmission and distribution system from 2010 to 2030 just to maintain reliable service, according to a report produced last year for the Edison Electric Institute. Although the U.S. is at the heart of the current economic turmoil, ABB's orders from the electric power industry in the country increased throughout 2008.

ABB is well placed to benefit from these trends, with products, systems and services geared to helping customers make the most of their resources by improving energy efficiency, industrial productivity, increasing the capacity and reliability of transmission and distribution systems, and optimizing the output from renewable energy plants.

Boosting capacity of existing infrastructure

Allegheny Power, a utility in the northeastern U.S., needed to enhance the reliability of supplies to its 1.5 million customers in the densely populated Pennsylvania–New Jersey–Maryland region, while at the same time meet increasing demand.

ABB's solution was to increase the capacity of the existing network, thereby reducing the cost and environmental impact of power transmission compared to the time-consuming alternative of building new infrastructure.

The technology used is part of a family of solutions known as flexible alternating current transmission systems (FACTS), which enhance the capacity, flexibility, reliability and security of power transmission systems. It enables operators to raise efficiency and increase the capacity of existing networks, while maintaining or improving the operating margins necessary for grid stability.

ABB has more than 500 similar installations in service or under construction across the world. The Allegheny contract, the largest of its kind, and ABB's vast installed base of products and systems, confirm our position as the world's leading supplier of power transmission technology.

Sustainability is core to business success

ABB's sustainability activities aim to bring economic, social and environmental benefits to our stakeholders.

Our activities fall into seven priority areas. Two of them – products and systems, that improve energy efficiency and mitigate climate change, and sustainable product innovation – are described elsewhere in this report. Over the following pages, we focus on the other five priorities: managing our own environmental impact, improving health and safety performance, the requirements we place on suppliers, our human rights responsibilities, and how we help people in the communities near ABB factories and offices.

ABB follows the relevant Global Reporting Initiative (GRI) Guidelines when reporting on performance. A full report on adherence to GRI Guidelines, including a table of main performance indicators, which has been verified by the independent verification body, Det Norske Veritas, can be downloaded from: www.abb.com/sustainability

Our reporting boundaries encompass all manufacturing facilities, comprising approximately 350 sites in the 48 countries where ABB has substantial manufacturing activities. Non-manufacturing sites are also included, although these have only limited environmental impact. ABB's global network of more than 400 sustainability controllers and officers is responsible for monitoring and reporting sustainability performance.

Managing our environmental impact
Lower energy use and emissions at factories and offices

Improving our own performance
ABB continually strives to minimize the environmental impact of its manufacturing processes, factories and offices, and has a rolling two-year global program to cut energy use by 5 percent per manufactured unit.

The Group-wide objectives are: to reduce our use of energy and materials, streamline the means of transporting goods, reduce the impact of business travel, phase out hazardous materials, design eco-efficient and recyclable products, and enhance suppliers' performance. Much can be achieved through sharing best practice. Water-borne paint systems developed at one factory, for example, have been introduced at similar sites worldwide to reduce emissions of organic solvents.

Improving performance also includes the design phase of new products and processes. Design engineers receive training and tools to carry out Life Cycle Assessments to evaluate a product's environmental impact throughout its life cycle.

Four hundred sustainability officers, many of them based at our factories, implement Group and national objectives at ABB's 350 sites worldwide. They ensure that all manufacturing facilities comply with ISO 14001 and OHSAS 18001 international standards on the management of environmental and health and safety risks. Close collaboration with external sustainability organizations and universities also helps ABB to establish effective programs to support its improvement initiatives.

Cutting impacts in China
In China, ABB's coordinated approach to cutting its environmental impact has yielded major savings.

An initiative to identify and phase out hazardous substances, started in 2007, found they were present in 18 different processes at the Group's 27 companies in China. Today, only three substances remain in use, and these will be eliminated in 2009.

As part of efforts to minimize emissions of volatile organic compounds (VOCs), 2008 saw water-borne painting systems replace solvent-borne systems in the factory with the highest emissions, and tests have continued at two other plants. The result: VOC emissions per output unit have fallen by 15 percent in the three factories compared with 2007.

A third priority has been to save energy at the factories with the highest consumption. Among other measures, motors have been fitted with modern ABB drive systems, resulting in energy savings of at least 30 percent.

Occupational health and safety
Training is critical for employees and contractors

Seeking improved safety

ABB is striving to improve occupational health and safety (OHS) performance and practices among employees and contractors worldwide. Intensive training programs targeted at key countries, businesses and managers were held throughout 2008.

Nonetheless, a total of 10 people died as a result of ABB operations: Two employees and four contractors were killed in workplace incidents, and four died in business travel incidents. This compares with a total of 22 people who died in 2007.

The Group has been focusing on three of the most common causes of death and injury: working at height, live electrical equipment and travel. For example, ABB initiated two major programs designed to eliminate incidents in the transformers and substations businesses. Considerable efforts have also been focused on India, where all four contractor fatalities occurred in 2008, as well as on a Group-wide road-safety initiative.

In addition, ABB revised its Group OHS Policy and Responsibilities document to refocus attention on the critical OHS principles and issues for our business. This was communicated to ABB's top 16,000 managers worldwide through a mandatory online course. The training was offered in six languages, and the Policy and Responsibilities document was translated into 28 languages.

Safety training school for contractors

A major focus for ABB in India over the last three years has been to work with contractors and their teams to sharply improve health and safety performance on projects. Contractors are often involved in more hazardous parts of projects, particularly civil and mechanical engineering, working at height and rural electrification.

ABB has established a training center in Jaipur at which more than 2,000 contractor personnel have been trained in the safe execution of key project tasks. Participants are shown how to undertake a task safely, then perform the task under supervision and, when deemed competent, undergo testing to complete a certification process.

ABB also runs behavioral safety training for the senior managers and principals of contracting companies to ensure they clearly understand our safety requirements and expectations. ABB requires good safety behavior and disqualifies contractors where appropriate.

Supply chain
High sustainability standards are one of ABB's requirements

Promoting best practice

The ABB Group buys parts and raw materials worth $18 billion a year from thousands of suppliers in 100 countries. Cost, quality and prompt delivery are key selection factors – and so are sustainability criteria.

All main suppliers are required to assess their sustainability performance using an ABB questionnaire. Suppliers must identify the environmental aspects and the health and safety risks in the scope of their supply to ABB, including the roles of sub-suppliers. ABB favors suppliers who have implemented ISO 14001 environmental management systems and OHSAS 18001 or equivalent health and safety systems.

Selected suppliers are audited on criteria such as their health and safety record, and exposure to environmental and social risks. Where necessary, ABB provides training to ensure that suppliers reach and maintain ABB's sustainability performance standards. Once accepted as main suppliers, they are subjected to continual monitoring of their sustainability performance.

ABB's objective is to increase the number of sustainability audits by 10 percent per year from 2007 to 2012. In some key supply markets, such as China and India, ABB has started an audit round to collect information on local practices and establish detailed priorities. Further discussions with stakeholders will help this process.

Working with suppliers in Mexico

Mexico offers a strategic advantage to ABB businesses in North America because of its proximity, low costs, and good transport and communications infrastructure. In San Luis Potosí, Monterrey, ABB has established its first Manufacturing and Engineering Campus where all five corporate divisions share technology, infrastructure and best practices.

To build on these advantages, ABB organized a meeting there in April 2008 of 240 potential suppliers in Mexico and 40 ABB strategic purchasing managers. The participants established contacts, assessed mutual interests and discussed ABB's requirements.

ABB reiterated its policy of favoring suppliers who have implemented the same sustainability management principles and standards, particularly on environmental, social, and health and safety performance. For those selected, special monitoring and auditing programs have been implemented to ensure full compliance with ABB's standards.

Human rights
Power supports realization of core education, health and housing rights

Risks and opportunities

ABB faces human rights challenges in the course of doing business. Understanding the dilemmas and taking measures to prevent abuses or complicity are essential to tackling these challenges. The Group is gaining a greater understanding of its responsibilities, and of the opportunities as well as the risks.

The Group continued to address human rights issues in key business decision-making processes in 2008. These issues are now included in the risk review that accompanies every major project, in the evaluation of potential and current suppliers, and in a checklist for potential acquisitions.

ABB seeks to be a force for good in the communities where it operates and for society as a whole. One element of its core business – the provision of electrical power – gives people better access to human rights such as health care, education and housing. Still, the benefits and disadvantages of each project need to be carefully weighed.

Besides working to improve its own performance, ABB actively supports international initiatives, such as the UN Global Compact and the Business Leaders Initiative on Human Rights, to strengthen business understanding of human rights issues and best practice.

How electricity changes lives

ABB's Access to Electricity rural electrification program is driving economic, social and environmental progress, and the realization of human rights in remote communities in different parts of the world.

In the Indian state of Rajasthan, for example, ABB has since 2006 installed basic solar-powered electrical systems in 1,100 homes in seven villages of a desert community in a joint project with villagers, a non-governmental organization and the state government. With electric light, rug weavers and tailors can avoid searing daytime temperatures and work longer hours in the cool of early morning and evening. Their productivity has risen by 100 and 30 percent, respectively, in two years. The number of children attending school has also doubled, due to their ability to study after dark.

There are also health benefits: The replacement of kerosene and traditional cooking methods has lowered lung and eye problems.

Improving the quality of life
ABB can make a difference in areas where it operates

Supporting the local community

ABB seeks to raise the quality of life in communities where it operates, and be an employer of choice. In 2008, ABB companies in 35 countries supported community development projects, donating approximately $6.5 million, while employees volunteered for nearly 2,200 days of work.

Programs to ease poverty are under way in Brazil, Canada, China, India and South Africa, while employees in the U.K. and U.S. organize and take part in fund-raising events for cancer research. In Germany, 150 volunteers from 19 ABB locations used holiday time in 2008 to help handicapped athletes participate in the Special Summer Olympics in Karlsruhe.

Many schemes encourage education. The ABB Jürgen Dormann Foundation for Engineering Education gave scholarships to university students in Poland in 2008, and students in other countries will benefit in 2009. In Switzerland, a scheme called Second Chance gives young people who broke off apprenticeships a year-long training program to get back on the jobs ladder.

ABB also won a number of awards in 2008. ABB in the United Arab Emirates won recognition for its environmental and social activities by topping the main category of the first Arabia Corporate Social Responsibility Awards. And in Saudi Arabia, ABB was voted the "best industrial company to work for."

Helping children to a better future

As part of its commitment to local communities, ABB in Brazil has a program to help children from poor families to study and prepare for jobs.

The Children with a Future Full of Hope program is run at the Guarulhos and Osasco plants on the outskirts of São Paulo and takes about 200 underprivileged children, aged 7–16, for half a day every weekday. They receive additional schooling, food, medical and dental treatment, professional training and help applying for jobs.

Nearly 100 children have completed the program. About 40 are employed, 17 are applying for jobs, and many are continuing their studies or receiving help to prepare for employment.

The schools are located on the factory sites, and the children eat lunch in the canteen with staff and share sports facilities. This interaction is motivating for both children and employees.

Guest interview

Rising energy demand and climate change are conflicting challenges that demand our immediate attention, says Professor Ernest Moniz.

Ernest Moniz is professor of physics at the Massachusetts Institute of Technology and director of the MIT Energy Initiative, an institute-wide program designed to help transform the global energy system to meet the challenges of the future. He served as Under Secretary of the U.S. Department of Energy from 1997 to 2001. ABB and the MIT Energy Initiative formed a research partnership in 2008.

ABB: What do you see as the main global energy challenges?
Prof. Moniz: There is a perfect storm of three major challenges. One is around the whole issue of global supply and demand. We may be having a slowdown over the next couple of years, but this is a temporary response to the global economic downturn in terms of the greatly increasing future energy demand, driven in large part by the emerging economies. Electricity demand is the fastest-growing component of this and is expected to roughly triple from 2000 to 2050. But we should keep in mind that this increase represents not much more than raising the majority of the world's projected nine billion people in 2050 to what we would term in the OECD today a relatively low per capita use of electricity. In other words, there is a very real pressure for growth.

The second challenge, I would say, is the whole set of issues around energy security, including dependence on a few oil and gas suppliers and concern about nuclear proliferation. These issues are acutely felt, certainly by the populations of wealthy countries. The third big challenge is the risk associated with climate change. This is, in my view, the most dramatic of the three challenges since we have a global energy system that is roughly 85 percent fossil-fuel dependent. So when we ask to have a major reduction of carbon use in a system that is mainly carbon based, we are obviously talking about a very dramatic transformation. Now why is it a perfect storm? Because there are inherently some tensions in the responses to these three challenges.

What is wrong with the strategy of continuing with business as usual and adapting as necessary when the time comes?
The remaining uncertainties that we have in understanding climate effects are a strong motivation to limit as far as rationally possible the accumulation of greenhouse gas. We face the big worry that we could experience significantly more abrupt, non-linear changes in our climate that drive us toward fairly catastrophic results. We need to push climate risk mitigation as hard as we can, recognizing that from where we are today, we cannot avoid a substantial measure of adaptation.

Do developed and developing economies face essentially the same challenges?
The obvious common challenge is climate change, in that it has a global impact. However, the nature of the impacts will be different everywhere. Deserts are expanding in China, and the Middle East faces severe water issues. We see a very dangerous reduction of snowfall and ice pack in glaciers in the Himalayas, and we often forget that the major water flows from the Ganges River to the Mekong River are driven by that. If you decrease these flows, can you contemplate the implications for over a billion people living in that arc? There are opportunities as well. The developing countries will lag the developed countries in terms of a serious climate response, but the rate of growth of their energy infrastructures will be much greater, providing a greater opportunity to employ new

technologies. But we have to make sure developing societies can afford these technologies. Change will take a long time, but if these societies develop their energy infrastructures using old technologies, then we are placing an even greater mortgage on the future.

So what do you see as the most promising strategies for tackling the challenges we've discussed?

The number one target should be to increase energy efficiency in residential and commercial buildings – the proverbial low-hanging fruit.

De-carbonizing the electricity sector is very likely to be another major focus in the relatively near term. There are multiple opportunities, one of which is simply moving from carbon-intensive to less carbon-intensive fuels: coal to natural gas, for example. There's also the possibility of carbon capture and sequestration with coal plants. The technology is yet to be demonstrated in a material way for commercial application, but it's an important option. Then, of course, there is a potential major expansion of nuclear power, which apart from hydro is the major non-carbon source today, providing a sixth of the world's electricity. In a few select regions, hydro may still have some opportunities; and then there are the other renewable sources of energy. Wind is beginning to make a material contribution, at reasonable cost in good sites, and solar is seeing rapid cost reductions and has very considerable potential. Improved electricity delivery will be an important enabler. So there are multiple technology pathways to address the issues in the power sector. The real issue is getting on with the job.

There's clearly a big role for policy in all these strategies, but how can the government help without trying to pick technology winners?

It's in principle fairly simple, although by observation apparently politically fairly difficult. First of all, a policy to incentivize lower carbon should do just that, and not pick the technology. Secondly, technology development and demonstration should be as technology-neutral as possible. Choices must be made when funding demonstration projects, but we need to be funding much more aggressively a portfolio of projects that push us in the low-carbon direction.

Is a cap-and-trade system, which many markets seem to be evolving toward, sufficiently neutral to achieve the goal of carbon reduction?

A cap-and-trade system is in principle neutral if it really is an economy-wide cap, eventually with auction of the emissions credits. If you design an efficient system for gathering the revenues and returning the revenue to the population – payroll tax reduction, income tax reduction, check per unit of population – GDP should not suffer in any appreciable way. However, different regions and industries get hit in very different ways, and that inevitably leads the political system to consider how to compensate for these impacts. It leads you away from carbon neutrality and from the most economically efficient system, but addresses the realities that any political system has to deal with.

Why is it that electricity demand has been rising so much faster than overall energy demand?

With electricity, there is enormous simplicity and cleanliness of use: You flip a switch and you get energy, and you don't have to do any fuel combustion locally. Electricity is also a very strong indicator of quality of life, so there is an enormous pressure toward modernization through the electrification of society. I'm not arguing that one should have total electrification, but I think there is a strong impetus and this underlies the fast growth. The U.S. National Academy of Engineering designated electrification as the greatest engineering achievement of the 20th century with good reason.

So if demand for electricity is set to continue rising strongly, is our infrastructure able to cope?

Clearly we have inadequate infrastructure for the future. In the U.S. we are essentially working with a 50-year-old system that has many shortcomings, but this is where I think a new generation of energy delivery technologies can make a difference. For example, long-distance, high-voltage DC grids level out the fluctuations caused by intermittent renewables, and information technology can be integrated with the grid at a much more sophisticated level. This will improve reliability and distribution efficiency. The technologies to accomplish this are fundamentally there. Sure, there are opportunities for additional research and development. But frankly, with technologies that we have in hand today and a dedicated program, we could have a dramatic transformation of the energy delivery system in a 10-year period. In the United States, the new administration has come in with this as a very high priority, and I do hope that there is a clear national commitment to just go out there and do it.

That brings us to another point. What impact do you think the economic slowdown will have on the energy infrastructure sector?

The recession has already reduced energy prices and demand. The question is, will those factors lead us to repeat our mistake of the 1980s and revert to business as usual, once again delaying the job at hand? I think we can avoid much of that this time, largely because the populations of the world, including the United States, have become much more sensitive to the climate challenge. Large stimulus packages are being put forward in the U.S., in Europe, China and India, and not surprisingly they are focused on near-term job preservation and job creation. In all of these countries, there is discussion of a substantial part of these packages being devoted to the growth and transformation of the energy infrastructure; and that's great. If done properly, that will be a good investment and support jobs as well as our energy, security and climate goals.

Finally, if you were to embark on a career in the energy sector today, what area would you choose to go into?

First of all, I would start out with a strong grounding in science and/or engineering. I believe this is a critical foundation for having impact on the system, and not just in a technology sense. Strong, technically grounded analyses at the intersection of energy technology and policy are a major opportunity to influence the system positively, and are an important focus of our MIT Energy Initiative.

ABB Group Executive Committee

From left to right:
Gary Steel, Head of Human Resources
Bernhard Jucker, Head of Power Products division
Veli-Matti Reinikkala, Head of Process Automation division
Anders Jonsson, Head of Robotics division
Joe Hogan, CEO
Peter Leupp, Head of Power Systems division
Michel Demaré, CFO and President of Global Markets
Ulrich Spiesshofer, Head of Corporate Development
Diane de Saint Victor, General Counsel, Head of Legal and Compliance
Tom Sjökvist, Head of Automation Products division

Regional and country managers

North America	Enrique Santacana
Canada	Sandy Taylor
Mexico	Armando Basave
Panama/El Salvador	Guillermo Rodriguez
United States	Enrique Santacana

South America	Sérgio Gomes
Argentina, Bolivia, Paraguay, Uruguay	Mauricio Rossi
Brazil	Sérgio Gomes
Chile	José Paiva
Colombia, Ecuador	Ramón Monrás
Peru	Enrique Rohde
Venezuela, Aruba (NL)	Daniel Galicia

Northern Europe	Sten Jakobsson
Azerbaijan	Celal Sendil
Baltic States	Bo Henriksson
Denmark	Claus Madsen
Finland	Mikko Niinivaara
Kazakhstan	Pawel Lojszczyk
Norway	Rune Finne
Russia	Anatolyi Popov
Sweden	Sten Jakobsson
United Kingdom, Ireland	Trevor Gregory

Central Europe	Peter Smits
Austria	Rudolf Petsche
Benelux	Alfons Goos
Czech Republic	Barbara Frei
Germany	Peter Smits
Hungary	Rikard Jonsson
Poland	Miroslaw Gryszka
Romania, Bulgaria	Peter Simon
Slovakia	Andrej Tóth
Slovenia	Matjaz Mancek
Switzerland	Jasmin Staiblin
Ukraine	Jaroslav Vesely

Mediterranean	Hanspeter Fässler
Algeria	Luigi Valfre
Croatia	Darko Eisenhuth
Greece	Apostolos Petropoulos
Israel	Ronen Aharon
Italy, France	Hanspeter Fässler
Morocco, Tunisia	Maroun Zakhour
Portugal	João Gomes
Serbia	Aleksandar Cosic
Spain	Carlos Marcos
Turkey	Burhan Gundem

Middle East and Africa	Frank Duggan
Angola	José Coelho
Botswana	Nikola Stojanovic
Cameroon, Senegal	Pierre Njigui
Egypt	Bassim Youssef
Iran	Masis Matian
Ivory Coast	Magloire Elogne
Jordan, Lebanon	Hisham Othman
Kenya, Ethiopia, Tanzania, Uganda	Martin De Grijp
Kuwait	Thomas Jivung
Namibia	Hagen Seiler
Nigeria	Anders Lundgren
Oman	Hans Edstrom
Qatar	Johan de Villiers
Saudi Arabia, Bahrain	Mahmoud Shaban
South Africa	Carlos Pone
UAE	Frank Duggan
Zambia	Russell Harawa
Zimbabwe	Charles Shamu

North Asia	Brice Koch
China, Hong Kong	Brice Koch
Japan	Tony Zeitoun
South Korea	Yun-Sok Han
Taiwan	Eric Kan

South Asia	BoonKiat Sim
Australia, Papua New Guinea	John Gaskell
India	Biplab Majumder
Indonesia	Hemant Sharma
Malaysia	BoonKiat Sim
Mauritius	Ajay Vij
New Zealand	Grant Gillard
Pakistan, Afghanistan	Farhat Ali
Philippines	Nitin Desai
Singapore	James Foo
Thailand	Chaiyot Piyawannarat
Vietnam	Gary Marler

Corporate governance
Contents

1. Principles

1.1 General principles

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

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

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

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

1.2 Duties of directors and officers

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

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

Exercise of powers

Directors, as well as other persons authorized to act on behalf of a Swiss corporation, may perform all legal acts on behalf of the corporation which the business purpose, as set forth in the articles of incorporation of the corporation, may entail. Pursuant to court practice, such directors and officers can take any action that is not explicitly excluded by the business purpose of the corporation. In so doing, however, the directors and officers must still pursue the duty of due care and the duty of loyalty described above and must extend equal treatment to the corporation's shareholders in like circumstances. ABB's Articles of Incorporation do not contain provisions concerning a director's power, in the absence of an independent quorum, to vote on the compensation to themselves or any members of their body.

Conflicts of interest

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

Confidentiality

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

Sanctions

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

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

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

2. Group structure and shareholders

2.1 Group structure

ABB Ltd, Switzerland, is the ultimate parent company of the ABB Group, which principally comprises 254 consolidated operating and holding subsidiaries worldwide. ABB Ltd's shares are listed on the SIX Swiss Exchange (traded on SWX Europe), the NASDAQ OMX Stockholm Exchange and the NYSE (where its shares are traded in the form of American depositary shares (ADS) – each ADS representing one registered ABB share). On December 31, 2008, ABB Ltd had a market capitalization of CHF 36.2 billion.

The only consolidated subsidiary in the ABB Group with listed shares is ABB Limited, Bangalore, India, which is listed on the Bombay Stock Exchange and the National Stock Exchange of India. On December 31, 2008, ABB Ltd, Switzerland, directly or indirectly owned 52.11 percent of ABB Limited, Bangalore, India, which at that time had a market capitalization of INR 96 billion.

Stock exchange listings

Stock exchange	Security	Ticker symbol	Security number	ISIN code
SIX Swiss Exchange (SWX Europe)	ABB Ltd, Zurich, share	ABBN	1222171	CH0012221716
NASDAQ OMX Stockholm Exchange	ABB Ltd, Zurich, share	ABB	–	CH0012221716
New York Stock Exchange	ABB Ltd, Zurich, ADS	ABB	000375204	US0003752047
Bombay Stock Exchange	ABB Limited, Bangalore, share	ABB	500002	INE117A01022
National Stock Exchange of India	ABB Limited, Bangalore, share	ABBEQ	–	INE117A01022

All data as of December 31, 2008.

The following table sets forth, as of December 31, 2008, the name, country of incorporation, ownership interest and share capital of the significant subsidiaries of ABB Ltd, Switzerland:

ABB Ltd's significant subsidiaries

Company name/location	Country	ABB interest %	Share capital in 1,000 number	Currency
ABB S.A., Buenos Aires	Argentina	100.00	10,510	ARS
ABB Australia Pty Limited, Sydney	Australia	100.00	122,436	AUD
ABB AG, Vienna	Austria	100.00	15,000	EUR
ABB N.V., Zaventem	Belgium	100.00	13,290	EUR
ABB Ltda., Osasco	Brazil	100.00	94,396	BRL
ABB Bulgaria EOOD, Sofia	Bulgaria	100.00	3,010	BGN
ABB Inc., St. Laurent, Quebec	Canada	100.00	301,957	CAD
ABB (China) Ltd., Beijing	China	100.00	120,000	USD
Asea Brown Boveri Ltda., Bogotá	Colombia	99.99	486,440	COP
ABB Ltd., Zagreb	Croatia	100.00	2,730	HRK
ABB s.r.o., Prague	Czech Republic	100.00	400,000	CZK
ABB A/S, Skovlunde	Denmark	100.00	100,000	DKK
ABB Ecuador S.A., Quito	Ecuador	96.87	315	USD
Asea Brown Boveri S.A.E., Cairo	Egypt	100.00	16,000	USD
ABB AS, Tallinn	Estonia	100.00	25,985	EEK
ABB Oy, Helsinki	Finland	100.00	10,003	EUR
ABB S.A., Rueil-Malmaison	France	100.00	38,921	EUR
ABB AG, Mannheim	Germany	100.00	167,500	EUR
ABB Automation GmbH, Mannheim	Germany	100.00	15,000	EUR
ABB Automation Products GmbH, Ladenburg	Germany	100.00	20,750	DEM
ABB Beteiligungs- und Verwaltungsges. mbH, Mannheim	Germany	100.00	120,000	DEM
ABB Stotz-Kontakt GmbH, Heidelberg	Germany	100.00	7,500	EUR
Busch-Jaeger Elektro GmbH, Mannheim/Lüdenscheid	Germany	100.00	3,000	DEM
Asea Brown Boveri S.A., Metamorphossis Attica	Greece	100.00	1,182	EUR

ABB Ltd's significant subsidiaries (continued)

Company name/location	Country	ABB interest %	Share capital in 1,000 number	Currency
ABB (Hong Kong) Ltd., Hong Kong	Hong Kong	100.00	20,000	HKD
ABB Engineering Trading and Service Ltd., Budapest	Hungary	100.00	444,090	HUF
ABB Limited, Bangalore	India	52.11	423,817	INR
ABB Ltd, Dublin	Ireland	100.00	635	EUR
ABB Technologies Ltd., Tirat Carmel	Israel	99.99	420	ILS
ABB S.p.A., Milan	Italy	100.00	107,000	EUR
ABB Technology SA, Abidjan	Ivory Coast	99.00	178,540	XOF
ABB K.K., Tokyo	Japan	100.00	1,000,000	JPY
ABB Ltd., Seoul	Korea, Republic Of	100.00	18,670,000	KRW
ABB Holdings Sdn. Bhd., Subang Jaya	Malaysia	100.00	4,490	MYR
Asea Brown Boveri S.A. de C.V., Tlalnepantla	Mexico	100.00	419,096	MXN
ABB BV, Rotterdam	Netherlands	100.00	9,076	EUR
ABB Finance B.V., Amsterdam	Netherlands	100.00	18	EUR
ABB Holdings BV, Amsterdam	Netherlands	100.00	119	EUR
ABB Limited, Auckland	New Zealand	100.00	34,000	NZD
ABB Holding AS, Billingstad	Norway	100.00	800,000	NOK
ABB S.A., Lima	Peru	80.60	35,469	PEN
ABB, Inc., Paranaque, Metro Manila	Philippines	100.00	123,180	PHP
ABB Sp. zo.o., Warsaw	Poland	99.88	260,644	PLN
ABB (Asea Brown Boveri), S.A., Paco de Arcos	Portugal	100.00	4,117	EUR
Asea Brown Boveri Ltd., Moscow	Russian Federation	100.00	332	USD
ABB Contracting Company Ltd., Riyadh	Saudi Arabia	65.00	40,000	SAR
ABB Holdings Pte. Ltd., Singapore	Singapore	100.00	25,597	SGD
ABB Holdings (Pty) Ltd., Sunninghill	South Africa	80.00	4,050	ZAR
Asea Brown Boveri S.A., Madrid	Spain	100.00	33,318	EUR
ABB AB, Västerås	Sweden	100.00	400,000	SEK
ABB Norden Holding AB, Västerås	Sweden	100.00	2,344,783	SEK
ABB Asea Brown Boveri Ltd, Zurich	Switzerland	100.00	2,768,000	CHF
ABB Schweiz AG, Baden	Switzerland	100.00	55,000	CHF
ABB LIMITED, Bangkok	Thailand	100.00	1,034,000	THB
ABB Holding A.S., Istanbul	Turkey	99.95	12,844	USD
ABB Ltd., Kiev	Ukraine	100.00	5,860	USD
ABB Holdings Limited, Warrington	United Kingdom	100.00	203,014	GBP
ABB Limited, Warrington	United Kingdom	100.00	140,000	GBP
ABB Holdings Inc., Norwalk, CT	United States	100.00	2	USD
ABB Inc., Norwalk, CT	United States	100.00	1	USD
Asea Brown Boveri S.A., Caracas	Venezuela	100.00	30,910	VEF

ABB's operational group structure is described in the "Financial review" part of this Annual Report.

2.2 Significant shareholders

Investor AB, Sweden, held 166,330,142 ABB shares as of December 31, 2008, representing approximately 7.2 percent of ABB's total share capital and voting rights as registered in the Commercial Register on that date. The number of shares held by Investor AB does not include shares held by Mr. Jacob Wallenberg, the chairman of Investor AB, in his individual capacity.

To the best of ABB's knowledge, no other shareholder held 3 percent or more of ABB's total share capital and voting rights as registered in the Commercial Register on December 31, 2008.

Under ABB's Articles of Incorporation, each registered share represents one vote. Significant shareholders do not have different voting rights.

To our knowledge, we are not directly or indirectly owned or controlled by any government or by any other corporation or person.

3. Capital structure

3.1 Ordinary share capital

On December 31, 2008, ABB's ordinary share capital (including treasury shares) as registered with the Commercial Register amounted to CHF 4,692,041,526.70, divided into 2,322,792,835 fully paid registered shares with a par value of CHF 2.02 per share.

3.2 Changes to the share capital

In 2008, ABB issued 6,777,733 shares out of its contingent capital in connection with ABB's Management Incentive Plan (MIP). For further details about the MIP see section 8.3. The resulting share capital of CHF 4,692,041,526.70, divided into 2,322,792,835 fully paid registered shares, was reflected in ABB's Articles of Incorporation dated as of November 24, 2008.

In 2008, ABB paid its dividend relating to the year 2007 by way of nominal value reduction in the par value of its shares from CHF 2.50 to CHF 2.02. Corresponding adjustments were made to the par value of ABB's contingent and authorized shares. The resulting share capital of CHF 4,678,350,506.04, divided into 2,316,015,102 fully paid registered shares, was reflected in ABB's Articles of Incorporation dated as of May 8, 2008.

In 2007, ABB issued 23,327,183 shares out of its contingent capital in connection with ABB's Employee Share Acquisition Plan (ESAP) and MIP. For further details about the ESAP see section 8.2. In 2007, ABB also issued 104,931,602 shares out of its contingent capital to holders of its then outstanding Swiss-franc convertible bonds. The resulting share capital of CHF 5,790,037,755, divided into 2,316,015,102 fully paid registered shares, was reflected in ABB's Articles of Incorporation dated as of January 10, 2008.

In 2006, ABB issued 5,746,614 shares out of its contingent capital in connection with the ESAP. The resulting share capital of CHF 5,469,390,792.50, divided into 2,187,756,317 shares, was reflected in ABB's Articles of Incorporation dated as of December 15, 2006.

In 2006, ABB also issued 105,068,206 shares out of its contingent apital to holders of its then outstanding U.S.-dollar convertible bonds. The resulting share capital of CHF 5,455,024,257.50, divided into 2,182,009,703 shares, was reflected in ABB's Articles of Incorporation dated as of June 26, 2006.

Except as described in this section 3.2, there were no changes to ABB's share capital during 2008, 2007 and 2006.

3.3 Contingent share capital

As at December 31, 2008, ABB's share capital may be increased by an amount not to exceed CHF 404,000,000 through the issuance of up to 200,000,000 fully paid registered shares with a par value of CHF 2.02 per share through the exercise of conversion rights and/or warrants granted in connection with the issuance on national or international capital markets of newly or already issued bonds or other financial market instruments.

As at December 31, 2008, ABB's share capital may be increased by an amount not to exceed CHF 20,200,000 through the issuance of up to 10,000,000 fully paid registered shares with a par value of CHF 2.02 per share through the exercise of warrant rights granted to its shareholders. The Board may grant warrant rights not taken up by shareholders for other purposes in the interest of ABB.

The pre-emptive rights of the shareholders are excluded in connection with the issuance of convertible or warrant-bearing bonds or other financial market instruments or warrant rights. The then current owners of warrants will be entitled to subscribe for new shares. The conditions of the conversion rights and/or warrants will be determined by the Board.

The acquisition of shares through the exercise of warrants and each subsequent transfer of the shares will be subject to the restrictions of ABB's Articles of Incorporation (see section 4.2).

In connection with the issuance of convertible or warrant-bearing bonds or other financial market instruments, the Board is authorized to restrict or deny the advance subscription rights of shareholders if such bonds or other financial market instruments are for the purpose of financing or refinancing the acquisition of an enterprise, parts of an enterprise, participations or new investments or an issuance on national or international capital markets. If the Board denies advance subscription rights, the convertible or warrant-bearing bonds or other financial market instruments will be issued at the relevant market conditions and the new shares will be issued pursuant to the relevant market conditions taking into account the share price and/or other comparable instruments having a market price. Conversion rights may be exercised during a maximum ten year period, and warrants may be exercised during a maximum seven year period, in each case from the date of the respective issuance. The advance subscription rights of the shareholders may be granted indirectly.

In addition as at December 31, 2008, ABB's share capital may be increased by an amount not to exceed CHF 75,794,278.40 through the issuance of up to 37,521,920 fully paid shares with a par value of CHF 2.02 per share to employees. The pre-emptive and advance subscription rights of ABB's shareholders are excluded. The shares or rights to subscribe for shares will be issued to employees pursuant to one or more regulations to be issued by the Board, taking into account performance, functions, level of responsibility and profitability criteria. ABB may issue shares or subscription rights to employees at a price lower than that quoted on a stock exchange. The acquisition of shares within the context of employee share ownership and each subsequent transfer of the shares will be subject to the restrictions of ABB's Articles of Incorporation (see section 4.2).

3.4 Authorized share capital

As at December 31, 2008, ABB had an authorized share capital in the amount of up to CHF 404,000,000 through the issuance of up to 200,000,000 fully paid registered shares with a par value of CHF 2.02 each, which is valid until May 3, 2009. The Board is authorized to determine the date of issue of new shares, the issue price, the type of payment, the conditions for the exercise of pre-emptive rights and the beginning date for dividend entitlement. The Board may permit pre-emptive rights that have not been exercised by shareholders to expire or it may place these rights and/or shares as to which pre-emptive rights have been granted but not exercised at market conditions or use them for other purposes in the interest of the company. Furthermore, the Board is authorized to restrict or deny the pre-emptive rights of shareholders and allocate such rights to third parties if the shares are used (1) for the acquisition of an enterprise, parts of an enterprise, or participations, or for new investments, or in case of a share placement, for the financing or refinancing of such transactions; or (2) for the purpose of broadening the shareholder constituency in connection with a listing of shares on domestic or foreign stock exchanges.

In February 2009, ABB's board of directors decided to recommend that shareholders approve new authorized share capital in the amount of 200 million shares at ABB's annual general meeting in May 2009 to replace the authorized share capital that will expire on May 3, 2009.

The subscription and acquisition of the new shares, as well as each subsequent transfer of the shares, will be subject to the restrictions of ABB's Articles of Incorporation (see section 4.2).

3.5 Convertible bonds and warrants

For information about convertible bonds and warrants on shares issued by ABB, please refer to notes 12 and 19 to ABB's consolidated financial statements contained in the "Financial review" part of this Annual Report.

4. Shareholders' participation

4.1 Shareholders' voting rights

ABB has one class of shares and each registered share carries one vote at the general meeting. Voting rights may be exercised only after a shareholder has been registered in the share register of ABB as a shareholder with the right to vote, or with VPC AB in Sweden, which maintains a subregister of the share register of ABB.

A shareholder may be represented at the annual general meeting by another shareholder with the right to vote, its legal representative, a corporate body (Organvertreter), an independent proxy (unabhängiger Stimmrechtsvertreter) or a depositary (Depotvertreter). All shares held by one shareholder may be represented by one representative only.

For practical reasons shareholders must be registered in the share register no later than 10 days before the general meeting in order to be entitled to vote. Except for the cases described under section 4.2, there are no voting rights restrictions limiting ABB's shareholders' rights.

4.2 Limitations on transferability of shares and nominee registration

ABB may decline a registration with voting rights if a shareholder does not declare that it has acquired the shares in its own name and for its own account. If the shareholder refuses to make such declaration, it will be registered as a shareholder without voting rights.

A person failing to expressly declare in its registration application that it holds the shares for its own account (a nominee), will be entered in the share register with voting rights, provided that such nominee has entered into an agreement with the Board concerning its status, and further provided that the nominee is subject to recognized bank or financial market supervision. In special cases the Board may grant exemptions. There were no exemptions granted in 2008.

4.3 Shareholders' dividend rights

ABB Ltd may pay out a dividend only if it has been proposed by a shareholder or the Board and approved at a general meeting of shareholders, and the auditors confirm that the dividend conforms to statutory law and ABB's Articles of Incorporation. Dividends are usually due and payable in Swiss francs no earlier than three trading days after the approving shareholders' resolution.

ABB has established a dividend access facility for its shareholders who are residents of Sweden for tax purposes. If such shareholders have registered their shares with VPC AB in Sweden, then they may elect to receive the dividend in Swedish kronor from ABB Norden Holding AB without deduction of Swiss withholding tax. For further information on the dividend access facility, please refer to ABB's Articles of Incorporation, a copy of which can be found in the corporate governance section at: www.abb.com/investorrelations

4.4 General meeting

Shareholders' resolutions at general meetings are approved with an absolute majority of the votes represented at the meeting, except for those matters described in article 704 of the Swiss Code of Obligations and for resolutions with respect to restrictions on the exercise of the right to vote and the removal of such restrictions, which all require the approval of two-thirds of the votes represented at the meeting.

Shareholders representing shares of a par value of at least CHF 808,000 may request items to be included in the agenda of a general meeting. Any such request must be made in writing at least 40 days prior to the date of the general meeting and specify the items and the motions of such shareholder(s). ABB's Articles of Incorporation do not contain provisions on the convocation of the general meeting of shareholders that differ from the applicable legal provisions.

5. Board of Directors

5.1 Responsibilities and organization

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

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

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

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

5.2 Term and members

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

As at December 31, 2008, all Board members were non-executive and independent directors (see also section 5.3).

As at December 31, 2008, the members of the Board (Board term May 2008 to May 2009) were:

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

Roger Agnelli has been a member of ABB's Board of Directors since March 12, 2002. He is the president and chief executive officer of Companhia Vale do Rio Doce (Brazil). Mr. Agnelli was born in 1959 and is a Brazilian citizen.

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

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

Michel de Rosen has been a member of ABB's Board of Directors since March 12, 2002. He is the chief executive officer of Groupe SGD (France) and the former chairman of ViroPharma (U.S.). Mr. de Rosen was born in 1951 and is a French citizen.

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

Bernd W. Voss has been a member of ABB's Board of Directors since March 12, 2002. He is a member of the supervisory board of Dresdner Bank AG (Germany). He is also a member of the boards of directors of Continental AG, Hapag-Lloyd, and Wacker Chemie (all Germany). Mr. Voss was born in 1939 and is a German citizen.

Jacob Wallenberg has been a member of ABB's Board of Directors since June 26, 1999. From March 1999 to June 1999, he served as a member of the board of directors of ABB Asea Brown Boveri Ltd, the former parent company of the ABB Group. He is the chairman of the board of directors of Investor AB (Sweden). He is vice chairman of SEB Skandinaviska Enskilda Banken, Atlas Copco AB and SAS AB (all Sweden). He is also a member of the boards of directors of the Knut and Alice Wallenberg Foundation, the Nobel Foundation and the Stockholm School of Economics (all Sweden), and The Coca-Cola Company (U.S.). Mr. Wallenberg was born in 1956 and is a Swedish citizen.

As of December 31, 2008, none of ABB's Board members held any official functions or political posts. Further information on ABB's Board members can be found in the corporate governance section at: www.abb.com/investorrelations

5.3 Business relationships

This section describes important business relationships between ABB and its Board members, or companies and organizations represented by them. This determination has been made based on ABB Ltd's Related Party Transaction Policy.

Companhia Vale do Rio Doce and its subsidiaries (Vale) and ABB have entered into a framework agreement establishing general terms and conditions for the supply of products, systems and services among their respective group subsidiaries. ABB supplies Vale primarily with process automation products for mineral systems. The total revenues recorded by ABB in 2008 relating to its contracts with Vale were approximately $110 million. Roger Agnelli is president and CEO of Vale.

In 2008, ABB recorded revenues of approximately $50 million from Atlas Copco AB and its subsidiaries (Atlas Copco), primarily for automation products such as motors and drives. Jacob Wallenberg is the vice chairman of Atlas Copco.

During 2008, ABB recorded approximately $125 million of revenues from Sulzer AG (Sulzer), primarily for various automation products. Louis R. Hughes is a member of Sulzer's board of directors.

On July 4, 2005, ABB entered into an unsecured syndicated $2-billion, five-year revolving credit facility, which became available in July 2005 and which was amended and restated on June 27, 2007. As of December 31, 2008, SEB Skandinaviska Enskilda Banken AB (publ) (SEB) has committed to $120 million out of the $2-billion total and Dresdner Bank AG (Dresdner) has committed to $105 million out of the $2-billion total. Jacob Wallenberg is the vice chairman of SEB and Bernd W. Voss is a member of Dresdner's supervisory board.

In 2003, ABB entered into a 10-year agreement with IBM, pursuant to which IBM took over the operation and support of ABB's information systems infrastructure. The total value of the infrastructure and related operational services to be provided under this agreement is expected to approach $1.7 billion. Hans Ulrich Märki is the retired chairman of IBM Europe, Middle East and Africa.

After comparing the revenues generated from ABB's business with Vale, Atlas Copco, Sulzer, SEB, and Dresdner to the total annual revenues of ABB and of those companies, and after reviewing the infrastructure and operational services arrangement with IBM and the banking commitments of SEB and Dresdner, the Board has determined that ABB's business relationships with those companies do not constitute material business relationships and that all members of the Board are considered to be independent directors. This determination was made in accordance with ABB Ltd's Related Party Transaction Policy which was prepared based on the Swiss Code of Best Practice for Corporate Governance and the independence criteria set forth in the corporate governance rules of the New York Stock Exchange.

5.4 Board committees

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

5.4.1 Governance, Nomination and Compensation Committee

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

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

As at December 31, 2008, the members of the GNCC were:
Hans Ulrich Märki (chairman)
Michel de Rosen
Roger Agnelli

5.4.2 Finance, Audit and Compliance Committee

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

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

As at December 31, 2008, the members of the FACC were:
Bernd W. Voss (chairman)
Jacob Wallenberg
Louis R. Hughes

5.5 Meetings and attendance

The table below shows the number of meetings held during 2008 by the Board and its committees, their average duration, as well as the attendance of the individual Board members. In addition, members of the Board and the Group Executive Committee participated in a two-day strategic retreat.

5.6 Secretary to the Board

Diane de Saint Victor is the secretary to the Board.

6. Group Executive Committee

6.1 Responsibilities and organization

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

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

6.2 Members of the Group Executive Committee

As at December 31, 2008, the members of the Group Executive Committee were:

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

Michel Demaré joined ABB as Chief Financial Officer in January 2005, and was appointed interim CEO in addition to his duties as CFO from February to August 2008. In October 2008, Mr. Demaré also assumed responsibility as Head of Global Markets. From 2002 to 2004 Mr. Demaré was vice president and chief financial officer of Baxter Europe. From 1984 to 2002, he held various positions within Dow Chemical (U.S.). Mr. Demaré was born in 1956 and is a Belgian citizen.

Ulrich Spiesshofer joined ABB as Head of Corporate Development in November 2005. From 2002 until he joined ABB, he was senior partner, global head of operations practice at Roland Berger AG. Prior to 2002, he held various positions with A.T. Kearney Inc. and its affiliates. Mr. Spiesshofer was born in 1964 and is a German citizen.

Meetings and attendance

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

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

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

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

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

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

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

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

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

6.3 Management contracts

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

7. Compensation

7.1 Principles and details of Board compensation

The compensation levels of members of the Board are as follows:

Amounts in CHF	Board term 2008–2009	Board term 2007–2008
Chairman	1,200,000	1,200,000
Member of the Board and Committee chairman	400,000	400,000
Member of the Board	300,000	300,000

Board compensation is payable in semi-annual installments in arrear. The first payment is made in November for the period of Board membership from election at the annual general meeting to October of that year. The second payment is made in May of the following year for the period of Board membership from November to the end of that Board term.

Board members elect to receive either 50 percent or 100 percent of their compensation in ABB shares. The reference price for the shares to be delivered (and hence the calculation of the number of shares to be delivered) is the average closing price of the ABB share during a defined 30-day period, which is different for each installment. The ABB shares are kept in a blocked account for three years after the date of original delivery and may only be disposed of earlier if the respective person shall have left the Board and shall not have agreed otherwise to the shares remaining blocked for the original three-year period. In addition, all shares that were in the blocked account at the beginning of May 2007 will remain blocked until May 2010 and may be disposed of earlier only if the respective Board member shall have left the Board before 2010 and shall not have agreed otherwise to the shares remaining blocked until 2010.

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

		Paid in 2008					Paid in 2007		
		November Board term 2008/2009		May Board term 2007/2008			November Board term 2007/2008		
Name	Function	Settled in cash[1] (CHF)	Settled in shares – number of shares received[2]	Settled in cash[1] (CHF)	Settled in shares – number of shares received[2]	Compensation paid 2008 Total[3] (CHF)	Settled in cash[1] (CHF)	Settled in shares – number of shares received[2]	Compensation paid 2007 Total[4] (CHF)
Hubertus von Grünberg	Chairman of the Board	300,000	10,139	300,000	7,919	1,200,000	300,000	6,779	600,000
Roger Agnelli[5]	Member of the Board	75,000	2,514	75,000	1,968	300,000	75,000	1,677	150,000
Louis R. Hughes[6]	Member of the Board	75,000	2,514	75,000	1,968	300,000	75,000	1,677	150,000
Hans Ulrich Märki	Member of the Board and Chairman of the Governance, Nomination and Compensation Committee	–	9,204	–	7,199	400,000	–	6,149	200,000
Michel de Rosen[5]	Member of the Board	75,000	2,514	75,000	1,968	300,000	75,000	1,677	150,000
Michael Treschow	Member of the Board	75,000	2,543	75,000	1,971	300,000	75,000	1,677	150,000
Bernd W. Voss	Member of the Board and Chairman of the Finance, Audit and Compliance Committee	100,000	3,387	100,000	2,644	400,000	100,000	2,273	200,000
Jacob Wallenberg[6]	Member of the Board	75,000	2,514	–	3,936	300,000	–	3,354	150,000
Total		**775,000**	**35,329**	**700,000**	**29,573**	**3,500,000**	**700,000**	**25,263**	**1,750,000**

(1) Represents gross amounts paid, prior to deductions for social security, withholding tax etc.
(2) Number of shares per Board member is calculated based on net amount due after deductions for social security, withholding tax etc.
(3) In addition to the board remuneration stated in the above table the Company paid in 2008 CHF 223,267 in employee social security payments. For the 2008–2009 Board term, all members have elected to receive 50 percent of their gross compensation in the form of ABB shares, except for Hans Ulrich Märki who elected to receive 100 percent.
(4) Effective as of 2007 Board compensation became payable in semi-annual installments in arrears and therefore there was only one payment in 2007. For the 2007–2008 Board term, all members elected to receive 50 percent of their gross compensation in the form of ABB shares, except for Hans Ulrich Märki and Jacob Wallenberg who elected to receive 100 percent.
(5) Member of the Governance, Nomination and Compensation Committee.
(6) Member of the Finance, Audit and Compliance Committee.

Board members do not receive pension benefits and are not eligible to participate in any of our employee incentive programs.

7.2 Principles of Group Executive Committee compensation

The GNCC has structured the compensation for the members of the Group Executive Committee into three principal components (1) an annual base salary, (2) a short-term incentive and (3) a long-term incentive. In deciding the level of these components for each of the Group Executive Committee members, the GNCC reviews the components against pan-European benchmarks, and in the case of Veli-Matti Reinikkala, against U.S. top executive benchmarks provided by the Hay Group.

Short-term incentives for members of the Group Executive Committee are their annual bonuses. To align the performance expectations of these members with the development of ABB, these bonuses depend at least 50 percent on ABB's business performance during the preceding financial year. Resulting bonuses are paid in March each year after full-year results are announced. The CEO has a maximum bonus opportunity of 150 percent of his base salary. All other current Group Executive Committee members have a maximum bonus opportunity of 100 percent of their base salary.

ABB aligns the performance of the members of the Group Executive Committee with that of ABB on a longer-term basis by offering them the opportunity to participate in the Long-Term Incentive Plan (LTIP). For further details about the LTIP see section 8.4. Some members of the Group Executive Committee participated in earlier launches of the MIP and those who did so, were not eligible to participate in an LTIP launch for the same period.

Members of the Group Executive Committee also receive pension benefits. For 2008 all members were insured in Switzerland in the ABB Pension Fund, the ABB Supplementary Insurance Plan, the Tödi Plan and the Tödi Foundation – TEDC Plan (the regulations are available under www.abbvorsorge.ch), with the exception of Veli-Matti Reinikkala, who was insured under comparable plans in Finland for the first half of the year and then in comparable plans in the U.S. The members receive pension contributions from ABB in accordance with the terms of their pension plans.

Group Executive Committee members receive customary additional benefits such as a company car, and accident, life, unemployment, social and health insurance compensation. In some cases, members receive contributions to children's education. Members are also eligible to participate in the ESAP.

7.3 Details of Group Executive Committee compensation

On September 1, 2008, Joe Hogan joined ABB as Chief Executive Officer. His base salary for 2008 was CHF 1.9 million pro-rated for the four months he was employed. In connection with his joining ABB, he received (1) a sign-on bonus in the amount of CHF 3,000,000 and (2) sign-on grants of ABB shares with a value of CHF 10 million (based on the average ABB share price in the 20 trading days preceding his start date) – 50 percent to vest in 3 years and 50 percent to vest in 5 years from the date he commenced employment with ABB provided he does not elect to leave ABB before those dates and that he is not terminated for cause prior to those dates. These sign-on amounts were to compensate him for certain forfeited benefits from his previous employer. Mr. Hogan, like other members of the Group Executive Committee, also received conditional grants under the 2008 launch of ABB's Long-Term Incentive Plan as well as the right to participate in the co-investment portion of that plan. In addition, he received customary additional benefits including pension contributions, relocation compensation, car, schooling for children, health insurance and other miscellaneous benefits. In 2009, he will be entitled to receive an annual bonus up to 150 percent of his pro-rated base salary in 2008. His compensation, together with the compensation of the other members of the Group Executive Committee, is detailed further in the remainder of this section 7.3.

The total compensation of each member of the Group Executive Committee is displayed in two parts: (1) total salary and non share-based compensation and (2) total share-based compensation. The total salary and non share-based compensation includes base salary, bonuses, pension contributions and certain other items as described more fully in the salary and non share-compensation table later in this section. The total share-based compensation includes all share-related grants to individuals. The valuation is based on the market price of the ABB Ltd share at the time of grant and for the LTIP grants assumes 100 percent vesting, although less than 100 percent may actually vest. Share-based compensation is described more fully in the share-based compensation table later in this section. The total compensation includes only compensation received by an individual in connection with his or her role as a member of the Group Executive Committee. The total compensation of members of the Group Executive Committee in 2008 is summarized in the first table. The second table shows the gross payments (ie, compensation before deduction of employees social insurance and pension contributions) that were made to, or on behalf of, the members of the Group Executive Committee in 2008. The third table shows the share-based compensation granted to members of the Group Executive Committee during 2008; the vesting dates of the respective awards are listed in the footnotes to the table.

Name	Function	Total salary and other non share-based compensation 2008	Total share-based compensation[1] 2008	Total 2008
		(CHF)	(CHF)	(CHF)
Joe Hogan[2]	Chief Executive Officer	4,119,134	15,084,279	19,203,413
Michel Demaré	Chief Financial Officer	3,330,059	3,963,209	7,293,268
Gary Steel	Human Resources responsible	2,352,667	2,082,413	4,435,080
Ulrich Spiesshofer	Corporate Development responsible	2,077,822	1,978,285	4,056,107
Diane de Saint Victor	General Counsel	1,903,921	1,973,985	3,877,906
Bernhard Jucker	Power Products Division responsible	2,077,401	2,469,149	4,546,550
Peter Leupp	Power Systems Division responsible	1,980,773	2,081,199	4,061,972
Tom Sjökvist	Automation Products Division responsible	1,974,501	1,906,201	3,880,702
Veli-Matti Reinikkala	Process Automation Division responsible	1,863,471	1,765,876	3,629,347
Anders Jonsson	Robotics Division responsible	1,458,202	1,652,547	3,110,749
Total current executive committee members		**23,137,951**	**34,957,143**	**58,095,094**
Fred Kindle	President & Chief Executive Officer until February 13, 2008	8,660,961	–	8,660,961
Ravi Uppal	President Global Markets from July 1, 2007 to October 31, 2008	4,264,595	1,936,379	6,200,974
Total former executive committee members		**12,925,556**	**1,936,379**	**14,861,935**
Total		**36,063,507**	**36,893,522**	**72,957,029**

[1] The total share-based compensation amounts have been calculated using the market value of the ABB share on the day of grant and assume 100 percent vesting, although less than 100 percent may actually vest.
[2] Joe Hogan's total compensation for 2008 includes CHF 13 million of sign-on bonuses to compensate him for certain forfeited benefits from his previous employer.

Name	Base salary	Bonus[1]	Additional compen-sation	Employer's pension contri-butions	Costs of company car leasing	Costs of health insurance	Costs of children's education	Employer's social security payments	Total 2008
	(CHF)	(CHF)	(CHF)	(CHF)	(CHF)	(CHF)	(CHF)	(CHF)	(CHF)
Joe Hogan[2]	633,335	–	3,150,000	85,055	2,666	3,153	4,500	240,425	4,119,134
Michel Demaré[3]	1,190,043	832,832	325,706	242,710	26,575	8,644	31,320	672,229	3,330,059
Gary Steel	765,004	685,462	706	257,484	26,574	9,622	27,000	580,815	2,352,667
Ulrich Spiesshofer	723,337	659,640	706	210,850	28,460	7,820	–	447,009	2,077,822
Diane de Saint Victor[4]	725,005	649,250	4,900	232,079	–	8,632	–	284,055	1,903,921
Bernhard Jucker	904,999	773,145	706	252,640	29,963	8,412	–	107,536	2,077,401
Peter Leupp[5]	758,338	682,500	73,706	262,232	27,278	9,622	–	167,097	1,980,773
Tom Sjökvist[6]	761,672	702,000	96,466	275,866	29,368	9,031	–	100,098	1,974,501
Veli-Matti Reinikkala[7]	702,123	582,337	77,929	419,312	25,488	9,458	–	46,824	1,863,471
Anders Jonsson	608,333	493,350	706	248,210	27,080	9,224	–	71,299	1,458,202
Total current executive committee members	**7,772,189**	**6,060,516**	**3,731,531**	**2,486,438**	**223,452**	**83,618**	**62,820**	**2,717,387**	**23,137,951**
Fred Kindle[8]	2,325,250	2,480,426	1,483,022	185,088	34,881	6,281	–	2,146,013	8,660,961
Ravi Uppal[9]	1,211,669	1,317,119	1,172,020	213,203	25,496	8,064	–	317,024	4,264,595
Total former executive committee members	**3,536,919**	**3,797,545**	**2,655,042**	**398,291**	**60,377**	**14,345**	**0**	**2,463,037**	**12,925,556**
Total	**11,309,108**	**9,858,061**	**6,386,573**	**2,884,729**	**283,829**	**97,963**	**62,820**	**5,180,424**	**36,063,507**

(1) The table above provides compensation amounts with respect to 2008 on a cash basis. Consequently, the table shows bonuses relating to 2007, paid in 2008, except for Fred Kindle who received a proportional bonus for the period January to September 2008. The CEO has a maximum bonus opportunity of 150 percent of his base salary. All other executive committee members have a maximum bonus opportunity of 100 percent of their base salary, except Michel Demaré who, for the time served as interim CEO, had a maximum bonus opportunity of 150 percent of his base salary. Total accrued bonus payments at December 31, 2008, amounted to CHF 9,052,622, including CHF 1,632,825 representing a one-off cash award conditional upon certain perfomance criteria. Bonus payments will be made in March 2009, after the financial results are published.

(2) Additional compensation for Joe Hogan includes a CHF 3,000,000 sign-on bonus and CHF 150,000 as compensation for relocation expenses.

(3) The base salary of Michel Demaré includes an additional amount of CHF 178,375 for the period he was interim CEO. His additional compensation figure includes a one-time cash payment of CHF 325,000.

(4) Additonal compensation for Diane de Saint Victor includes CHF 4,900 for annual train transportation in lieu of receiving a company car.

(5) Peter Leupp received a cash payment of CHF 73,000 to cover expenses incurred as a result of his relocation to Switzerland, which are included in additional compensation above.

(6) Tom Sjökvist received CHF 95,760 cash compensation for foregone pension benefits as a result of him continuing to work for the Company after the age of 60, included in additional compensation above.

(7) Veli-Matti Reinikkala received 50 percent of his base salary in USD and 50 percent in EUR at a fixed exchange rate. The USD expense related to the salary was converted into Swiss francs using a rate of 1.062 per U.S. dollar. For the period January to June 2008 the employer's pension contributions and social security payments for Veli-Matti Reinikkala were paid in EUR and converted in the table above into Swiss francs at a rate of 1.607 per EUR. Since July 2008 such payments have been paid in USD and converted into Swiss francs at a rate of 1.062. His additional compensation includes a cash reimbursement of CHF 71,026 for taxes incurred on benefits and CHF 6,903 for financial counseling. His employer's pension contributions include a one-time pension contribution of CHF 216,837 related to pension obligations for 2006 and 2007.

(8) In February 2008, Fred Kindle left the Company. He received payment of salary, bonus and other benefits for the period up to February 28, 2009 (including pension contributions and the payout of unused vacation days) amounting to a total of CHF 8,660,961. This amount included a final payment of CHF 1,483,022.

(9) Ravi Uppal left the Company on October 31, 2008. He received payment of salary, bonus and other benefits for the period up to August 31, 2009, totalling CHF 4,264,595. His base salary includes an amount of CHF 608,333 covering his notice period up to August 31, 2009. His bonus includes CHF 329,490 for the year 2007 and CHF 987,630 for the period January 1, 2008, until August 31, 2009. His additional compensation includes a one-time payment of CHF 1,169,000 in settlement of all contractual obligations of the Company.

Name	Number of conditionally granted shares under the performance component of the 2008 launch of LTIP[1]	Number of conditionally granted shares under the co-investment component of the 2008 launch of LTIP[1]	Total fair value LTIP 2008[2]	Number of shares granted in respect of sign-on bonus[3]	Fair value of shares in respect of sign-on bonus[2]	Number of shares granted in respect of special bonus[4]	Fair value of shares in respect of special bonus[2]	Total fair value of share-based awards granted in 2008
			(CHF)		(CHF)		(CHF)	(CHF)
Joe Hogan	145,039	26,923	4,704,880	379,364	10,379,399	–	–	15,084,279
Michel Demaré	71,880	10,490	2,703,383	–	–	44,643	1,259,825	3,963,209
Gary Steel	29,390	8,634	1,247,948	–	–	29,570	834,465	2,082,413
Ulrich Spiesshofer	27,863	8,309	1,187,165	–	–	28,034	791,119	1,978,285
Diane de Saint Victor	27,863	8,178	1,182,866	–	–	28,034	791,119	1,973,985
Bernhard Jucker	35,115	9,739	1,472,108	–	–	35,331	997,041	2,469,149
Peter Leupp	29,390	8,597	1,246,733	–	–	29,570	834,465	2,081,199
Tom Sjökvist	29,390	8,842	1,254,774	–	–	29,570	651,427	1,906,201
Veli-Matti Reinikkala	23,902	6,866	1,009,806	–	–	26,792	756,070	1,765,876
Anders Jonsson	23,665	6,214	980,629	–	–	23,810	671,918	1,652,547
Total current executive committee members	**443,497**	**102,792**	**16,990,292**	**379,364**	**10,379,399**	**275,354**	**7,587,452**	**34,957,143**
Fred Kindle[5]	–	–	–	–	–	–	–	–
Ravi Uppal[6]	27,863	6,800	1,137,640	–	–	28,304	798,739	1,936,379
Total former executive committee members	**27,863**	**6,800**	**1,137,640**	**0**	**0**	**28,304**	**798,739**	**1,936,379**
Total	**471,360**	**109,592**	**18,127,932**	**379,364**	**10,379,399**	**303,658**	**8,386,190**	**36,893,522**

[1] Vesting date March 15, 2011.
[2] Fair value represents market value of the shares as per grant date of the respective award.
[3] 189,682 shares vest on each of September 1, 2011 and September 1, 2013.
[4] Vesting date March 1, 2010, except for Tom Sjökvist for whom 14,785 shares vest on each of March 1, 2009 and March 1, 2010.
[5] Fred Kindle left the company in February 2008 and therefore was not granted any awards. Upon leaving the company he received 547,309 ABB shares, which had been granted on previous launches.
[6] Ravi Uppal left the Company on October 31, 2008. He received a pro rata allocation of 3,306 shares related to the co-investment component of LTIP 2008 and 21,026 shares related to the special bonus share grant 2008.

In addition to the above awards, seven members of the Group Executive Committee (as well as the spouse of one of the members who is an employee in one of the Company's subsidiaries) participated in the fifth launch of ESAP, which allows them to save over a 12-month period and, in November 2009, use their savings to acquire up to a maximum number of 650 or 700 shares (depending on the savings currency) at an exercise price of CHF 15.30 or USD 12.98 (depending on the savings currency).

For comparative information about compensation for Group Executive Committee members in 2007, see Note 13 to the ABB Ltd statutory financial statements.

7.4 Additional fees and remuneration

Other than as disclosed herein, in 2008 and in 2007, ABB did not pay any additional fees or remuneration to the members of the Board or the Group Executive Committee for services rendered to ABB. Also, in 2008 ABB did not pay any additional fees or remuneration, other than on market terms, to persons closely linked to a member of the Board or the Group Executive Committee for services rendered to ABB. "Persons closely linked" is understood to mean: (1) an individual's spouse, (2) an individual's children below the age of 18, (3) any persons living in the same household as an individual for at least 12 months, (4) any legal entities that are under the control of an individual or any of the persons mentioned under (1) to (3) above, and (5) any legal or natural person acting as an individual's fiduciary or the fiduciary of any of the persons mentioned under (1) to (4) above.

7.5 Loans and guarantees granted to members of the Board or Group Executive Committee

In 2008 and in 2007, ABB did not grant any loans or guarantees to its Board members or members of the Group Executive Committee or to persons closely linked to any of those members.

7.6 Severance provisions

Employment contracts for Group Executive Committee members contain notice periods of 12 months or less, during which they are entitled to running salaries and bonuses. In addition, if the Company terminates the employment of a member of the Group Executive Committee and that member does not find alternative employment within their notice period that pays at least 70 percent of such member's annual compensation, then the Company will continue to pay compensation to that member for up to 12 additional months.

7.7 Compensation to former members of the Board and the Group Executive Committee

In 2008 and in 2007, except as disclosed above, ABB did not make any payments to a former member of the Board or the Group Executive Committee in connection with such member's role, or departure from the role, as a member of the Board or the Group Executive Committee.

8. Employee participation programs

8.1 Incentive plans linked to ABB shares

In order to align its employees' interests with the business goals and financial results of the company, ABB operates a number of incentive plans, linked to ABB's shares, which are summarized below (for a more detailed description of each incentive plan, please refer to note 20 to ABB's consolidated financial statements contained in the "Financial review" part of this Annual Report).

8.2 ESAP

The ESAP is an employee stock-option plan with a savings feature. Employees save over a 12-month period, by way of monthly salary deductions. The maximum monthly savings amount is the lower of 10 percent of gross monthly salary or the local currency equivalent of CHF 750. At the end of the savings period, employees choose whether to exercise their stock options to buy ABB shares (ADS in the case of employees in the U.S.) at the exercise price set at the grant date, or have their savings returned with interest. The savings are accumulated in a bank account held by a third-party trustee on behalf of the participants and earn interest.

The maximum number of shares that each employee can purchase has been determined based on the exercise price and the aggregate savings for the 12-month period, increased by 10 percent to allow for currency fluctuations. If, at the exercise date, the balance of savings plus interest exceeds the maximum amount of cash the employee must pay to fully exercise their stock options, the excess funds will be returned to the employee. If the balance of savings and interest is insufficient to permit the employee to fully exercise their stock options, the employee has the choice, but not the obligation, to make an additional payment so that they may fully exercise their stock options.

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

The exercise price per share and ADS of CHF 15.30 and USD 12.98, respectively, for the 2008 grant, was determined using the closing price of the ABB share on the SIX Swiss Exchange (SWX Europe) and ADS on the New York Stock Exchange on the grant date.

8.3 MIP

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

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

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

The details of the various unexpired grants as at December 31, 2008, are as follows:

Grant	Warrant exercise price in CHF	Subscription ratio
December 2003	7.00	5:1
December 2004	7.50	5:1
February 2006	15.30	5:1
May 2007	26.00	5:1
May 2008	36.40	5:1

8.4 LTIP

ABB has an LTIP for members of its Group Executive Committee and certain other executives (each an eligible participant). The LTIP involves annual conditional grants of ABB's stock and contains a co-investment component.

Under the share-price performance component, the value of the number of shares conditionally granted equals a certain percentage of the eligible participant's base salary at the date of grant. For members of the Group Executive Committee, these percentages for the 2008 grant were 100 percent for all members except Joe Hogan and Michel Demaré for whom the percentages were 200 percent and 150 percent, respectively. The number of shares granted usually is adjusted downward for individuals who become eligible participants after the initial grant date. The actual number of shares that each eligible participant will receive free of charge at a future date is dependent on (1) the performance of ABB shares during a defined period (evaluation period) compared to those of a selected peer group of publicly listed multinational companies and (2) the term of service of the respective eligible participants in that capacity during the evaluation period. The actual number of shares received after the evaluation period cannot exceed 100 percent of the conditional grant.

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

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

Under the co-investment component of the LTIP, each eligible participant is invited to deposit a number of ABB shares, up to an individually defined maximum number of shares. If at the end of the evaluation period the individual remains an eligible participant and the owner of such shares, then ABB will deliver free of charge to the eligible participant a matching number of shares.

The details of the various unexpired launches as at December 31, 2008, are as follows:

Launch year	Evaluation period	Reference price (in CHF)
2006	March 15, 2006,	
	to March 15, 2009	15.48
2007	March 15, 2007,	
	to March 15, 2010	21.08
2008	March 15, 2008,	
	to March 15, 2011	26.20

The exact number of shares to be received for the 2006, the 2007 and the 2008 launches will be known only in March 2009, 2010 and 2011, respectively.

9. ABB shareholdings of members of the Board and the Group Executive Committee

9.1 Board ownership of ABB shares and options

The table below shows the number of ABB shares held by each Board member:

Board shareholdings

	Total number of shares held at December 31, 2008[(1)]	Total number of shares held at December 31, 2007[(1)]
Hubertus von Grünberg	30,037	6,779
Roger Agnelli	138,964	134,482
Louis R. Hughes	64,233	59,751
Hans Ulrich Märki	330,454	304,051
Michel de Rosen	96,148	90,115
Michael Treschow	75,521	71,007
Bernd W. Voss	143,838	137,807
Jacob Wallenberg[(2)]	153,174	146,724
Total	**1,032,369**	**950,716**

[(1)] Includes as of December 31, 2008 and 2007, respectively, a total of 879,559 and 814,657 shares paid as compensation to Board members in current and prior years and currently blocked in accordance with the terms of the Board compensation.

[(2)] Share amounts provided in this table do not include the shares beneficially owned by Investor AB, of which Mr. Wallenberg is chairman.

Except as described in this section 9.1, as of December 31, 2008 and December 31, 2007, no member of the Board and no person closely linked to a member of the Board held any shares of ABB or options in ABB shares.

9.2 Group Executive Committee ownership of ABB shares and options

As of December 31, 2008, the members of the Group Executive Committee held the following numbers of shares (or ADSs representing such shares), the conditional rights to receive ABB shares under the LTIP, warrants or options (either vested or unvested as indicated) under the MIP and unvested shares in respect of bonus and/or pension arrangements.

Name	Total number of shares held[1]	Unvested at December 31, 2008: Number of conditionally granted shares under the 2006 launch of the LTIP	Number of matching shares deliverable under the 2006 co-investment portion of LTIP	Number of conditionally granted shares under the 2007 launch of the LTIP	Number of matching shares deliverable under the 2007 co-investment portion of LTIP	Number of conditionally granted shares under the 2008 launch of the LTIP	Number of matching shares deliverable under the 2008 co-investment portion of LTIP	Number of warrants held under the MIP[2] 2006 Grant	Number of warrants held under the MIP[2] 2007 Grant	Number of warrants held under the MIP[2] 2008 Grant	Shares in respect of special bonus 2008	Shares in lieu of pension arrangements	Number of shares granted in respect of sign-on bonus[3]
		(vesting 2009)	(vesting 2009)	(vesting 2010)	(vesting 2010)	(vesting 2011)	(vesting 2011)	(vesting 2009)	(vesting 2010)	(vesting 2011)	(vesting 2010)	(vesting 2010)	(vesting 2011 and 2013)
Joe Hogan	26,923	–	–	–	–	145,039	26,923	–	–	–	–	–	379,364
Michel Demaré[4]	224,304	51,680	15,014	41,746	11,843	71,880	10,490	–	–	–	44,643	80,840	–
Gary Steel	97,974	46,512	13,416	35,105	10,243	29,390	8,634	–	–	–	29,570	55,703	–
Ulrich Spiesshofer	83,285	41,990	13,372	32,733	9,650	27,863	8,309	–	–	–	28,034	–	–
Diane de Saint Victor	82,850	33,287	8,239	33,207	8,219	27,863	8,178	–	–	–	28,034	–	–
Bernhard Jucker	31,375	48,450	8,595	39,374	11,295	35,115	9,739	–	–	–	35,331	–	–
Peter Leupp	40,488	33,287	8,239	33,207	8,219	29,390	8,597	–	–	–	29,570	–	–
Tom Sjökvist[5]	40,011	45,220	12,451	34,156	10,789	29,390	8,842	–	–	–	29,570	–	–
Veli-Matti Reinikkala	38,738	43,001	5,680	33,022	9,414	23,902	6,866	–	–	–	26,792	–	–
Anders Jonsson[6]	73,505	33,592	3,603	26,092	5,007	23,665	6,214	100,000	96,300	138,000	23,810	–	–
Total	**739,453**	**377,019**	**88,609**	**308,642**	**84,679**	**443,497**	**102,792**	**100,000**	**96,300**	**138,000**	**275,354**	**136,543**	**379,364**

(1) Includes shares deposited as match for the co-investment portion of the LTIP. These shares may be sold/transferred but then the corresponding number co-investment shares would be forfeited.
(2) Warrants/options may be sold or exercised/converted into shares at the ratio of 5 warrants/options for 1 share.
(3) 189,682 shares vest in each of 2011 and 2013.
(4) Total number of shares held includes 4,500 shares held jointly with spouse.
(5) Total number of shares held includes 7,560 shares held by spouse or child. 14,785 shares in respect of bonus 2008 vest in each of 2009 and 2010.
(6) Total number of shares held includes 55,529 shares held by or jointly with spouse. The warrants vesting in 2009, 2010 and 2011 were received by Anders Jonsson's spouse in connection with her role as an ABB employee.

Furthermore, as of December 31, 2008, the following members of the Group Executive Committee held WARs that, when exercised, entitle the holder to receive in cash the market value of the equivalent listed warrant at the time of exercise.

	Number of fully vested WARs held under the MIP 2004 Grant	Number of unvested WARs held under the MIP 2006 Grant (vesting 2009)
Bernhard Jucker	–	375,000
Peter Leupp	–	375,000
Tom Sjökvist	–	375,000
Veli-Matti Reinikkala	200,000	375,000
Anders Jonsson	–	375,000
Total	**200,000**	**1,875,000**

For comparative information about share and option ownership of Group Executive Committee members in 2007, see Note 14 to the ABB Ltd statutory financial statements.

Except as described in this section 9.2, as of December 31, 2008 and as of December 31, 2007, no member of the Group Executive Committee and no person closely linked to a member of the Group Executive Committee held any shares of ABB or options in ABB shares.

9.3 Total shareholdings of ABB shares and options

As of December 31, 2008 and December 31, 2007, the members of our Board and Group Executive Committee owned less than 1 percent of ABB's total shares outstanding.

10. Duty to make a public tender offer

ABB's Articles of Incorporation do not contain any provisions raising the threshold (opting-up) or waiving the duty (opting-out) to make a public tender offer pursuant to article 32 of the Swiss Stock Exchange and Securities Trading Act.

11. Change of control provisions

None of ABB's Board members, Group Executive Committee members or members of senior management receive "golden parachutes" or other special benefits in the event of a change of control.

12. Auditors

12.1 Auditors

Ernst & Young is the auditor of ABB's statutory and consolidated accounts.

12.2 Duration of the mandate and term of office of the auditor

Ernst & Young assumed the existing auditing mandate as auditor of the ABB Group in 1994. The head auditor responsible for the mandate, Nigel Jones, began serving in this function in respect of the financial year ended December 31, 2008.

12.3 Auditing and additional fees paid to the auditor

The audit fees charged by Ernst & Young for the legally prescribed audit amounted to approximately $29 million in 2008. Audit services are defined as the standard audit work performed each fiscal year necessary to allow the auditor to issue an opinion on the consolidated financial statements of ABB and to issue an opinion on the local statutory financial statements.

This classification may also include services that can be provided only by the auditor, such as assistance with the application of new accounting policies, pre-issuance reviews of quarterly financial results and comfort letters delivered to underwriters in connection with debt and equity offerings.

In addition, Ernst & Young charged approximately $5 million for non-audit services performed during 2008. Non-audit services include primarily accounting consultations and audits in connection with divestments, audits of pension and benefit plans, accounting advisory services, tax compliance and other tax services. In accordance with the requirements of the U.S. Sarbanes-Oxley Act of 2002 and rules issued by the SEC, ABB has, on a global basis, a process for the review and pre-approval of audit and non-audit services to be performed by Ernst & Young.

12.4 Supervisory and control instruments vis-à-vis the auditors

The FACC prepares proposals for the Board for the appointment and removal of the auditors. The FACC is also responsible for supervising the auditors to ensure their qualifications, independence and performance. It meets regularly with the auditors to obtain reports about the results of their audit procedures. The FACC reports the material elements of its supervision of the auditors to the Board.

13. Information policy

ABB, as a publicly traded company, is committed to communicating in a timely and consistent way to shareholders, potential investors, financial analysts, customers, suppliers, the media and other interested parties. ABB is required to disseminate material information pertaining to its businesses in a manner that complies with its obligations under the rules of the stock exchanges where its shares are listed and traded.

ABB publishes an annual report that provides audited financial statements and information about business results, strategy, corporate governance, human resources, sustainability (including health and safety) and technology.

In addition, ABB also submits an annual report on Form 20-F to the SEC. In addition, ABB publishes its results on a quarterly basis as press releases, distributed pursuant to the rules and regulations of the stock exchanges on which its shares are listed and traded. Press releases relating to financial results and material events are also filed with the SEC on Form 6-K. An archive containing Annual Reports, Form 20-F reports, quarterly results releases and related presentations can be found on the ABB Web site at www.abb.com/investorrelations. The quarterly results press releases contain unaudited financial statements prepared in accordance with U.S. GAAP.

ABB's official means of communication is the Swiss Official Gazette of Commerce (www.shab.ch). The invitation to the company's annual general meeting is sent to registered shareholders by mail.

Inquiries may also be made to ABB Investor Relations:
Telephone: +41 (0)43 317 7111
Fax: +41 (0)44 311 9817

ABB's Web site is: www.abb.com

14. Further information on corporate governance

The list below contains references to additional information concerning the corporate governance of ABB, which can be accessed in the corporate governance section at:
www.abb.com/investorrelations

- Articles of Incorporation
- Regulations of the Board
- CVs of the Board members
- CVs of the Group Executive Committee members
- Regulations of the Governance, Nomination and Compensation Committee
- Regulations of the Finance, Audit and Compliance Committee
- Related Party Transaction Policy
- ABB Code of Conduct
- Comparison of ABB's corporate governance practices with the New York Stock Exchange rules

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About ABB

ABB is a global leader in power and automation technologies that are designed to improve performance and lower the environmental impact for our utility and industrial customers. We provide a broad range of products, systems, solutions and services that are designed to improve power grid reliability, increase industrial productivity and enhance energy efficiency. Our focus on power transmission, distribution and power-plant automation serves electric, gas and water utilities, as well as industrial and commercial customers. We also deliver automation systems that measure, control, protect and optimize plant applications across a full range of industries. At December 31, 2008, we employed approximately 120,000 people.

History of the ABB Group

The ABB Group was formed in 1988 through a merger between Asea AB and BBC Brown Boveri AG. Initially founded in 1883, Asea AB was a major participant in the introduction of electricity into Swedish homes and businesses and in the development of Sweden's railway network. In the 1940s and 1950s, Asea AB expanded into the power, mining and steel industries. Brown Boveri and Cie. (later renamed BBC Brown Boveri AG) was formed in Switzerland in 1891 and initially specialized in power generation and turbines. In the early to mid 1900s, it expanded its operations throughout Europe and broadened its business operations to include a wide range of electrical engineering activities.

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

Organizational structure

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

We manage our business based on a divisional structure. Our business comprises five divisions: Power Products; Power Systems; Automation Products; Process Automation and Robotics.

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

Our business divisions

Power Products

Our Power Products division is a leading supplier of transmission and distribution products and services, serving electric, gas and water utilities, as well as industrial and commercial customers, with a broad range of products and services for power transmission and distribution.

The division manufactures and sells a broad range of power products, such as high- and medium-voltage switchgear and apparatus, circuit breakers for various current and voltage levels and power and distribution transformers. The division's primary customers are utilities, distributors, wholesalers, installers and original equipment manufacturers (OEMs) in the utilities, transportation and power generation industries.

It had approximately 33,600 employees at December 31, 2008 and generated $11.9 billion in revenues in 2008.

Power Systems

Our Power Systems division is a market leader in the engineering of grid systems, power generation systems, network management solutions and substations. Power Systems deliverables include network management, utility communication, transmission and distribution substations, flexible alternating current transmission systems (FACTS), high-voltage direct current (HVDC) systems and automation and electrical solutions for power plants. The division also offers automation, control and protection systems and related services for power transmission and distribution networks, power plants and water pumping stations. Our FACTS and HVDC businesses offer technologically advanced solutions designed to increase transmission capacity and stability in power networks and are supported by our power semiconductor and cable factories.

The division sells primarily to utilities and power generation industries.

The division generated revenues of $6.9 billion in 2008 and had approximately 15,800 employees at December 31, 2008.

Automation Products

Our Automation Products division manufactures approximately 170,000 different products and has more than 100 manufacturing sites in 50 countries creating products that are designed to improve plant and building performance.

The Automation Products division offers a wide range of products and services including low-voltage switchgear, breakers, switches, control products, DIN-rail components, enclosures, wiring accessories, instrumentation, drives, motors, generators and power electronics systems. All of these products are designed to help customers improve productivity, save energy and increase safety. Key applications include power distribution, protection and control, energy conversion, data acquisition and processing and actuation. The majority of these products is used for industrial applications, but also in buildings and in markets such as utilities and rail transportation.

More than one million products are shipped daily to channel partners and end-user customers. The large majority of revenues for the division come from sales through channel partners such as distributors, wholesalers, machine builders, OEMs, system integrators and electrical panel builders.

The division employed approximately 36,000 people worldwide at December 31, 2008 and generated $10.3 billion in revenues in 2008.

Process Automation

Our Process Automation division designs products, systems and services that provide our customers with control-system and plant-optimization solutions and feature industry-specific application knowledge.

The division delivers industry-specific solutions for plant automation and electrification, energy management, process and asset optimization, analytical measurement and telecommunication. Markets served include oil and gas, metals and minerals, pulp and paper, chemicals and pharmaceuticals. For product life cycle support, we offer field services, spare parts, remote monitoring, training and upgrades. For asset optimization, we offer services for engineering, design, consulting, compliance, validation, benchmarking, plant performance improvement, safety and hazardous operation analysis and reliability analysis. Using our full service program, we also offer plant-wide, performance-based maintenance contracts, which provide customers an opportunity to outsource their plant maintenance programs to us.

The Process Automation division also delivers specialized solutions for turbocharging, as well as propulsion and electrification systems for the marine industry. In addition, the division delivers stand-alone control system products sold through distributors, system integrators and OEMs.

The division had approximately 26,800 employees at December 31, 2008 and generated revenues of $7.8 billion in 2008.

Robotics

Our Robotics division offers robots, application equipment, product and system services as well as modular manufacturing solutions for a wide range of processes in discrete manufacturing. Key markets are the automotive industry and their suppliers, in addition to general industries such as applications in foundry, metal fabrication, plastics, electronics, food and beverage, machine tools, solar, pharmaceuticals and chemicals and wood. The division develops standardized manufacturing cells for material handling, machine tending, welding, cutting, painting and finishing and provides packaged engineering to automobile manufacturers for press automation, paint system automation, body-in-white systems (automation systems for adding components to automobile bodies) and power train assembly.

The division had approximately 5,300 employees at December 31, 2008 and generated $1.6 billion of revenues in 2008.

Corporate and Other

Corporate and Other comprises corporate headquarters and stewardship, corporate research and development (R&D), corporate real estate, equity investments primarily in Colombia, Ivory Coast and South Africa that are being considered for sale and other activities.

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

Corporate R&D primarily covers our research activities, as our development activities are organized under the five business divisions. We have two global research laboratories, one focused on power technologies and the other focused on automation technologies, which both work on technologies relevant to the future of our five business divisions. Each laboratory works on new and emerging technologies and collaborates with universities and other external partners to support our divisions in advancing relevant technologies and in developing cross-divisional technology platforms. We have research operations in eight countries, which consist of the United States of America (United States), Sweden, Switzerland, Poland, China, Germany, Norway and India.

Corporate and Other had approximately 1,900 employees at December 31, 2008.

Application of critical accounting policies

General

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

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

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

Revenues and cost of sales recognition

We generally recognize revenues when persuasive evidence of an arrangement exists to sell products and/or services, the price is fixed or determinable, collectibility is reasonably assured and upon transfer of title, including the risks and rewards of ownership, or upon the rendering of services.

Revenues under long-term contracts are recognized using the percentage-of-completion method of accounting pursuant to Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* (SOP 81-1). We principally use the cost-to-cost or delivery events method to measure progress towards completion on contracts. Management determines the method used by type of contract based on its judgment as to which method best measures progress towards completion on contracts.

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

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

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

Short-term construction-type contracts or long-term contracts for which reasonably dependable estimates cannot be made or for which inherent hazards make estimates doubtful are accounted for under the completed-contract method as required by SOP 81-1. Revenues under the completed-contract method are recognized upon substantial completion that is acceptance by the customer, compliance with performance specifications demonstrated in a factory acceptance test or similar event.

When multiple elements, such as products and services, are contained in a single arrangement or in related arrangements with the same customer, we allocate revenue to each element based on its relative fair value or according to the residual method should no evidence for the fair value of the delivered item be available, provided that such element meets the criteria for treatment as a separate unit of accounting. The allocation of the sales price between delivered elements and undelivered elements might affect the amount of revenue recorded in certain periods, but would not change the total revenue recognized on the contract.

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

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

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

Contingencies

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

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

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

We may have a legal obligation to perform environmental clean-up activities as a result of the normal operation of our business or have other asset retirement obligations in the scope of Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143). In some cases, the timing or the method of settlement, or both are conditional upon a future event that may or may not be within our control, but the underlying obligation itself is unconditional and certain. We recognize a provision for these and other asset retirement obligations when a liability for the retirement or clean-up activity has been incurred and a reasonable estimate of its fair value can be made. These provisions are initially recognized at fair value, and subsequently adjusted for accrued interest and changes in estimates.

Pension and postretirement benefits

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

Holding all other assumptions constant, a 0.25 percentage point decrease in the discount rate would have increased the PBO related to our pension plans by approximately $210 million, while a 0.25 percentage point increase in the discount rate would have decreased the PBO related to our pension plans by approximately $199 million.

The expected return on plan assets is reviewed regularly and considered for adjustment annually based on current and expected asset allocations and represents the long-term return expected to be achieved. Decreases in the expected return on plan assets result in an increase to pension costs. An increase or decrease of 0.5 percent in the expected long-term rate of asset return would have decreased or increased, respectively, the net periodic benefit cost in 2008 by approximately $44 million.

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

The funded status, which can increase or decrease based on the performance of the financial markets or changes in our assumptions regarding rates, does not represent a mandatory short-term cash obligation. Instead, the funded status of a pension plan is the difference between the PBO and the fair value of the plan assets. The funded status of our pension plans as of December 31, 2008 was $710 underfunded compared to an overfunding as of December 31, 2007, of $22 million. Our other postretirement plans were underfunded by $207 million and $215 million at December 31, 2008 and 2007, respectively.

We have multiple non-pension postretirement benefit plans. Our health care plans are generally contributory with participants' contributions adjusted annually. For purposes of estimating our health care costs, we have assumed health care cost increases to be 9.82 percent per annum for 2009, gradually declining to 4.97 percent per annum by 2017 and to remain at that level thereafter.

Taxes

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

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

Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) requires that an estimated loss from a tax contingency be accrued as a charge to income if it is more likely than not that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. The required amount of provisions for contingencies of any type may change in the future due to new developments.

Goodwill and other intangible assets

We review goodwill for impairment annually as of October 1, and additionally whenever events or changes in circumstances indicate the carrying value may not be recoverable in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). SFAS 142 requires that a two-step impairment test be performed on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. Our reporting units represent the reportable segments identified in "Note 22 Operating segment and geographic data" to our Consolidated Financial Statements, except in our Power Products and Process Automation divisions where our reporting units are represented by the level below these reportable segments. We use a discounted cash flow model to determine the fair value of reporting units, unless there is a readily determinable fair market value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and no further testing is performed. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we perform the second step to determine the implied fair value of the reporting unit's goodwill and compare it to the carrying value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we record an impairment loss equal to the difference.

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

Cash flow models used in evaluating impairments are dependent on a number of factors including estimates of future cash flows and other variables and require that we make significant estimates and judgments, involving variables such as sales volumes, sales prices, sales growth, production and operating costs, capital expenditures, market conditions and other economic factors. Further, discount rates used in the discounted cash flow model to calculate the fair value require the determination of variables such as the risk free rate and the equity market risk premium. We base our fair value estimates on assumptions we believe to be reasonable, but which are unpredictable and inherently uncertain. Actual future results may differ from those estimates. Additionally, we consider our market capitalization on the date we perform the analysis.

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

New accounting pronouncements

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

Acquisitions, investments and divestitures

Acquisitions and investments

During 2008, 2007 and 2006, we invested $653 million, $54 million and $3 million in 12, 14 and 11 new businesses, joint ventures or affiliated companies, respectively.

Acquisitions in 2008

On August 25, 2008, ABB completed the acquisition of Kuhlman Electric Corporation (Kuhlman), a U.S. based transformer company. The acquisition was integrated into our Power Products division in north America and complements both our product range and geographical presence. Kuhlman manufactures a wide range of high-quality transformers for the industrial and electric utility sectors and has a strong reputation for innovative products and solid, long-term customer relationships. The estimated purchase price, including assumed debt, was $520 million (including $5 million cash acquired). The preliminary purchase price allocation resulted in $114 million intangible assets subject to amortization and $400 million in goodwill, recorded in our Consolidated Balance Sheet at December 31, 2008.

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

Divestitures of businesses, joint ventures and affiliated companies

In 2008, 2007 and 2006, we received cash, net of cash disposed, from sales of businesses, joint ventures and affiliated companies of $46 million, $1,142 million and $27 million, respectively. In relation to transactions included in continuing operations, we recognized gains in 2008, 2007 and 2006, within other income (expense), net, of $24 million, $11 million and $3 million, respectively. We also recognized gain (loss) from dispositions, net of tax in 2008, 2007 and 2006, within income (loss) from discontinued operations, net of tax, of $9 million, $530 million and $(83) million, respectively. The divestment of these businesses is discussed separately below under "Divestitures in 2008", "Divestitures in 2007" and "Divestitures in 2006". All revenues and income reported in the year of sale are through the date of divestment.

Divestitures in 2008

During the first quarter of 2008, we sold our 50 percent stake in the shares of ABB Powertech Transformers, located in South Africa, to Powertech, a wholly-owned subsidiary of the Altron Group at a gain of $11 million. This business was part of our Power Products division prior to being reclassified to discontinued operations. The Transformer business in South Africa had revenues of $29 million, $167 million and $146 million for the years ended December 31, 2008, 2007 and 2006, respectively. Income for 2008, 2007 and 2006 was $2 million, $15 million and $16 million, respectively, recorded in income (loss) from discontinued operations, net of tax.

Divestitures in 2007

In November 2007, we completed the sale of Lummus Global (Lummus) to Chicago Bridge & Iron Company (CB&I) and received net cash proceeds of approximately $810 million. Lummus had revenues of $870 million and $985 million for the years ended December 31, 2007 and 2006, respectively. Income for 2007 and 2006 was $9 million in each year and we had a gain on sale of $530 million, all recorded in income (loss) from discontinued operations, net of tax. In 2008, we recorded certain adjustments that reduced the gain on sale by $5 million.

In April 2007, we completed the sale of our Building Systems business in Germany, which was reported in discontinued operations. The business had revenues of $47 million and $286 million for the years ended December 31, 2007 and 2006, respectively. Losses for 2007 and 2006 were $2 million and $65 million, respectively, recorded in income (loss) from discontinued operations, net of tax. Of the loss reported for 2006, $67 million was an impairment charge based upon the proceeds which were expected from the sale of the business.

In May 2007, we completed the sale of our stake in Jorf Lasfar Energy Company S.C.A. (Jorf Lasfar), a power plant based in Morocco and our stake in S.T.CMS Electric Company Private Limited (Neyveli), a power plant in India. Our share of the pre-tax earnings of Jorf Lasfar was $21 million and $67 million for the years ended December 31, 2007 and 2006, respectively. Our share of the pre-tax earnings of Neyveli for the years ended December 31, 2007 and 2006 was $4 million and $9 million, respectively. The sale of these investments resulted in a gain of approximately $38 million which was included in continuing operations. In 2008, we recorded adjustments to the gain on sale of $16 million related to the favorable outcome on an outstanding tax case.

In 2007, we sold our Power Lines businesses in Brazil and Mexico for a sales price of $20 million and a gain of $0 million. These businesses had revenues of $39 million and $80 million and losses of $3 million and $4 million for the years ended December 31, 2007 and 2006, respectively. The losses were recorded in income (loss) from discontinued operations, net of tax.

Divestitures in 2006

In December 2006, we sold our Cable business in Ireland. The business had revenues of $95 million and losses of $48 million for the year ended December 31, 2006. The loss was recorded in income (loss) from discontinued operations, net of tax. The majority of the $48 million loss reported in 2006 related to the sale of the business.

In 2006, we sold our Power Lines businesses in Venezuela and South Africa. These businesses had revenues of $8 million and a loss of $1 million for the year ended December 31, 2006. The loss was recorded in income (loss) from discontinued operations, net of tax.

Exchange rates

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

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

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

Increases and decreases in the value of the USD against other currencies will affect the reported results of operations in our Consolidated Income Statements and the value of certain of our assets and liabilities in our Consolidated Balance Sheets, even if our results of operations or the value of those assets and liabilities have not changed in their original currency. Because of the impact foreign exchange rates have on our reported results of operations and the reported value of our assets and liabilities, changes in foreign exchange rates could significantly affect the comparability of our reported results of operations between periods and result in significant changes to the reported value of our assets, liabilities and shareholders' equity, as has been the case during the period from 2006 through 2008.

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

The exchange rates between the USD and the EUR and the USD and the CHF at December 31, 2008, 2007 and 2006, were as follows:

Exchange rates into $	2008	2007	2006
EUR 1.00	1.40	1.47	1.32
CHF 1.00	0.94	0.89	0.82

The average exchange rates between the USD and the EUR and the USD and the CHF for the years ended December 31, 2008, 2007 and 2006, were as follows:

Exchange rates into $	2008	2007	2006
EUR 1.00	1.47	1.37	1.25
CHF 1.00	0.93	0.84	0.80

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

In 2008, approximately 88 percent of our consolidated revenues were reported in currencies other than USD. Of that amount, the following percentages were reported in the following currencies:

- Euro, approximately 29 percent;
- Chinese renminbi, approximately 9 percent;
- Swiss franc, approximately 6 percent;
- Swedish krona, approximately 5 percent and
- Indian rupee, approximately 4 percent.

In 2008, approximately 90 percent of our cost of sales and selling, general and administrative expenses were reported in currencies other than USD. Of that amount, the following percentages were reported in the following currencies:

- Euro, approximately 33 percent;
- Swiss franc, approximately 10 percent;
- Swedish krona, approximately 8 percent;
- Chinese renminbi, approximately 7 percent and
- Indian rupee, approximately 3 percent.

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

The results of operations and financial position of many of our subsidiaries outside of the United States are reported in the currencies of the countries in which those subsidiaries reside. We refer to these currencies as "local currencies." Local currency financial information is then translated into USD at applicable exchange rates for inclusion in our Consolidated Financial Statements.

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

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

Orders

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

The undiscounted value of revenues we expect to generate from our orders at any point in time is represented by our order backlog. Approximately 16 percent of the value of total orders we recorded in 2008 were "large orders," which we define as orders from third parties involving a value of at least $15 million for products or services. Approximately 46 percent of the large orders in 2008 were recorded by our Power Systems division and 32 percent in our Process Automation division. The Power Products, Automation Products and Robotics divisions account for the remainder of the total large orders recorded during 2008. The remaining portion of total orders recorded in 2008 was "base orders," which we define as orders from third parties with a value of less than $15 million for products or services.

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

The near-term outlook is highly uncertain due to the volatility of key drivers such as economic growth and costs of raw materials. The impact of the slow or declining global economy has caused a decrease in the demand for total orders, particularly in large orders relating to the timing of projects awarded and lack of funding. It is still uncertain how the global economy will develop throughout 2009; however, we believe our portfolio of products and services is well-balanced both geographically and in terms of product diversity. Beyond the near-term market uncertainties, we anticipate the need for more energy-efficient products to remain stable in the course of a continued economic downturn as industrial customers address their need for productivity improvements in the face of low-cost competition.

Performance measures

We evaluate the performance of our divisions primarily based on orders received, revenues, earnings before interest and taxes (EBIT) and EBIT as a percentage of revenues (EBIT margin). EBIT is the amount resulting from the subtraction of our cost of sales, selling, general and administrative expenses and other income (expense), net, from our revenues.

Consolidated results of operations

Year ended December 31, ($ in millions, except per share data in $)	2008	2007	2006
Orders	38,282	34,348	27,048
Order backlog[1]	23,837	22,715	15,829
Revenues	34,912	29,183	23,281
Cost of sales	(23,972)	(20,215)	(16,537)
Gross profit	10,940	8,968	6,744
Selling, general and administrative expenses	(5,822)	(4,975)	(4,326)
Other income (expense), net	(566)	30	139
Earnings before interest and taxes	4,552	4,023	2,557
Net interest and other finance expenses	(34)	(13)	(160)
Provision for taxes	(1,119)	(595)	(686)
Minority interest	(260)	(244)	(179)
Income from continuing operations	3,139	3,171	1,532
Income (loss) from discontinued operations, net of tax	(21)	586	(142)
Net income	3,118	3,757	1,390
Basic earnings (loss) per share:			
Income from continuing operations	1.37	1.40	0.72
Income (loss) from discontinued operations, net of tax	(0.01)	0.26	(0.07)
Net income	1.36	1.66	0.65
Diluted earnings (loss) per share:			
Income from continuing operations	1.37	1.38	0.69
Income (loss) from discontinued operations, net of tax	(0.01)	0.25	(0.06)
Net income	1.36	1.63	0.63

[1] At December 31

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

Orders

Year ended December 31, ($ in millions)	2008	2007	2006
Power Products	13,627	11,320	8,572
Power Systems	7,408	7,744	5,733
Automation Products	10,872	9,314	7,706
Process Automation	8,657	7,935	6,550
Robotics	1,658	1,488	1,240
Core divisions	**42,222**	**37,801**	**29,801**
Corporate and Other[1]	(3,940)	(3,453)	(2,753)
Total	**38,282**	**34,348**	**27,048**

[1] Including interdivisional eliminations

Total orders in 2008 increased by 11 percent (7 percent in local currencies). Demand for power transmission and distribution products and energy-efficient industrial equipment was strong in most markets during the first half of 2008 but weakened in the last few months of the year due to the global economic crisis. Orders in our Power Products division grew 20 percent (15 percent in local currencies), as demand for Transformers, High Voltage (HV) Products and Medium Voltage (MV) Products remained solid particularly in the first half of 2008. Orders in our Power Systems division decreased 4 percent (8 percent in local currencies), primarily the result of a lower volume of large orders in the utilities sector compared to the prior year due to the timing of project awards. Orders in our Automation Products division rose 17 percent (11 percent in local currencies), benefiting from higher investments in the industrial sector as customers in this market looked for energy-efficient technologies to improve productivity. Our Process Automation division recorded an increase in orders of 9 percent (4 percent in local currencies), backed by higher demand in the marine, metal and turbocharging sectors. Orders in our Robotics division increased 11 percent (5 percent in local currencies) reflecting higher demand particularly in the Robot Automation and Systems businesses. In our Power Products and Automation Products divisions, order growth was also driven by sale price increases to offset higher raw material costs.

Large orders in 2008 increased by 5 percent (flat in local currencies) to $5,984 million, compared to the 57 percent increase (47 percent in local currencies) reported in 2007. The relative share of large orders compared to the total orders decreased from 17 percent in 2007 to 16 percent in 2008.

Total orders in 2007 increased by 27 percent (19 percent in local currencies). This strong growth was driven by high demand for power products and systems required to install new power infrastructure to expand or refurbish existing facilities in order to improve energy efficiency. Demand for more energy-efficient technologies and the need for capacity expansions to improve productivity also grew in most industrial sectors during 2007. All divisions benefited from favorable market conditions in 2007, resulting in the increase of both base and large orders.

In 2007, orders in the Power Products division grew 32 percent (25 percent in local currencies), supported by strong demand for Transformers and High Voltage Products and to a lesser extent Medium Voltage Products. Orders in the Power Systems division increased 35 percent (26 percent in local currencies), as it obtained a few very large grid system and substation projects during 2007. Orders in the Automation Products division rose 21 percent (13 percent in local currencies), benefiting from investments by industrial customers in efficiency improvements due to higher raw material and energy costs. The Process Automation division recorded a 21 percent increase (13 percent in local currencies) in orders, backed by strong demand in the metals, minerals and marine sectors. Orders in the Robotics division grew 20 percent (13 percent in local currencies), reflecting the positive trend in general industry, particularly in the electronics, food processing and packaging sectors, amid continued weak demand in the automotive industry. In our Power Products and Automation Products divisions, order growth was also driven by sale price increases to offset higher raw material costs.

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

Year ended December 31, ($ in millions)	2008	2007	2006
Europe	16,633	15,655	12,124
The Americas	7,235	6,013	5,064
Asia	10,242	9,186	6,504
Middle East and Africa	4,172	3,494	3,356
Total	**38,282**	**34,348**	**27,048**

Orders from the Americas increased 20 percent (19 percent in local currencies) backed by strong demand in the U.S., Canada, Mexico, Brazil and Argentina. Orders in this region grew in all divisions except Robotics. Higher investments to install new power infrastructure and increased spending by industrial customers to improve production capacity in growing economies, particularly Korea, China and Singapore, contributed to the increase in orders in the Asian market which reported 11 percent (7 percent in local currencies) growth. Orders in this region increased strongly in all divisions except Power Systems in which orders decreased due to a lower volume of large orders. Orders in Europe increased 6 percent (decreased 1 percent in local currencies). Orders from Finland, Spain, Turkey, Iceland and Sweden were up significantly. However, orders in Germany and United Kingdom were substantially lower. Orders of a similar size as the offshore windfarm project in Germany and the cable order to connect the United Kingdom with the Netherlands with values of approximately $400 million and $350 million, respectively, were not received in 2008. Orders in MEA markets increased 19 percent (17 percent in local currencies) driven by higher investments for new infrastructures in the utility and industrial sectors. A strong increase in orders in the MEA region in 2008 was attributable to the higher demand in Saudi Arabia, United Arab Emirates (UAE), South Africa and the Republic of Congo.

The share of orders from Europe remained the largest at 43 percent, although lower than the 46 percent share reported last year. The share of orders from Asia is unchanged at 27 percent. The share of orders from the Americas increased by 2 percentage points in 2008 to 19 percent, while MEA increased its share to 11 percent from 10 percent last year.

In 2007, orders from Europe increased by 29 percent (19 percent in local currencies), boosted by investments in power grid upgrades, interconnection projects and equipment replacement. In particular, we experienced significant increases in Germany, the United Kingdom, Russia and Norway. Orders from the Americas increased by 19 percent (15 percent in local currencies), as demand for refurbishing aging equipment and upgrades in the industrial sector to improve energy efficiency were strong particularly in the United States, Brazil and to a lesser extent, in Chile. Orders from Asia increased by 41 percent (31 percent in local currencies), following higher demand in the utilities and industrial sectors to support rapid economic growth, particularly in China and India. Compared to the very high level of orders received in 2006, orders from MEA increased by 4 percent and were almost flat in local currencies.

Europe accounted for the largest share of orders and increased to 46 percent in 2007 from 45 percent in 2006, while the share of orders from the Asian market increased from 24 percent to 27 percent during the same period. As compared to 2006, the share of orders from the Americas and MEA decreased by 2 percentage points in 2007 to 17 percent and 10 percent, respectively.

Order backlog

December 31, ($ in millions)	2008	2007	2006
Power Products	7,977	6,932	4,845
Power Systems	7,704	8,209	5,627
Automation Products	3,863	3,490	2,439
Process Automation	6,111	5,951	3,991
Robotics	545	529	441
Core divisions	**26,200**	**25,111**	**17,343**
Corporate and Other[1]	(2,363)	(2,396)	(1,514)
Total	**23,837**	**22,715**	**15,829**

[1] Including interdivisional eliminations

Order backlog at the end of 2008 increased by $1,122 million, or 5 percent (14 percent in local currencies), from the end of 2007.

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

Order backlog at the end of 2007 increased by $6,886 million, or 44 percent (32 percent in local currencies), from the end of 2006 due to strong order growth in all divisions.

Order backlog grew at a high rate in 2007 despite strong revenue growth of 25 percent (18 percent in local currencies), as the amount of orders received during the year, in absolute terms, was 18 percent higher than the amount of revenues. Growth in the order backlog was further increased by a higher volume of large orders with long delivery schedules, particularly in our Power Systems and Process Automation divisions.

Revenues

Year ended December 31, ($ in millions)	2008	2007	2006
Power Products	11,890	9,777	7,275
Power Systems	6,912	5,832	4,544
Automation Products	10,250	8,644	6,837
Process Automation	7,815	6,420	5,448
Robotics	1,642	1,407	1,288
Core divisions	**38,509**	**32,080**	**25,392**
Corporate and Other[1]	(3,597)	(2,897)	(2,111)
Total	**34,912**	**29,183**	**23,281**

[1] Including interdivisional eliminations

In 2008, revenues increased by $5,729 million or 20 percent (16 percent in local currencies) supported by all divisions, benefiting from high order backlog available at the beginning of the year and high volume of book and bill orders received in the first two quarters of the year. Further, revenue growth was supported by efficiency improvements in the production and order execution processes. Revenues in Power Products and Automation Products divisions grew 22 percent (18 percent in local currencies) and 19 percent (13 percent in local currencies), respectively, as these product divisions continued operating at high capacity levels. The increase in revenues in the product divisions was also driven partly by increases in sales prices to compensate the increase of commodity costs. Power Systems and Process Automation divisions reported revenue growth of 19 percent (16 percent in local currencies) and 22 percent (18 percent in local currencies) respectively. The growth of revenues in our Power Systems and Process Automation divisions was primarily driven by progress made in the execution of large orders. High order backlog at the beginning of 2008 was also the main factor contributing to the growth of revenues in the Robotics division, which for this year increased by 17 percent (11 percent in local currencies).

Revenues in 2007 increased by $5,902 million, or 25 percent (18 percent in local currencies). Growth in revenues in 2007 was primarily driven by a high order backlog at the beginning of the year, an increasing volume of book and bill orders and high utilization of production capacity. The Power Products and Automation Products divisions recorded revenue growth of 34 percent (27 percent in local currencies) and 26 percent (18 percent in local currencies), respectively, as these product divisions benefited from favorable market conditions and sales price increases to compensate for the higher costs of raw materials. Revenue growth was reported at 28 percent (20 percent in local currencies) in our Power Systems division and 18 percent (10 percent in local currencies) in our Process Automation division, in 2007, reflecting further progress achieved in the execution of the large orders received during 2006 and in the first half of 2007. Revenue growth in the Robotics division of 9 percent (3 percent in local currencies) in 2007 was lower than the growth reported by other divisions, due to a relatively small backlog at the beginning of the year.

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

Year ended December 31, ($ in millions)	2008	2007	2006
Europe	15,815	13,322	10,969
The Americas	6,428	5,247	4,394
Asia	8,967	7,480	5,863
Middle East and Africa	3,702	3,134	2,055
Total	**34,912**	**29,183**	**23,281**

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

The revenues from Europe contributed 45 percent of the group revenues in 2008. The share of revenues from Asia to the total group revenues was 26 percent while the Americas and MEA reported revenue shares of 18 percent and 11 percent, respectively. The share of revenues in each region in 2008, as a percentage of the total group revenues, was unchanged from the prior year.

In 2007, revenues in Europe increased by 21 percent (12 percent in local currencies). In particular, we experienced significant revenue increases in Russia, Germany, Italy and Spain. However, as a result of rapid revenue growth in other regions, the relative share of revenues from the European market decreased to 46 percent of our total revenues in 2007, compared to 47 percent in 2006. The revenues from Asia, which increased by 28 percent (20 percent in local currencies), were driven mainly by the increases in China and India and accounted for 25 percent of total revenues, compared to 25 percent in 2006. Revenues from the Americas increased by 19 percent (16 percent in local currencies), mainly contributed by the United States and at December 31, 2007, represented 18 percent of the total revenues, compared to 19 percent in 2006. Revenues from MEA accounted for 11 percent of total revenues, compared to 9 percent in 2006, which represented an increase of 53 percent (47 percent in local currencies), compared to 2006. Revenue growth in this region was particularly strong in Saudi Arabia and Qatar.

Cost of sales

Cost of sales increased by $3,757 million, or 19 percent (15 percent in local currencies), to $23,972 million in 2008, after an increase of $3,678 million, or 22 percent (15 percent in local currencies), in 2007. The increase in cost of sales in 2008 was attributable to the growth in sales volumes, as well as increases in certain raw material costs, particularly in the product divisions.

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

As a percentage of revenues, cost of sales decreased, as reflected in the increase in gross profit margin to 31.3 percent in 2008 from 30.7 percent in 2007 and 29.0 percent in 2006.

The higher gross margin in 2008 reflected a continuing trend from 2007, as the operations benefited from increased business volume, higher capacity utilization, better project execution and process improvement programs in the areas of risk management and project cost control. Furthermore, the progress made in the implementation of our cost migration strategy delivered financial benefits through cost savings in 2008.

Selling, general and administrative expenses

The components of selling, general and administrative expenses for the years ended December 31, 2008, 2007 and 2006 were as follows:

Year ended December 31, ($ in millions)	**2008**	**2007**	**2006**
Selling expenses	(2,943)	(2,531)	(2,202)
Selling expenses as a percentage of orders received	*7.7%*	*7.4%*	*8.1%*
General and administrative expenses	(2,879)	(2,444)	(2,124)
General and administrative expenses as a percentage of revenues	*8.2%*	*8.4%*	*9.1%*
Total selling, general and administrative expenses	**(5,822)**	**(4,975)**	**(4,326)**
Total selling, general and administrative expenses as a percentage of revenues	*16.7%*	*17.0%*	*18.6%*
Total selling, general and administrative expenses as a percentage of the average of orders received and revenues	*15.9%*	*15.7%*	*17.2%*

Selling, general and administrative expenses increased by $847 million, or 17 percent (12 percent in local currencies), in 2008, after increasing by $649 million, or 15 percent (8 percent in local currencies), in 2007. Total selling, general and administrative expenses, which are related to both orders received and revenues, expressed as a percentage of the average of orders received and revenues, increased in 2008 by 0.2 percentage points to 15.9 percent from 15.7 percent in 2007, after decreasing 1.5 percent from 2006. The slight increase in selling expenses as a percentage of orders received reported in 2008 is mainly the result of lower orders received in the last two quarters of 2008.

Selling expenses in 2008 increased by $412 million, or 16 percent (11 percent in local currencies), from 2007. The increases in selling expenses were primarily due to increasing activities in sales and marketing areas and growth of company sales personnel. Expressed as a percentage of orders received, selling expenses increased by 0.3 percentage points in 2008.

Selling expenses in 2007 increased by $329 million, or 15 percent (7 percent in local currencies), from 2006. These increases were primarily due to volume-related expenses such as sales commissions, hiring of additional resources employed in the developing markets and more intensified sales programs to expand market shares and enter into new markets. Expressed as a percentage of orders received, selling expenses decreased by 0.7 percentage points in 2007.

General and administrative expenses increased by $435 million, or 18 percent (13 percent in local currencies), in 2008, primarily related to the growth of business. General and administrative expenses include non-order related R&D, which increased 18 percent (12 percent in local currencies) to $1,027 million in 2008, relative to 2007, reflecting the continued spending on product development activities, particularly in the Power Products, Automation Products and Process Automation divisions. Total general and administrative expenses, as a percentage of revenues, remained at the same level as 2007, despite increased growth during the period. This was partly due to increased focus on the monitoring and controlling of administrative costs both at the corporate and operating unit levels.

General and administrative expenses increased by $320 million, or 15 percent (8 percent in local currencies), in 2007, which were primarily driven by operational requirements to support the fast growing business. Additional resources and investments were made in that year to improve the business process. General and administrative expenses include non-order related R&D which increased 15 percent (7 percent in local currencies) to $871 million in 2007, relative to 2006, reflecting the continued spending on product development activities, particularly in the Power Products and Automation Products divisions.

The total selling general and administrative expenses, as a percentage of revenues, decreased by 1.6 percentage points in 2007. Lower incremental expenses in general and administration expenses in 2007, despite increasing administrative requirements for growing business volumes, were partly due to lower costs associated with the internal control measures to comply with the provisions of the Sarbanes Oxley Act of 2002, higher savings from the group-wide process optimization programs and increased focus on the monitoring and controlling of costs both at the corporate and operating unit levels.

Other income (expense), net

Year ended December 31, ($ in millions)	2008	2007	2006
Restructuring expenses	(5)	(8)	3
Capital gains, net	73	95	75
Asset write-downs	(11)	(66)	(12)
Income from licenses, equity accounted companies and other income (expense)	(623)	9	73
Total	**(566)**	**30**	**139**

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

Restructuring costs are recorded in various lines within the Consolidated Income Statements depending on the nature of the charges. In 2008, restructuring costs reported under other income (expense) amounted to $5 million, incurred for restructuring projects mainly in Power Products, Automation Products and Process Automation. In 2007, restructuring costs reported under other income (expense) amounted to $8 million that primarily consisted of $3 million costs incurred to streamline the operations in the Power Products division, $2 million restructuring costs for capacity expansion in the Power Systems division, $2 million restructuring costs in Real Estate operations and $1 million of costs in the Automation Products division. In 2006, due to a change in the restructuring liability estimate, restructuring costs resulted in an income of $3 million.

Capital gains, net, during 2008 amounted to $73 million which mainly consisted of $14 million in gains from the sale of shares and participations, $10 million gain from the release of provision from a legal claim settlement related to the sold Air Handling business and $47 million capital gains from the sale of real estate properties, mainly in Switzerland, Brazil, Italy, Norway, United Kingdom, Mexico and Poland. Additionally, in 2008, we recorded adjustments to the gain on sale of Jorf Lasfar and Neyveli of $16 million related to the favorable outcome on an outstanding tax case.

Capital gains, net, during 2007 amounted to $95 million which consisted of $49 million in gains from the sale of equity investments, including a $38 million gain from the divestment of our equity investments in Jorf Lasfar and Neyveli, a $41 million gain from the sale of real estate properties, mainly in Switzerland, Italy and to a lesser extent in Brazil, Norway and France and a $5 million gain on sale of various machinery and equipment. In 2006, capital gains, net, included approximately $65 million of gains from the sale of land and buildings in Europe.

Asset write-downs in 2008 mainly related to the Distributed Energy business in Great Britain and other minor impairments. Asset write-downs during 2007 included an impairment charge of $42 million in respect of one of our equity investments, which we intend to divest, as the anticipated market value was less than our book value. Asset write-downs in 2006 included the impairment of long-lived assets of $8 million, primarily in Europe and several minor write-downs on loans and investments.

In 2008, income from licenses, equity accounted companies and other income (expense) primarily consisted of provisions for the ongoing investigations in the Power Transformer business by the European Commission, the German Federal Cartel Office, as well as the investigations by the U.S. Securities and Exchange Commission (SEC) and the U.S. Department of Justice (DoJ) which were recorded in Corporate and Other. (See “Note 15 Commitments and contingencies” to our Consolidated Financial Statements.)

Additionally, income from equity accounted companies in 2008 was generated from our equity ventures investment in Colombia and other investments in Italy, Finland and Germany and license income mainly from Japan. Income from equity accounted companies in 2007 included $36 million, which was primarily related to Jorf Lasfar prior to its sale in the second quarter of 2007. During 2007, this income was also offset by charges towards several businesses that were sold or closed in earlier years. Income in 2006 was mainly derived from Jorf Lasfar and relatively smaller amounts of income were derived from various other equity accounted companies in India and in the United States.

Earnings before interest and taxes

Year ended December 31,	2008	2007	2006
($ in millions)			
Power Products	2,100	1,596	939
Power Systems	592	489	279
Automation Products	1,908	1,477	1,053
Process Automation	926	683	541
Robotics	9	79	1
Core divisions	**5,535**	**4,324**	**2,813**
Corporate and Other	(983)	(301)	(256)
Total	**4,552**	**4,023**	**2,557**

EBIT increased by $529 million, or 13 percent (6 percent in local currencies), in 2008, despite the compliance related provisions charged to other income (expense), net and by $1,466 million, or 57 percent (47 percent in local currencies), in 2007.

The EBIT margins for our core divisions and on a consolidated basis for the years ended December 31, 2008, 2007 and 2006, were as follows:

Year ended December 31,	2008	2007	2006
(%)			
Power Products	17.7	16.3	12.9
Power Systems	8.6	8.4	6.1
Automation Products	18.6	17.1	15.4
Process Automation	11.8	10.6	9.9
Robotics	0.5	5.6	0.1
Core divisions	**14.4**	**13.5**	**11.1**
Consolidated	**13.0**	**13.8**	**11.0**

The higher group EBIT and EBIT margin in the core operations were achieved through higher margin contributed by significant volumes of incremental revenues and higher capacity utilization, better execution of large projects and increased sourcing of production capacity, components and materials from emerging markets. The compliance related charges recorded in Corporate and Other negatively impacted the consolidated margin compared to 2007.

Net interest and other finance expense

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

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

Year ended December 31,	2008	2007	2006
($ in millions)			
Interest and dividend income	315	273	147
Interest and other finance expense	(349)	(286)	(307)
Net interest and other finance expense	**(34)**	**(13)**	**(160)**

Interest and dividend income increased in 2008 compared to 2007, reflecting the improvement in our liquidity during the first half of 2008 through cash generated from operations and the change in investment strategy compared to 2007 with more cash placed in time deposits. In the first three quarters of 2007, we invested a significant amount of our excess liquidity in accumulating net asset value money-market funds, where the income is not distributed but is reflected by an increase in value of the funds' shares and is realized upon the sale of such investments. As interest on deposits is recorded in interest and dividend income, while gains on sales of securities are netted against interest and other finance expense, this change in investment strategy explains part of the increase in interest and dividend income in 2008 compared to 2007. However, during the second half of 2008, our interest income was impacted by falling interest rates, our acceptance of lower yields in favor of security in an increasingly difficult market and, despite positive cash flow from operations, a lower excess cash balance as cash was expended for, amongst other, the nominal value reduction, acquisitions and the share buyback program. (See "Liquidity and capital resources" for discussion of our investment strategy.)

Interest and dividend income increased in 2007 compared to 2006, reflecting the improvement in our liquidity during the year, with the aggregate of the cash and equivalents and marketable securities and short-term investments balances increasing to $8,110 million at December 31, 2007, from $4,726 million at December 31, 2006. Up to the third quarter of 2007, we invested a significant amount of our excess liquidity in accumulating net asset value money-market funds, where the income is not distributed but is reflected by an increase in value of the funds' shares and is realized upon the sale of such investments. However, due to the then turbulence in the financial markets, we decided to realize our gains on such securities and invest the cash in term deposits with banks. As gains on sales of securities are recorded in interest and other finance expense, while interest on deposits is recorded in interest and dividend income, this change in investment strategy compared to 2006, combined with our improved liquidity resulted in an increase in interest income in 2007 of $78 million, compared to 2006.

Both interest and dividend income and interest and other finance expense in 2007 include a gross-up in the amount of $44 million, related to interest income and expense on certain balance sheet items that were economically related but did not meet the criteria for presentation on a net basis. This should be considered when comparing 2008 figures with 2007 and, similarly, 2007 figures with 2006.

Interest and other finance expense increased in 2008 compared to 2007, despite a reduction in overall debt levels. This increase was primarily due to two items in 2008. Firstly, we recorded a $20 million other-than-temporary impairment on available-for-sale equity fund securities held by our Captive Insurance business, as we do not expect the market values of these securities to recover to their cost basis in the near term, given current market conditions. (See "Note 2 Significant accounting policies" to our Consolidated Financial Statements.) Secondly, at December 31, 2008, we recorded $102 million in foreign exchange losses on the remeasurement into U.S. dollars of funding (in euros) of our EUR-denominated investment in government bonds designated as available-for-sale securities. The corresponding foreign exchange gain on these securities is part of their change in market value recorded in accumulated other comprehensive loss in equity and will be released to the income statement in the first quarter of 2009, when these securities mature. The loss is the result of the significant move in the EUR/USD exchange rate in the month of December 2008 and the amount of the EUR-denominated funding of these securities (1.06 billion euros).

Interest and other finance expense was lower in 2007 than in 2006. The reduction was the result of several factors. Firstly, interest and other finance expense in 2006 included $55 million in expenses related to the induced conversion of our $968 million convertible bonds during the second quarter of 2006. Secondly, as a result of the improvement in our liquidity position, we generated approximately $18 million additional net gains on marketable securities in 2007, compared to 2006. While the induced conversion of our $968 million convertible bonds during 2006 and the conversion by bondholders during 2007 of our 1 billion Swiss francs convertible bonds resulted in a significantly lower average debt level during 2007, compared to 2006, the savings in interest expense were partially offset by increases in interest rates (particularly in euros) as all of our remaining outstanding bonds were swapped using interest rate swaps into floating rate obligations.

Provision for taxes

Year ended December 31, ($ in millions)	2008	2007	2006
Income from continuing operations, before taxes and minority interest	4,518	4,010	2,397
Provision for taxes	(1,119)	(595)	(686)
Effective tax rate for the year	24.8%	14.8%	28.6%

The provision for taxes in 2008 was $1,119 million, representing an effective tax rate for the year of 24.8 percent. The provision for taxes in 2008 includes the change in valuation allowance of approximately $414 million on deferred taxes as we determined it was more likely than not that such deferred tax assets would be realized. The change in valuation allowance was predominantly related to our operations in north America with approximately $330 million. In addition, the provision for taxes in 2008 included an expense of approximately $140 million relating to a pending tax dispute in north Europe. Approximately $100 million related to costs of previously disclosed investigations by the U.S. and European authorities into suspect payments and alleged anti-competitive practices that were deducted for financial accounting purposes, but were not tax deductible.

The provision for taxes in 2007 was $595 million, representing an effective tax rate for the year of 14.8 percent. The provision for taxes in 2007 includes the change in valuation allowance of approximately $698 million on deferred taxes as we determined it was more likely than not that such deferred tax assets would be realized. The change in valuation allowance was predominantly related to our operations in certain countries such as the United States with approximately $490 million, but also including countries such as Canada and the United Kingdom. In addition, the provision for taxes in 2007 included an expense of approximately $35 million relating to the interpretation of tax law and double tax treaty agreements by competent tax authorities in northern Africa and an expense of approximately $45 million relating to a net increase in tax accruals.

The provision for taxes in 2006 was $686 million, representing an effective tax rate for the year of 28.6 percent. The provision for taxes in 2006 includes an expense of approximately $35 million relating to items that were deducted for financial accounting purposes but not for the purpose of computing taxable income, such as interest expense, state and local taxes on productive activities and other non-deductible expenses. Furthermore, the provision for taxes in 2006 also included an expense of approximately $70 million relating to a net increase in tax accruals.

Income from continuing operations

Income from continuing operations decreased by $32 million to $3,139 million in 2008, after increasing by $1,639 million to $3,171 million in 2007. The improvement in EBIT in 2008 was largely offset by a lower net interest and other finance expense as well as a higher tax rate discussed above. Income from continuing operations in 2007 benefited from a sharp increase in EBIT as well as a very favorable tax rate compared to 2006.

Income (loss) from discontinued operations, net of tax

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

Net income

As a result of the factors discussed above, net income decreased by $639 to $3,118 million in 2008 and increased by $2,367 million to $3,757 million in 2007 from $1,390 million in 2006.

Earnings (loss) per share

Year ended December 31, ($)	2008	2007	2006
Income from continuing operations:			
Basic	1.37	1.40	0.72
Diluted	1.37	1.38	0.69
Income (loss) from discontinued operations, net of tax:			
Basic	(0.01)	0.26	(0.07)
Diluted	(0.01)	0.25	(0.06)
Net income:			
Basic	1.36	1.66	0.65
Diluted	1.36	1.63	0.63

Basic earnings (loss) per share is calculated by dividing income (loss) by the weighted-average number of shares outstanding during the year. Diluted earnings (loss) per share is calculated by dividing income (loss) by the weighted-average number of shares outstanding during the year, assuming that all potentially dilutive securities were exercised, if dilutive. Potentially dilutive securities comprise: outstanding written call options; outstanding options and shares granted subject to market and/or vesting conditions under our share-based payment arrangements and, prior to September 2007, shares issuable in relation to our outstanding convertible bonds. (See "Note 20 Earnings per share" to our Consolidated Financial Statements.)

Divisional analysis

Power Products

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

Year ended December 31, ($ in millions)	2008	2007	2006
Orders	13,627	11,320	8,572
Order backlog[1]	7,977	6,932	4,845
Revenues	11,890	9,777	7,275
EBIT	2,100	1,596	939

[1] At December 31

Orders

Orders increased by $2,307 million, or 20 percent (15 percent in local currencies) in 2008 after improving $2,748 million, or 32 percent (25 percent in local currencies) in 2007. These improvements were primarily due to growth in demand for electricity, particularly in emerging markets, and the expansion and improvement of power grid infrastructure, with a focus on environmental sustainability. The increase in orders reflected growth in all businesses, led by Transformers. Base orders, which grew by 18 percent and 30 percent (12 percent and 22 percent in local currencies), made up the vast majority of orders, in 2008 and 2007, respectively. Price increases to cover the increase in the cost of raw materials also contributed to the order increase in 2007.

The geographic distribution of orders as a percentage of total orders in 2008, 2007 and 2006 for our Power Products division was approximately as follows:

Year ended December 31, (%)	2008	2007	2006
Europe	38	39	36
The Americas	24	24	25
Asia	30	30	31
Middle East and Africa	8	7	8
Total	**100**	**100**	**100**

The share of orders from Europe, which continued to be the largest regional source of orders, decreased marginally. However, it recorded order growth in absolute terms in 2008. This growth was driven by the need to replace aging infrastructure and increased demand for power grid interconnections and renewable energy sources. The share of orders from the Americas remained flat and was considerably influenced by orders from the United States, driven by the need to replace aging infrastructure and to meet existing mandated reliability standards and load growth. The share of orders from Asia remained stable compared to 2007. Demand was driven by the growth in energy needs, particularly in China and India, resulting from increasing levels of industrialization and urbanization. The share of orders from MEA improved in 2008, reflecting increased investment in infrastructure in the region, supported by high oil prices.

Order backlog

Order backlog in 2008 increased by $1,045 million, or 15 percent (24 percent in local currencies), after increasing by $2,087 million, or 43 percent (32 percent in local currencies) in 2007, due to increased order intake in all businesses, led by Transformers which typically have longer delivery schedules.

Revenues

Revenues increased by $2,113 million, or 22 percent (18 percent in local currencies) in 2008 as a result of continued order growth and strong opening order backlog in almost all market segments, particularly in transformers.

Revenues increased by $2,502 million, or 34 percent (27 percent in local currencies), in 2007, as a result of order growth experienced in many market segments, particularly in transformers and sales price increases to cover increased raw material costs.

The geographic distribution of revenues in 2008, 2007 and 2006, for our Power Products division was approximately as follows:

Year ended December 31, (%)	2008	2007	2006
Europe	38	39	37
The Americas	24	24	25
Asia	30	30	31
Middle East and Africa	8	7	7
Total	**100**	**100**	**100**

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

The growth in European revenues in 2007 was led by Russia and Germany. Revenue growth in Asia in 2007 was led by China and India, while revenue growth in the Americas was particularly strong in the United States. In MEA, the share of revenues remained similar compared to 2006 with the increase in revenues driven by Saudi Arabia.

Earnings before interest and taxes

EBIT grew by $504 million, or 32 percent (24 percent in local currencies), in 2008, after increasing $657 million, or 70 percent (60 percent in local currencies), in 2007. The EBIT margin for the division was 17.7 percent in 2008, as compared to 16.3 percent in 2007 and 12.9 percent in 2006. EBIT and EBIT margin benefited from higher contribution from increased revenues, improved capacity utilization across all businesses, operational and productivity improvements, supply chain savings and positive impacts from the transformer consolidation program. Total costs related to the transformer consolidation program in 2008 amounted to $46 million ($34 million in 2007).

Fiscal year 2009 outlook

Uncertainty in the lending environment may contribute to project delays and the general global economic slowdown may result in further weakening of industrial and construction-related demand which may affect our products linked to the distribution sector. However, we currently believe that utilities will continue to invest in equipment replacement and grid upgrades.

Power Systems

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

Year ended December 31,	2008	2007	2006
($ in millions)			
Orders	7,408	7,744	5,733
Order backlog[1]	7,704	8,209	5,627
Revenues	6,912	5,832	4,544
EBIT	592	489	279

[1] At December 31

Orders

Order intake in 2008 decreased by $336 million, or 4 percent (8 percent in local currencies) due to a lower volume of large orders, while the base order volume was maintained at the previous year's level. Large projects secured in 2008 included a $233 million order from Hyundai Engineering and Construction (HDEC) of Korea to supply power systems and grid connections for a natural gas and steam turbine (combined-cycle) power plant to be built in Qatar. A $170 million contract was received from Svenska Kraftnät and Fingrid Oyj, the transmission system operators in Sweden and Finland, for two HVDC converter stations for the Fenno-Skan 2 power link. A $150 million order was received from Dutch utility Nuon to provide power systems and grid connections for a new power plant to be built in the Netherlands.

The increase in orders in 2007 compared with 2006 reflected a significant growth of 52 percent (41 percent in local currencies) and 26 percent (18 percent in local currencies), of large and base orders, respectively, as demand for power transmission and distribution systems was strong in most markets. The large orders secured in 2007 included an offshore wind farm project in Germany with an order value of more than $400 million, a $350 million cable order to connect the United Kingdom with the Netherlands and an ultrahigh-voltage power link in China with an order value for the Power Systems division of approximately $270 million.

The geographic distribution of orders as a percentage of total orders in 2008, 2007 and 2006 for our Power Systems division was approximately as follows:

Year ended December 31,	2008	2007	2006
(%)			
Europe	39	46	39
The Americas	16	11	17
Asia	20	21	16
Middle East and Africa	25	22	28
Total	**100**	**100**	**100**

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

The order growth in Europe in 2007 was fueled by large projects and a double-digit growth in base orders. Europe was the largest regional source of orders and increased its percentage share in 2007. Asia saw strong order growth in 2007 and was helped by a large ultrahigh-voltage project in China and strong base order growth led by India. The share of orders from the Americas and MEA decreased as Europe and Asia recorded significant increases in their respective order volumes and gained higher percentage shares compared to 2006. Base order growth in the Americas was offset by a lower level of large orders, resulting in lower overall order volumes in 2007 compared to 2006. 2007 orders in MEA slightly decreased despite the strong market growth, as the high level of large projects in 2006 did not recur in 2007.

Order backlog

Order backlog in 2008 decreased by $505 million, or 6 percent (increased 4 percent in local currencies), due mainly to a lower volume of large order intake. The order backlog increased by $2,582 million, or 46 percent (34 percent in local currencies), at December 31, 2007, compared with December 31, 2006, reflecting the growth in large and base orders.

Revenues

Revenues increased by $1,080 million, or 19 percent (16 percent in local currencies), in 2008 as compared with an increase of $1,288 million, or 28 percent (20 percent in local currencies), in 2007. Revenues in 2008, as in 2007 grew mainly as a result of an increased level of project execution of both backlog and new orders.

The geographic distribution of revenues in 2008, 2007 and 2006 for our Power Systems division was approximately as follows:

Year ended December 31, (%)	2008	2007	2006
Europe	42	40	44
The Americas	14	15	16
Asia	18	20	20
Middle East and Africa	26	25	20
Total	**100**	**100**	**100**

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

All regions recorded growth in revenues over the previous year in 2007. Europe and the Americas saw a decrease in their respective shares of total revenues as MEA gained a higher share. Growth in Europe, in 2007, was led by central and eastern Europe, with a significant increase in Russia. The higher revenues from the Americas, in 2007, reflected strong revenue growth, particularly from Canada on the execution of the HVDC project booked in 2006 and also from increases in the United States and Brazil. The revenue increase in Asia related primarily to strong growth in India.

Earnings before interest and taxes

EBIT of the Power Systems division grew by $103 million, or 21 percent (19 percent in local currencies) in 2008, compared with growth of $210 million, or 75 percent (63 percent in local currencies), in 2007, over the previous year. The EBIT margin for the division improved to 8.6 percent in 2008 compared with 8.4 percent and 6.1 percent in 2007 and 2006, respectively.

The increase in EBIT and EBIT margin in 2008 and 2007 can be attributed mainly to higher revenues and capacity utilization, bidding selectivity, project execution and the cost benefit from expanding engineering resources in emerging markets.

Fiscal year 2009 outlook

Key market drivers for the Power Systems division are economic growth in emerging markets, upgrades of aging infrastructure, power reliability and quality concerns, increased focus on energy efficiency and environmental issues and the integration of renewable energy sources. Looking ahead, we believe the economic slowdown could result in a reduction of electricity consumption and uncertainties around financing could lead to postponement of large orders in some cases. At the same time, we believe governments may also leverage infrastructure investments in the energy sector, such as transmission interconnections, to stimulate the economy. There are also political commitments in the EU, U.S., and Asia to increase the share of energy from renewable sources, which could spur activity in the sector.

Automation Products

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

Year ended December 31, ($ in millions)	2008	2007	2006
Orders	10,872	9,314	7,706
Order backlog[1]	3,863	3,490	2,439
Revenues	10,250	8,644	6,837
EBIT	1,908	1,477	1,053

[1] At December 31

Orders

Orders increased by $1,558 million, or 17 percent (11 percent in local currencies), in 2008 and $1,608 million, or 21 percent (13 percent in local currencies), in 2007.

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

Demand in 2007 was high as many industrial customers increased their investments in efficiency improvements due to higher raw material and energy costs. Orders received increased for all business units with the highest growth in power electronics and MV drives which received a $110 million order for an advanced railway power converter system in Germany. Also, standard products such as Low Voltage (LV) drives, breakers and switches, LV motors, control products, instrumentation, enclosures and DIN-rail components reached double-digit growth in local currencies.

The geographic distribution of orders as a percentage of total orders in 2008, 2007 and 2006 for our Automation Products division was approximately as follows:

Year ended December 31, (%)	2008	2007	2006
Europe	60	63	63
The Americas	11	11	12
Asia	23	21	20
Middle East and Africa	6	5	5
Total	**100**	**100**	**100**

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

In 2007, the share of orders from Europe and MEA remained at the same level compared to 2006, while the share of orders from the Americas slightly decreased due to the increase in the share of orders from Asia, as a result of fast growing markets in that region, especially in China and India. Orders in Europe increased, supported by the growth in eastern Europe. Orders in the Americas increased, although north America grew at a lower pace than in 2006 due to slowdown in the United States, which was more than offset by growth in south America, particularly, Brazil. The increase in MEA was mainly the result of continued high investments in the oil and gas sector.

Order backlog

Order backlog in 2008 increased by $373 million, or 11 percent (18 percent in local currencies), as orders were higher than revenues for most business units, especially in Power Electronics and MV Drives which booked several larger MV drive projects during the last half of the year.

Order backlog increased by $1,051 million, or 43 percent (31 percent in local currencies), at December 31, 2007, from December 31, 2006. The increase related mainly to growth in orders related to systems and engineered products, which have longer delivery times compared to standard products.

Revenues

Revenues increased by $1,606 million, or 19 percent (13 percent in local currencies) in 2008, compared with $1,807 million, or 26 percent (18 percent in local currencies), in 2007.

The increases in 2008 were a result of higher order intake and execution of a strong order backlog. The revenue growth came from higher volumes as only minor price increases were made in 2008.

During 2007, revenues increased in all business units, such as Machines and Power Electronics and MV Drives, due to the high order backlog, with strong growth in engineered products and systems. The growth was mainly achieved by increased volumes but also by higher prices to compensate for increased raw material costs.

The geographic distribution of revenues in 2008, 2007 and 2006 for our Automation Products division was approximately as follows:

Year ended December 31, (%)	2008	2007	2006
Europe	62	61	63
The Americas	11	12	12
Asia	22	22	20
Middle East and Africa	5	5	5
Total	**100**	**100**	**100**

All regions achieved double-digit growth in revenues 2008. Europe grew 18 percent supported by a high order backlog. The weakening construction markets in western Europe and north America led to lower growth rates for standard products in these regions. High growth was achieved in Asia mainly as result of good order intake and a high backlog in China and India. Revenues in MEA increased due to improved development of orders in the Gulf area.

Revenues in 2007 showed double-digit growth in all regions. The share of European orders decreased, although Europe and north America benefited from a high order backlog of engineered products and systems and standard products, which contributed to the growth over 2006. Revenues in south America grew significantly following several company initiatives to add sales and marketing resources in this region. Continued strong growth in orders and the expansion of more local production resources in China and India, resulted in a high growth in Asia and contributed to an increase in the share of total revenues. Revenues in the MEA region grew strongest in Dubai, Egypt and South Africa.

Earnings before interest and taxes

In 2008, EBIT for the Automation Products division grew by $431 million or 29 percent (21 percent in local currencies) after increasing $424 million or 40 percent (30 percent in local currencies) in 2007. The EBIT margin for the division was 18.6 percent in 2008, compared with 17.1 percent and 15.4 percent in 2007 and 2006, respectively.

In 2008, EBIT for the Automation Products division grew due to increased revenues and continued operational improvements. All businesses improved EBIT except Wiring Accessories which suffered from lower revenues due to the weakening construction market. The largest margin improvements were made in Power Electronics and MV Drives, Machines, LV Drives and Enclosures and DIN-rail Products due to increased capacity utilization and operational improvements.

The EBIT increase in 2007 was driven by the revenue growth, continued high capacity utilization and further migration to emerging markets. All businesses increased EBIT with the largest improvements made in Power Electronics, MV Drives, Machines and LV Systems. In addition, EBIT margins on standard products such as LV drives, breakers and switches, LV motors and enclosures and DIN-rail components increased from already high levels.

Fiscal year 2009 outlook

The outlook in the markets has high uncertainty. We believe the general global economic slowdown may result in further weakening of demand and market conditions in industrial and construction markets. However, in renewable energy and energy efficiency applications we expect continued investments.

Process Automation

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

Year ended December 31, ($ in millions)	2008	2007	2006
Orders	8,657	7,935	6,550
Order backlog[1]	6,111	5,951	3,991
Revenues	7,815	6,420	5,448
EBIT	926	683	541

[1] At December 31

Orders

Orders increased by $722 million, or 9 percent (4 percent in local currencies), with growth in large orders of 9 percent (1 percent in local currencies). Our Process Automation division also reported an increase in base orders of 9 percent (5 percent in local currencies), in 2008, compared to 2007. Strong orders during the first quarter together with continued high activity in the market during the second quarter contributed to the growth, while in the second half of 2008 the growth noted in products and services was more than offset by lower large orders in the Systems business. The oil, gas and petrochemical, metals, marine and turbocharging sectors recorded the strongest growth while the pulp and paper and minerals sectors recorded lower order intake.

During the fourth quarter of 2008, the Process Automation division experienced a weakening order intake across most customer segments and regions, especially for large orders. Customer investments were delayed due to reduced commodity prices, limited access to project financing and increased uncertainty regarding future demand.

Orders increased by $1,385 million, or 21 percent (13 percent in local currencies), with substantial growth in large orders of 45 percent (35 percent in local currencies) and an increase in base orders of 16 percent (8 percent in local currencies), in 2007, compared to 2006. The market was driven by high fuel and commodity prices, leading to expansion investments especially in Asia and MEA regions. This expansion contributed to the strong growth in metals, minerals, marine and turbocharging sectors. Pulp and paper orders were lower, mainly due to high investments in Asia in 2006.

The geographic distribution of orders as a percentage of total orders in 2008, 2007 and 2006 for our Process Automation division was approximately as follows:

Year ended December 31,	2008	2007	2006
(%)			
Europe	40	42	46
The Americas	19	19	16
Asia	29	30	25
Middle East and Africa	12	9	13
Total	**100**	**100**	**100**

In 2008, European orders continued to lead the share of the total orders for the Process Automation division, followed by Asia, the Americas and MEA. Investments in the marine sector, mainly from the cruise ship builders, contributed to the orders in Europe. Additionally, there were several orders booked from the minerals and metals sectors in this region. The Americas experienced strong growth driven by the Minerals business in Canada and Brazil, the Oil and Gas business in the United States and Mexico and the Service business in the United States. Orders in Asia were also at a high level coming mainly from the Marine and Metals businesses in China, Singapore and Korea. MEA experienced significant growth during 2008 supported by high commodity prices at the beginning of the year which drove industrial investments especially in the oil and gas and minerals sectors.

European orders showed a slight increase in absolute terms in 2007 but the region's share of the total orders decreased due to higher proportional increases in the Americas and Asia. Europe continued to account for the largest share of orders, mainly driven by the Service business and the demand from the shipbuilding, metals and minerals sectors. The Americas also experienced significant growth driven by the Minerals business in Canada and Brazil, the Oil and Gas business in Chile and the Service business in the United States resulting in an increase in the region's share of total orders. Asia's proportional share of the total orders also increased with strong growth mainly coming from the infrastructure related Metals and Minerals businesses as well as the Marine business. MEA experienced growth in the Minerals business, but recorded a decrease in total orders due to two extraordinary large orders from the oil and gas sector from Algeria in 2006, which were not replaced by similarly sized orders in 2007, leading to a decrease in their share.

Order backlog

Order backlog at December 31, 2008 increased by $160 million, or 3 percent (12 percent in local currencies), compared to December 31, 2007. The growth in the order backlog was driven by large system orders received in the oil and gas, minerals and marine sectors with delivery schedules extending into 2010 and beyond.

Revenues

Revenues increased by $1,395 million, or 22 percent (18 percent in local currencies), in 2008 compared with an increase of $972 million, or 18 percent (10 percent in local currencies), in 2007.

Revenues increased strongly as a result of the execution of the large order backlog in the Systems business as well as strong revenues in both Service and Products businesses. All regions and sectors recorded strong revenues but the highest growth was noted in our Marine, Metals, Minerals, Oil and Gas and Turbocharging businesses. Overall revenues were up across the Systems business with 19 percent, the Products business with 18 percent and the Service business with 14 percent growth.

Revenues in 2007 increased in all sectors with significant growth reported in our Minerals, Metals, Marine and Turbocharging businesses. The revenue growth was mainly a result of the large order backlog and growth in the Turbocharging products business.

The geographic distribution of revenues in 2008, 2007 and 2006 for our Process Automation division was approximately as follows:

Year ended December 31,	2008	2007	2006
(%)			
Europe	44	46	46
The Americas	19	17	19
Asia	27	26	26
Middle East and Africa	10	11	9
Total	**100**	**100**	**100**

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

Revenues increased in all regions with Asia, Europe and MEA showing strong growth in 2007. Europe experienced an increase in revenues, driven primarily by the OEM and Service business, which allowed the region to maintain the largest share of total revenues, with a share of total revenues similar to that in 2006. Revenues in the Americas were mainly driven by the Service business, but as the other regions grew faster, the Americas' share of the total revenues declined. Revenues in Asia were driven by the strong order backlog from previous periods especially within the Marine and Metals businesses, however, the share of total revenues remained at the same level as it did in 2006. The MEA share of total revenues increased mainly from the large oil and gas projects in Algeria as well as the booming Minerals business.

Earnings before interest and taxes

EBIT for our Process Automation division grew by $243 million, or 36 percent (33 percent in local currencies), in 2008 compared with an increase of $142 million, or 26 percent (18 percent in local currencies), in 2007. The EBIT margin increased to 11.8 percent from 10.6 percent in 2007 after improving from 9.9 percent in 2006. Increased contribution from higher revenues, focus on project execution and cost migration projects contributed to the improvement in EBIT and EBIT margin.

Fiscal year 2009 outlook

The momentum in the market during 2007 and the first nine months of 2008 was followed by a significant slow-down during the fourth quarter of 2008. The market is still driven by cost savings and energy/production efficiency requirements. However, these market drivers have become less important with the recent development of commodity prices. Large scale investments have been delayed as a result of two main drivers: limited access to capital and the increased uncertainty of future demand.

Robotics

The financial results of our Robotics division were as follows:

Year ended December 31, ($ in millions)	2008	2007	2006
Orders	1,658	1,488	1,240
Order backlog[1]	545	529	441
Revenues	1,642	1,407	1,288
EBIT	9	79	1

[1] At December 31

Orders

Orders increased by $170 million or 11 percent (5 percent in local currencies) as an overall growth in general industry offset the accelerated downturn in the automotive industry in the second half of the year. In 2007, orders increased by $248 million, or 20 percent (13 percent in local currencies), as order increases in general industry, such as packaging, electronics and food processing continued. Demand also increased in the Service business and the Paint Systems business in the automotive sector.

The geographic distribution of orders as a percentage of total orders in 2008, 2007 and 2006 for our Robotics division was approximately as follows:

Year ended December 31, (%)	2008	2007	2006
Europe	58	56	58
The Americas	20	24	25
Asia	21	20	17
Middle East and Africa	1	–	–
Total	**100**	**100**	**100**

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

In 2007, orders grew in all regions, while the share of total division orders derived from Europe and the Americas decreased due to an increase in the share of orders derived from Asia resulting from significant growth in that region compared to 2006. European orders increased in absolute terms, benefiting from the demand growth in general industry, such as packaging, electronics and food processing and the Systems business in western Europe. Orders in the Americas in 2007 increased, as a result of regaining a share of the automotive industry compared to 2006. Increased orders in Japan and China due to higher demand in General industry and the Automotive industry contributed to the growth in Asia in 2007. Total orders in MEA, which are not significant to the total division orders, also increased in 2007.

Order backlog

Order backlog in 2008 increased by $16 million, or 3 percent (6 percent in local currencies), mainly reflecting an increase in orders in the Systems business.

Order backlog increased by $88 million, or 20 percent (12 percent in local currencies), at December 31, 2007, from December 31, 2006, reflecting primarily the increased orders from general industry.

Revenues

Revenues increased by $235 million, or 17 percent (11 percent in local currencies), in 2008 compared to an increase of $119 million, or 9 percent (3 percent in local currencies), in 2007.

The increase in revenues in 2008 was driven by a strong order backlog and strong order growth in general industry especially during the first three quarters of 2008. The increase in revenues in 2007 followed the trend in orders led by the Systems business.

The geographic distribution of revenues in 2008, 2007 and 2006 for our Robotics division was approximately as follows:

Year ended December 31, (%)	2008	2007	2006
Europe	58	58	57
The Americas	21	23	25
Asia	20	18	18
Middle East and Africa	1	1	–
Total	**100**	**100**	**100**

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

In 2007, revenues increased in all regions reflecting the upward trend in orders. Revenues in Europe increased due to continued improvement in general industry which also resulted in a slight increase in the region's share of total revenues compared to 2006. America's share of total revenues decreased as the total revenues from this region remained stable as a result of the increased sales in general industry offset by the slower development in the automotive sector. Revenues from Asia grew, led by growth in China which allowed Asia to maintain its share of total revenues compared to 2006.

Earnings before interest and taxes

Our Robotics division took further actions to improve its competitive position by accelerating the move of manufacturing and engineering capacities to low cost countries. EBIT for our Robotics division decreased by $70 million to $9 million in 2008, mostly as a result of these restructuring related charges, after increasing by $78 million in 2007 to $79 million. The EBIT margin for the division decreased to 0.5 percent in 2008, down from 5.6 percent in 2007.

Higher revenues especially increased sales in general industry, margin improvements in the Systems business and increased sourcing of materials in emerging markets contributed to the EBIT improvement in 2007.

Fiscal year 2009 outlook

The current downturn in the worldwide automotive industry also affects general industry segments. We believe it will continue to stress the competitive situation in the robotics market during 2009 and lead to increased pressure on prices and margins within OEMs and their related suppliers.

Corporate and Other

Corporate and Other comprises corporate headquarters and stewardship, corporate R&D, corporate real estate, equity investments primarily in Colombia, Ivory Coast and South Africa that are being considered for sale as well as other activities. EBIT for Corporate and Other over the three year period was as follows:

Year ended December 31, ($ in millions)	2008	2007	2006
Corporate headquarters and stewardship	(277)	(202)	(224)
Corporate research and development	(118)	(98)	(89)
Corporate real estate	49	43	34
Equity ventures	(1)	10	61
Other	(636)	(54)	(38)
Total Corporate and Other	**(983)**	**(301)**	**(256)**

Corporate headquarters and stewardship costs in 2008 were higher due mainly to higher pension and insurance costs and specific costs incurred related to programs such as brand promotion. Corporate headquarters and stewardship operating results improved in both 2007 and 2006 as a result of the continued focus on reducing corporate costs in the Company's operations throughout the world and in corporate headquarters in Zurich. Improved corporate headquarters and stewardship results in 2007 as compared to 2006 were partly due to lower costs associated with the internal control measures to comply with the provisions of the Sarbanes Oxley Act of 2002. Headquarters and stewardship results in 2007 also included a $17 million contribution made to the Jürgen Dormann Foundation and some minor gains from businesses sold during the period.

Corporate R&D increased due to higher activities in the research and development areas in 2008. Corporate R&D increased slightly in 2007, primarily due to the appreciation of the local currencies relative to the U.S. dollar.

Corporate real estate consisted primarily of rental income from intragroup real estate agreements which are eliminated in the calculation of our total consolidated orders and revenues. EBIT of real estate operations in 2008 included $33 million gain from the sale of properties mainly in Switzerland, Brazil, Italy, Mexico and Poland. In 2007, EBIT in real estate operations were mainly from the gain on the sale of real estate properties in Switzerland, Norway, Brazil and Australia.

EBIT from equity investments decreased in 2008 as most investments were sold in previous years. In 2007, EBIT from equity investments were generated mainly from equity investments in Jorf Lasfar and Neyveli which were sold mid 2007. The gain on sale of these equity investments of $38 million was more than offset by a $42 million impairment charge in respect of another equity investment which we intend to divest. In 2006, our equity investments contributed $61 million primarily representing income from Jorf Lasfar and Neyveli.

EBIT from Other in 2008 was mainly caused by provisions related to the Power Transformer investigations and disclosures to the SEC and DoJ on suspect payments (see "Note 15

Commitments and contingencies" in our Consolidated Financial statements). It also included the costs of our Group Treasury Operations, which are part of our corporate finance function of $10 million in 2008 and 2007. Further, Other included $7 million in losses mainly related to the write-down of assets of our Distributed Energy business in Great Britain, and in 2007, losses related to projects in Building Systems and other businesses.

Discontinued operations

The income (loss) from discontinued operations, net of tax for the years ended December 31, 2008, 2007 and 2006 is broken down as follows:

Year ended December 31, ($ in millions)	2008	2007	2006
Downstream Oil and Gas business	(5)	539	9
Building Systems business Germany	–	(2)	(65)
Transformer business South Africa	13	15	16
Cable business Ireland	–	(1)	(48)
Upstream Oil, Gas and Petrochemicals	–	21	15
Asbestos	(31)	–	(70)
Others	2	14	1
Total	**(21)**	**586**	**(142)**

Tax expense, net, in discontinued operations represented an expense (benefit) of $(36) million, $36 million and ($7) million in 2008, 2007 and 2006, respectively.

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

Capital expenditures

Total capital expenditures for property, plant and equipment including non-acquisition related intangible assets amounted to $1,171 million, $756 million and $536 million in 2008, 2007 and 2006, respectively. Compared to the depreciation expenses, capital expenditures were 77 percent higher in 2008, 27 percent higher in 2007 and 3 percent lower in 2006.

Due to the current geographic distribution of our production facilities, capital expenditures in 2008 remained at a significant level in western Europe. Capital expenditures in this region were primarily driven by maintenance and upgrades of existing production facilities to improve productivity, mainly in Sweden, Germany and Switzerland. Capital expenditures in emerging markets increased significantly in 2008. Expenditures were highest in China, India, Poland and Mexico. Capital expenditures in emerging markets were mostly made to expand or build new facilities to increase the production capacity, as a result of the rapid growth in these geographical markets. The share of emerging market capital expenditure as a percentage of total capital expenditure increased from 37 percent in 2007 to 43 percent in 2008.

The carrying value of property, plant and equipment sold amounted to $50 million, $30 million and $54 million in 2008, 2007 and 2006, respectively. Of the total sales of property, plant and equipment in 2008, the majority related to real estate properties in Switzerland, Brazil, Mexico, Poland and Italy. Of the total sales of property, plant and equipment in 2007, a significant portion was related to real estate properties in Norway, Sweden and Italy. In 2006, the sale of property, plant and equipment was related mostly to real estate properties, primarily in Switzerland and Germany.

Construction in progress for property, plant and equipment at December 31, 2008 was $534 million, which mainly related to construction projects in Sweden, the United States, Switzerland, China and Germany. Construction in progress for property, plant and equipment at December 31, 2007 was $285 million, mainly in Sweden, the United States, China, India, Switzerland and Germany. At December 31, 2006, the amount of construction in progress was $173 million, mainly in Germany, Finland, China, Sweden and Switzerland.

In 2009, we plan to reduce our capital expenditures, but estimate the amount to be higher than our annual depreciation and amortization charge. We anticipate higher investments in Asia and correspondingly lower capital spending in Europe.

Liquidity and capital resources

Principal sources of funding

In 2008, 2007 and 2006, we met our liquidity needs principally using cash from operations and bank borrowings.

During 2008, 2007 and 2006, our financial position was strengthened by the positive cash flow from operating activities of $3,958 million, $3,054 million and $1,939 million, respectively. The cash generated in 2008 allowed us to make the nominal value reduction in share capital, launch and execute part of our share buyback program (see "Note 19 Stockholders' equity" to our Consolidated Financial Statements) and acquire businesses (see "Note 3 Acquisitions, divestments and discontinued operations" to our Consolidated Financial Statements). The cash generated in 2007 and 2006 enabled us to reduce the level of our securitization programs and to restructure or repurchase debt (see "Note 12 Debt" to our Consolidated Financial Statements).

Our financial position at December 31, 2008 and 2007 is demonstrated in the table below:

December 31, ($ in millions)	2008	2007
Cash and equivalents	6,399	4,650
Marketable securities and short-term investments	1,407	3,460
Short-term debt and current maturities of long-term debt	(354)	(536)
Long-term debt	(2,009)	(2,138)
Net cash (defined as the sum of the above lines)	**5,443**	**5,436**

Net cash at December 31, 2008, was comparable to the balance at December 31, 2007, despite the cash generated by operations during 2008 of $3,958 million. See "Financial Position", "Net cash provided by (used in) investing activities" and "Net cash used in financing activities" for further details.

Our Group Treasury Operations is responsible for providing a range of treasury management services to our group companies and is also responsible for investing cash in excess of current business requirements. At December 31, 2008 and 2007, the proportion of our aggregate cash and equivalents and marketable securities and short-term investments managed by our Group Treasury Operations amounted to 73 percent and 71 percent, respectively. At December 31, 2007, denomination of the investments by our Group Treasury Operations was split approximately equally between euros and U.S. dollars. However, during 2008, with the significant fall in short-term U.S. dollar interest rates and our aim of maximizing the return on excess cash, we reduced the weighting of U.S. dollar investments significantly and, rather than swapping funds received into U.S. dollars or euros, the investments have been placed in the currency of their origination. Consequently, at December 31, 2008, of the excess cash invested by our Group Treasury Operations, approximately 47 percent has been placed in euros, 32 percent in Swiss francs, 10 percent in Swedish krona, 6 percent in Norwegian krona, 4 percent in U.S. dollars and the remainder in other currencies.

We actively monitor credit risk in our investment portfolio and hedging activities. Credit risk exposures are controlled in accordance with policies approved by our senior management to identify, measure, monitor and control credit risks. We will continue to closely monitor ongoing developments in the credit markets and make appropriate changes to our investment policy as deemed necessary.

At December 31, 2007, excess cash invested by our Group Treasury Operations was placed in bank time deposits. During 2008, in view of the deepening financial market turmoil, we took a number of actions in order to safeguard our liquidity. Firstly, we shortened the tenor of our deposits with banks, despite the fact that we already had a minimum requirement of A rating for our banking counterparts. Secondly, we diversified the investment of excess cash away from the banking sector into corporate commercial paper with original maturities at date of purchase of up to 2 months (classified as cash and equivalents in our Consolidated Balance Sheet). Until late November, we required a minimum short-term A-2/P-2 rating for investments in such paper but as the financial crisis deepened, we became more restrictive and increased the minimum required rating to A-1/P-1. In addition to rating criteria, we have specific investment criteria and restrictions on the sectors we invest in. These parameters are closely monitored on an ongoing basis and amended as we consider necessary. At December 31, 2008, approximately $532 million was invested in such corporate papers, down from $1,444 million at September 30, 2008, reflecting our increasingly restrictive investment criteria in the fourth quarter of 2008. Thirdly, as the financial market crisis deepened in the fourth quarter of 2008, we further diversified the investment of our excess cash into AAA-rated Government bonds with original maturities at date of purchase of up to a maximum of 6 months. These papers are classified as available-for-sale and included in cash and equivalents ($550 million) and marketable securities ($934 million) in the balance sheet at December 31, 2008. Our current objective is to maintain diversification in our investment portfolio and have a mix of government securities, highly-rated corporate short-dated commercial paper and time deposits of short duration with banks.

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

Debt and interest rates

At December 31, 2008 and 2007, total outstanding debt amounted to $2,363 million and $2,674 million, respectively, as shown in the table below:

December 31, ($ in millions)	**2008**	**2007**
Short-term debt including current maturities of long-term debt (including bonds)	354	536
Long-term debt		
bonds	1,856	1,983
other long-term debt	153	155
Total debt	**2,363**	**2,674**

The decrease in debt in 2008 was primarily due to the maturity of bonds and other debt in the year and to a lesser extent due to exchange rate movements.

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

After considering the effects of interest rate swaps, the effective average interest rate on our floating rate long-term debt (including current maturities) of $2,124 million and our fixed rate long-term debt (including current maturities) of $80 million was 5.8 percent and 4.8 percent, respectively. This compares with an effective rate of 6.8 percent for floating rate long-term debt of $2,398 million and 6.4 percent for fixed-rate long-term debt of $147 million at December 31, 2007.

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

Credit facilities

In 2005, we put in place a five-year, $2 billion multicurrency revolving credit facility. During 2007, we amended the facility to reduce the costs associated with it and to remove the sole remaining financial covenant which was related to maximum net leverage. For further details of this credit facility, see "Note 12 Debt" to our Consolidated Financial Statements.

No amount was drawn under the facility at December 31, 2008 and 2007. The facility is for general corporate purposes and will serve as a back-stop facility to our commercial paper programs in the event that we issue commercial paper under the programs described below. The facility contains cross-default clauses whereby an event of default would occur if we were to default on indebtedness, as defined in the facility, at or above a specified threshold.

Commercial paper

In 2007, we established a $1 billion commercial paper program for the private placement of USD denominated commercial paper in the United States and a $1 billion Euro-commercial paper program for the issuance of commercial paper in a variety of currencies. These programs are in addition to the existing 5 billion Swedish krona program (equivalent to approximately $641 million, using December 31, 2008 exchange rates), allowing us to issue short-term commercial paper in either Swedish krona or euro.

At December 31, 2008 and 2007, no amounts had been issued or were outstanding under these commercial paper programs.

Medium Term Note Program (MTN)

We have in place a MTN Program that allows us to issue up to the equivalent of $5,250 million in certain debt instruments. At December 31, 2008 and 2007, $1,918 million and $2,094 million, respectively, of our total debt outstanding, were debt issuances under the MTN Program. The terms of the MTN Program do not obligate any third party to extend credit to us and the terms and availability of financings under the MTN Program are determined with respect to, and as of the date of issuance of, each debt instrument.

Credit ratings

Credit ratings are assessments by the rating agencies of the credit risk associated with our company and are based on information provided by us or other sources that the rating agencies consider reliable. Higher ratings generally result in lower borrowing costs and increased access to capital markets. Since April 2006, our ratings are of "investment grade" which is defined as Baa3 (or above) from Moody's and BBB– (or above) from Standard & Poor's.

At December 31, 2007, our long-term company ratings were Baa1 and A–, from Moody's and Standard & Poor's, respectively, as were our long-term unsecured debt ratings. On January 21, 2008, Moody's announced an upgrade in our long-term ratings from Baa1 to A3. Our ratings have remained unchanged during the remainder of 2008 and to date.

Limitations on transfers of funds

Currency and other local regulatory limitations exist related to the transfer of funds in a number of countries where we operate, including China, Egypt, India, Korea, Malaysia, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and Venezuela. Funds, other than regular dividends, fees or loan repayments, cannot be readily transferred offshore from these countries and are therefore deposited and used for working capital needs locally. In addition, there are certain countries where, for tax reasons, it is not considered optimal to transfer the cash offshore. As a consequence, these funds are not available within our Group Treasury Operations to meet short-term cash obligations outside the relevant country. The above described funds are reported as cash in our Consolidated Balance Sheets, but we do not consider these funds immediately available for the repayment of debt outside the respective countries where the cash is situated, including those described above. At December 31, 2008 and 2007, the balance of cash and equivalents and marketable securities and other short-term investments under such limitations (either regulatory or sub-optimal from a tax perspective) totaled approximately $1,490 million and $1,451 million, respectively. In view of the deepening crisis in the banking sector during 2008, we took several steps to safeguard our cash positions in these countries. Countries were directed to place such cash with our core banks or investment grade banks and consequently cash placed with non-rated or sub-investment grade banks has been reduced to less than 10 percent of cash outside of our Group Treasury Operations. We closely monitor the situation to ensure bank counterparty risks are minimized.

Financial position

Balance sheet

Current assets at the end of 2008 and 2007 consisted of the following:

Current assets

December 31, ($ in millions)	2008	2007
Cash and equivalents	6,399	4,650
Marketable securities and short-term investments	1,407	3,460
Receivables, net	9,245	8,582
Inventories, net	5,306	4,863
Prepaid expenses	237	307
Deferred taxes	1,020	783
Other current assets	733	368
Assets held for sale and in discontinued operations	–	132
Total current assets	**24,347**	**23,145**

Our total current assets at December 31, 2008, increased by 5 percent, as compared to total current assets at December 31, 2007.

At December 31, 2008 and 2007, we had cash and equivalents as well as marketable securities and short-term investments totaling $7,806 million and $8,110 million, respectively. At December 31, 2008 and 2007, the proportion of our aggregate cash and equivalents and marketable securities and short-term investments invested by our Group Treasury

Operations amounted to 73 percent and 71 percent, respectively.

At December 31, 2007, the investments by our Group Treasury Operations were denominated primarily in U.S. dollar and euro. At December 31, 2008, the investments were denominated primarily in euro and Swiss franc, but also a number of other currencies, as we reduced the weighting of U.S. dollar investments significantly after the fall in short-term U.S. dollar interest rates and placed our investments in the currency of their origin. At December 31, 2007, excess cash invested by our Group Treasury Operations was placed in bank deposits. At December 31, 2008, our investment portfolio was a mix of government securities, highly-rated corporate short-dated commercial paper and time deposits of short duration with banks, reflecting our restrictive investment criteria and our objective to maintain diversification. See "Liquidity and capital resources – Principal sources of funding" for further details.

Further amounts, totaling approximately $1,490 million and $1,451 million, at December 31, 2008 and 2007, respectively, were deposited locally in countries where currency or other local regulatory limitations exist or where, for tax reasons, it is not considered optimal to transfer the cash offshore, see "Liquidity and capital resources – Limitations on transfers of funds" for further details. Balances not remitted to Group Treasury Operations are primarily denominated in the currency of the respective country holding the balance.

We invest surplus cash available in time deposits and marketable securities with varied maturities based on defined investment guidelines taking into account the prevailing market environment and the liquidity requirements of the business. Investments which have maturities of three months or less at the time of acquisition are classified as part of cash and equivalents and those that have maturities of more than three months at the time of acquisition are classified as part of marketable securities and short-term investments. The balance of marketable securities and short-term investments fluctuate depending on the timing of these investments. (See "Liquidity and capital resources".)

Receivables, net, as at the end of December 2008, increased from the end of 2007 by approximately 8 percent. Excluding the effect of the depreciation of local currencies relative to the U.S. dollar, the increase was approximately 16 percent. The double-digit increase in revenues during the year from all of the core divisions contributed to the increase in receivables, net.

Inventories, net, increased by 9 percent compared to the level at the end of 2007. Excluding the effect of the depreciation of local currencies relative to the U.S. dollar, the increase was approximately 18 percent. The increase in inventories was particularly high in our Power Products and Automation Products divisions reflecting the increased order backlog. (See "Note 16 – Taxes" to our Consolidated Financial Statements for a discussion on deferred taxes.)

Other current assets mainly include derivative and embedded derivative assets. Assets held for sale and in discontinued operations decreased to zero following the sale of ABB Powertech in South Africa during the first quarter of 2008.

Current liabilities

December 31, ($ in millions)	2008	2007
Accounts payable, trade	4,451	4,167
Billings in excess of sales	1,224	829
Accounts payable, other	1,292	1,289
Short-term debt and current maturities of long-term debt	354	536
Advances from customers	2,014	2,045
Deferred taxes	528	371
Provisions for warranties	1,105	1,121
Provisions and other	3,467	2,322
Accrued expenses	1,569	1,737
Liabilities held for sale and in discontinued operations	–	62
Total current liabilities	**16,004**	**14,479**

Total current liabilities at December 31, 2008, increased by 11 percent compared to December 31, 2007. In local currencies, the increase was 19 percent. The increases in business volume and compliance related provisions were the main factors contributing to the increase in current liabilities.

Total accounts payable and billings in excess of sales at December 31, 2008, increased compared to December 31, 2007, due primarily to an increase in business volume in all of the core divisions. Short-term debt and current maturities of long-term debt were lower than 2007, as several debt obligations were paid back at maturity.

Provisions for potential costs related to investigations by the U.S. and European authorities into suspect payments and alleged anti-competitive practices, higher derivative liabilities due to changes in the market value of outstanding derivatives and higher income taxes to be paid as a result of increased profitability are major drivers behind the increase in provisions and other. These increases were offset by a decrease in asbestos obligations and work due provisions. (See "Contingencies and retained liabilities".) Liabilities held for sale and in discontinued operations decreased to zero following the sale of ABB Powertech in South Africa during the first quarter of 2008.

Non-current assets

December 31, ($ in millions)	2008	2007
Financing receivables, net	445	487
Property, plant and equipment, net	3,562	3,246
Goodwill	2,817	2,421
Other intangible assets, net	411	270
Prepaid pension and other employee benefits	73	380
Investments in equity method companies	68	63
Deferred taxes	1,190	862
Other non-current assets	268	127
Total non-current assets	**8,834**	**7,856**

Total non-current assets at December 31, 2008, increased by 12 percent compared to December 31, 2007.

Property, plant and equipment, net, increased by 10 percent (16 percent in local currencies) between December 31, 2007 and December 31, 2008. All of our core divisions except Process Automation raised their investment levels to further optimize our global production footprint and remove production bottlenecks. The major capital expenditures during 2008 were investments in machinery and equipment in China, Germany, Switzerland, Sweden and India.

The increase in goodwill and other intangible assets was mainly due to the acquisition of Kuhlman in the United States as well as other intangible assets capitalized of $135 million. (See "Note 3 Acquisitions, divestments and discontinued operations" and "Note 10 Goodwill and other intangible assets" to our Consolidated Financial Statements.) The decrease in prepaid pension and other employee benefits reflects the change in the funded status of our pension plans from a slightly overfunded position at the end of 2007 to an underfunded position of more than $700 million at the end of 2008. (See "Note 17 Employee benefits" to our Consolidated Financial Statements.)

The increase in deferred taxes mainly reflects the recognition of tax assets on net operating losses carried forward and other items, which previously did not meet the more likely than not standard of being realized. Other non-current assets mainly include derivative and embedded derivative assets.

Non-current liabilities

December 31, ($ in millions)	2008	2007
Long-term debt	2,009	2,138
Pension and other employee benefits	1,071	631
Deferred taxes	425	407
Other liabilities	1,902	1,797
Total non-current liabilities	**5,407**	**4,973**

Total non-current liabilities at December 31, 2008, increased by 9 percent compared to December 31, 2007.

During 2008, our long-term debt was reduced through the reclassification of a portion of our long-term debt to short-term debt and current maturities of long-term debt and on account of foreign exchange movements of outstanding bonds. (See "Liquidity and capital resources – Debt and interest rates".) Our gearing ratio (calculated as total debt divided by the sum of total debt plus total stockholders' equity and minority interest), excluding borrowings in discontinued operations, was 17 percent at December 31, 2008, as compared to 19 percent at December 31, 2007.

The increase in pension and other employee benefits reflects the change in the funded status of our pension plans from a slightly overfunded position at the end of 2007 to an underfunded position of more than $700 million at the end of 2008 which is primarily related to a reduction in the value of our pension assets, see "Note 17 Employee benefits" to our Consolidated Financial Statements.

Other liabilities increased slightly, mainly on account of higher non-current tax provisions. Other liabilities further included non-current deposit liabilities of $298 million and $298 million, deferred income of $89 million and $113 million, non-current derivative liabilities of $180 million and $162 million, management incentive plan provisions of $3 million and $71 million and other non-current liabilities of $390 million and $352 million at December 31, 2008 and 2007, respectively. Other liabilities also includes provisions for the estimated environmental remediation costs related to our former Nuclear Technology business of $241 million and $245 million at December 31, 2008 and 2007, respectively. (See "Environmental liabilities" and "Note 15 Commitments and contingencies" and "Note 13 Provisions and other and non-current other liabilities" to our Consolidated Financial Statements.)

Cash flows

In the Consolidated Statements of Cash Flows, the effects of discontinued operations are not segregated, as permitted by SFAS No. 95, *Statement of Cash Flows* (SFAS 95).

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

Year ended December 31, ($ in millions)	2008	2007	2006
Net cash provided by operating activities	**3,958**	**3,054**	**1,939**
Net cash provided by (used in) investing activities	**114**	**(2,291)**	**(694)**
Net cash used in financing activities	**(2,119)**	**(625)**	**(392)**
Effects of exchange rate changes on cash and equivalents	(230)	275	184
Adjustment for the net change in cash and equivalents in assets held for sale and in discontinued operations	26	39	25
Net change in cash and equivalents – continuing operations	**1,749**	**452**	**1,062**

Net cash provided by operating activities

Operating activities provided net cash of $3,958 million in 2008. Cash effective earnings of $4,729 million (defined as net income after adding back non-cash and non-operating expenses) were partly offset by $771 million cash outflows towards operating assets and liabilities. The increased business volume led to a cash outflow, especially associated with higher receivables and inventories. The latter was a result of high factory loading and material procurements to support the execution of the high order backlog.

Net cash provided by operating activities were particularly high in our Power Products and Automation Products divisions on account of high cash effective earnings.

Net cash provided by operating activities in 2008 included $100 million of asbestos payments. (See "Contingencies and retained liabilities".) In 2007, $382 million of asbestos payments were made, of which $204 million was paid upon the sale of Lummus.

Operating activities provided net cash of $3,054 million in 2007, substantially up by $1,115 million from the prior year. This increase was driven primarily by significantly higher cash effective earnings compared to the prior year as well as by comparatively lower cash outflows towards operating assets and liabilities. Cash outflows arising from the changes in operating assets and liabilities were $267 million during 2007, compared to $571 million in 2006. This improvement was a result of an improved focus on working capital management, particularly with respect to inventories and trade payables.

In 2007, net cash provided by operating activities increased in all of our core divisions where higher cash outflow requirements for working capital, as a result of the significant increase in the volume of operations, were more than offset by the significant increase in cash effective earnings. The Power Systems division contributed to net cash provided by operating activities, the majority of which was as a result of high advances from customers on major projects and closer management of trade payables. In the Power Products division, working capital improvements were driven by improved inventory management.

Due to the improved liquidity situation of the group we terminated the securitization activities in the United States during the third quarter of 2007. This termination had an impact on the 2007 full year cash flows from operations of $178 million. Approximately 50 percent of this impact was in our Power Products division.

Net cash provided by (used in) investing activities

Year ended December 31, ($ in millions)	2008	2007	2006
Changes in financing receivables	7	56	67
Purchases of marketable securities (other than trading) and short-term investments	(3,626)	(10,115)	(4,743)
Purchases of property, plant and equipment and intangible assets	(1,171)	(756)	(536)
Acquisitions of businesses (net of cash acquired)	(653)	(54)	(3)
Proceeds from sales of marketable securities (other than trading) and short-term investments	5,417	7,361	4,366
Proceeds from sales of property, plant and equipment	94	75	128
Proceeds from sales of businesses and equity accounted companies (net of cash disposed)	46	1,142	27
Net cash provided by (used in) investing activities	**114**	**(2,291)**	**(694)**

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

Net cash flow provided by investing activities during 2008 was $114 million. Purchases of marketable securities and short-term investments amounted to $3,626 million in 2008. During the first half of 2008, we invested a lower amount of our excess liquidity in time deposits with a maturity of more than three months (given the prevailing volatility in financial markets) and instead invested in time deposits with maturities less than three months, classified as cash and equivalents. In the second half of 2008, we invested part of our excess cash in AAA-rated Government bonds of which the majority had an original maturity of more than 3 months.

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

Acquisitions and divestments, net, for the year ended December 31, 2008, mainly included the acquisition of Kuhlman in the United States. The preliminary purchase price for Kuhlman was $520 million including assumed debt.

Proceeds from sales of marketable securities and short-term investments during 2008 amounted to $5,417 million as compared with $7,361 million for 2007. The decrease reflects the change in investment strategy discussed under “Liquidity and capital resources”.

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

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

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

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

The substantial increase in net purchases of marketable securities and short-term investments from $377 million in 2006, to $2,754 million in 2007, reflects the investment of the increased liquidity generated by the group. Other outflows of marketable securities and short-term investments in 2007 include $49 million in purchases of marketable securities to contribute to the pension funds in Germany and $30 million in additional net cash invested by our captive insurance company.

Acquisitions and divestments, net, for the year ended December 31, 2006, mainly included the proceeds received from the sale of our Power Lines businesses in Venezuela and South Africa as well as the sale of our Cable business in Ireland.

In 2006, as a consequence of the increase in the volume of orders and continued high capacity utilization, cash outflows for the purchase of property, plant and equipment increased. Total cash disbursed for capital expenditures during 2006 was $536 million. Of this amount $308 million was spent on machinery and equipment, $111 million on land and buildings, $45 million on intangibles, mainly software and $72 million on projects which are under construction, the majority of which relates to machinery and equipment. In the same year, there was $108 million in proceeds on the sale of land and buildings, primarily in Europe and $20 million from the sale of machinery and equipment.

Cash outflows from all other investing activities, net, in 2006, were $310 million, including the purchase of marketable securities of $449 million which were contributed to the pension funds in Germany. These purchases of marketable securities were partially offset by the cash inflows and outflows related to other marketable securities.

Net cash used in financing activities

Year ended December 31, ($ in millions)	2008	2007	2006
Net changes in debt with maturities of 90 days or less	10	(19)	(26)
Increase in debt	458	210	151
Repayment of debt	(786)	(247)	(189)
Issuance of shares	49	241	47
Purchase of treasury shares	(621)	(199)	–
Nominal value reduction/ dividends paid	(1,060)	(449)	(203)
Dividends paid to minority shareholders	(152)	(117)	(94)
Payments made upon induced bond conversion	–	–	(72)
Payments made upon bond exchange	–	–	(111)
Other	3	(45)	105
Net cash used in financing activities	**(2,119)**	**(625)**	**(392)**

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

The cash inflow from increases in debt in 2008 primarily relates to short-term borrowings.

During 2008, $786 million in bonds and other debt were repaid at maturity. This amount included the repayment of the remaining 9.5% EUR Instruments, due 2008, that had not been exchanged by bondholders in 2006, as well as the repayment of several private placements and short-term debt upon maturity. The increase in repayments compared to 2007 reflects also the increases in short-term debt compared to 2007.

The cash inflow of $49 million from the issuance of shares, represented the exercise of call options by a bank. These call options (with strike prices of CHF 7.00 and CHF 7.50) had been issued at fair value during 2003 and 2004. As a result of the exercise approximately 6.8 million shares were issued.

During 2008, we purchased 22.675 million ABB shares at a cost of $621 million in connection with the share buyback program launched in 2008 to repurchase shares up to a maximum value of 2.2 billion Swiss francs (equivalent to $2.1 billion at December 31, 2008 exchange rates). On February 12, 2009, we announced that given the market uncertainty, we are not actively pursuing new purchases under the program.

Dividends paid in 2008 of $1,060 million represented the nominal value reduction of CHF 0.48 per share, approved at our Annual General Meeting in May 2008, which reduced the nominal value of our shares from CHF 2.50 each to CHF 2.02 each. Dividends paid to minority shareholders amounted to $152 million in 2008.

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

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

Dividends paid in 2007 of $449 million represented a dividend of CHF 0.24 per share, while dividends paid to minority shareholders amounted to $117 million.

During 2006, the capital increase resulting from the issuance of shares under our ESAP led to a net cash inflow of $47 million. During 2006, we paid a dividend of CHF 0.12 per share which resulted in an outflow of $203 million while dividends paid to minority shareholders amounted to $94 million.
Net cash used in financing activities in 2006 also included $72 million payments made in relation to the induced conversion of our 4.625% USD Convertible Bonds, due 2007, and $111 million payments in connection with the exchange of our 10% GBP Instruments, due 2009 and the 9.5% EUR Instruments, due 2008 which were partly offset by cash inflows from certain financial derivative transactions.

Disclosures about contractual obligations and commitments

The contractual obligations presented in the table below represent our estimates of future payments under fixed contractual obligations and commitments. The amounts in the table may differ from those reported on our Consolidated Balance Sheets at December 31, 2008. Changes in our business needs, cancellation provisions and changes in interest rates, as well as actions by third parties and other factors, may cause these estimates to change. Therefore, our actual payments in future periods may vary from those presented in the table. The following table summarizes certain of our contractual obligations and principal and interest payments under our debt instruments, leases and purchase obligations at December 31, 2008:

Payments due by period	Total	Less than 1 year	1–3 years	3–5 years	More than 5 years
($ in millions)					
Long-term debt obligations	**2,204**	195	954	955	100
Interest payments related to long-term debt obligations	**545**	125	233	111	76
Operating lease obligations	**1,957**	372	593	441	551
Capital lease obligations[1]	**249**	40	52	32	125
Purchase obligations	**4,565**	3,917	511	107	30
Total	**9,520**	**4,649**	**2,343**	**1,646**	**882**

[1] Capital lease obligations represent the total cash payments to be made in the future and include interest expense of $117 million and executory costs of $5 million.

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

Of the total of $715 million unrecognized tax benefits at December 31, 2008, it is expected that $14 million will be paid within less than a year, however, we cannot make a reasonably reliable estimate as to the related future payments for the remaining amount of $701 million. (See “Note 16 Taxes” to our Consolidated Financial Statements.)

Off-balance sheet arrangements

Commercial commitments

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

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

Guarantees

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

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

December 31,	2008		2007	
($ in millions)	Maximum potential payments	Carrying amount of liabilities	Maximum potential payments	Carrying amount of liabilities
Performance guarantees	413	1	957	9
Financial guarantees	95	–	131	–
Indemnification guarantees	277	2	328	1
Total	**785**	**3**	**1,416**	**10**

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

Variable interests

We are a party to certain off-balance sheet arrangements including variable interests in unconsolidated entities. (See "Note 11 Investments in equity method accounted companies" to our Consolidated Financial Statements.)

Related and certain other parties

In the normal course of our activities, we sell products, derive certain other revenues and purchase products from companies in which we hold an equity interest. The amounts involved in these transactions are not material to us and, to our knowledge, these transactions are not material to those companies. Also, in the normal course of our activities, we engage in transactions with businesses that we have divested on terms that we believe are negotiated on an arm's length basis. (See "Note 15 Commitments and contingencies" to our Consolidated Financial Statements.)

We have participations in joint ventures and affiliated companies, which are accounted for using the equity method. Many of these entities have been established to perform specific functions, such as constructing, operating and maintaining a power plant. In addition to our investments, we may provide products to specific projects, may act as the contractor of such projects or may operate the finished products. We may also grant lines of credit to these joint ventures or affiliated companies for specific projects and guarantee their obligations, as discussed under the section entitled "Off-balance sheet arrangements" above. These joint ventures, affiliated companies or project-specific entities generally receive revenues either from the sale of the final product or from selling the output generated by the product. The revenue usually is defined by a long-term contract with the end user of the output. (See "Note 15 Commitments and contingencies" to our Consolidated Financial Statements.)

Contingencies and retained liabilities

Environmental liabilities

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

Contingencies related to former Nuclear Technology business

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

We established a provision of $300 million in income (loss) from discontinued operations in 2000 for our estimated share of the remediation costs for these sites. At December 31, 2008 and 2007, we have recorded in current and non-current other liabilities provisions of $241 million and $245 million, respectively, net of payments from inception of $54 million and $50 million, respectively. Expenditures charged against the provision were $4 million, $3 million and $4 million during 2008, 2007 and 2006, respectively. We have estimated that during 2009 we will charge expenditures of approximately $27 million to the provision.

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

Consolidated Financial Statements
Consolidated Income Statements

Year ended December 31 ($ in millions, except per share data in $)	2008	2007	2006
Sales of products	29,705	24,816	19,503
Sales of services	5,207	4,367	3,778
Total revenues	**34,912**	**29,183**	**23,281**
Cost of products	(20,506)	(17,292)	(13,967)
Cost of services	(3,466)	(2,923)	(2,570)
Total cost of sales	**(23,972)**	**(20,215)**	**(16,537)**
Gross profit	**10,940**	**8,968**	**6,744**
Selling, general and administrative expenses	(5,822)	(4,975)	(4,326)
Other income (expense), net	(566)	30	139
Earnings before interest and taxes	**4,552**	**4,023**	**2,557**
Interest and dividend income	315	273	147
Interest and other finance expense	(349)	(286)	(307)
Income from continuing operations before taxes and minority interest	**4,518**	**4,010**	**2,397**
Provision for taxes	(1,119)	(595)	(686)
Minority interest	(260)	(244)	(179)
Income from continuing operations	**3,139**	**3,171**	**1,532**
Income (loss) from discontinued operations, net of tax	(21)	586	(142)
Net income	**3,118**	**3,757**	**1,390**
Basic earnings (loss) per share			
Income from continuing operations	1.37	1.40	0.72
Income (loss) from discontinued operations, net of tax	(0.01)	0.26	(0.07)
Net income	**1.36**	**1.66**	**0.65**
Diluted earnings (loss) per share			
Income from continuing operations	1.37	1.38	0.69
Income (loss) from discontinued operations, net of tax	(0.01)	0.25	(0.06)
Net income	**1.36**	**1.63**	**0.63**

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Balance Sheets

December 31 ($ in millions, except share data)	2008	2007
Cash and equivalents	6,399	4,650
Marketable securities and short-term investments	1,407	3,460
Receivables, net	9,245	8,582
Inventories, net	5,306	4,863
Prepaid expenses	237	307
Deferred taxes	1,020	783
Other current assets	733	368
Assets held for sale and in discontinued operations	–	132
Total current assets	**24,347**	**23,145**
Financing receivables, net	445	487
Property, plant and equipment, net	3,562	3,246
Goodwill	2,817	2,421
Other intangible assets, net	411	270
Prepaid pension and other employee benefits	73	380
Investments in equity method companies	68	63
Deferred taxes	1,190	862
Other non-current assets	268	127
Total assets	**33,181**	**31,001**
Accounts payable, trade	4,451	4,167
Billings in excess of sales	1,224	829
Accounts payable, other	1,292	1,289
Short-term debt and current maturities of long-term debt	354	536
Advances from customers	2,014	2,045
Deferred taxes	528	371
Provisions for warranties	1,105	1,121
Provisions and other	3,467	2,322
Accrued expenses	1,569	1,737
Liabilities held for sale and in discontinued operations	–	62
Total current liabilities	**16,004**	**14,479**
Long-term debt	2,009	2,138
Pension and other employee benefits	1,071	631
Deferred taxes	425	407
Other liabilities	1,902	1,797
Total liabilities	**21,411**	**19,452**
Commitments and contingencies		
Minority interest	612	592
Stockholders' equity:		
Capital stock and additional paid-in capital (2,322,792,835 and 2,316,015,102 issued shares at December 31, 2008 and 2007, respectively)	4,695	5,634
Retained earnings	10,073	6,955
Accumulated other comprehensive loss	(2,710)	(1,330)
Less: Treasury stock, at cost (40,108,014 and 18,725,475 shares at December 31, 2008 and 2007, respectively)	(900)	(302)
Total stockholders' equity	**11,158**	**10,957**
Total liabilities and stockholders' equity	**33,181**	**31,001**

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Year ended December 31 ($ in millions)	2008	2007	2006
Operating activities			
Net income	3,118	3,757	1,390
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	661	602	570
Pension and postretirement benefits	43	(61)	(4)
Deferred taxes	(199)	(351)	113
Net gain from sale of property, plant and equipment	(49)	(46)	(76)
Income from equity accounted companies	(15)	(55)	(95)
Minority interest	261	246	179
Gain on sale of discontinued operations	–	(541)	–
Other	232	132	190
Changes in operating assets and liabilities:			
Receivables, net	(1,266)	(1,323)	(698)
Inventories	(800)	(551)	(512)
Accounts payable, trade	522	530	256
Billings in excess of sales	539	374	132
Provisions, net	677	(362)	243
Advances from customers	130	411	461
Other assets and liabilities, net	104	292	(210)
Net cash provided by operating activities	**3,958**	**3,054**	**1,939**
Investing activities			
Changes in financing receivables	7	56	67
Purchases of marketable securities (other than trading) and short-term investments	(3,626)	(10,115)	(4,743)
Purchases of property, plant and equipment and intangible assets	(1,171)	(756)	(536)
Acquisition of businesses (net of cash acquired)	(653)	(54)	(3)
Proceeds from sales of marketable securities (other than trading) and short-term investments	5,417	7,361	4,366
Proceeds from sales of property, plant and equipment	94	75	128
Proceeds from sales of businesses and equity accounted companies (net of cash disposed)	46	1,142	27
Net cash provided by (used in) investing activities	**114**	**(2,291)**	**(694)**
Financing activities			
Net changes in debt with maturities of 90 days or less	(10)	(19)	(26)
Increase in debt	458	210	151
Repayment of debt	(786)	(247)	(189)
Issuance of shares	49	241	47
Purchase of treasury shares	(621)	(199)	–
Nominal value reduction/dividends paid	(1,060)	(449)	(203)
Dividends paid to minority shareholders	(152)	(117)	(94)
Payments made upon induced bond conversion	–	–	(72)
Payments made upon bond exchange	–	–	(111)
Other	3	(45)	105
Net cash used in financing activities	**(2,119)**	**(625)**	**(392)**
Effects of exchange rate changes on cash and equivalents	(230)	275	184
Adjustment for the net change in cash and equivalents in assets held for sale and in discontinued operations	26	39	25
Net change in cash and equivalents – continuing operations	**1,749**	**452**	**1,062**
Cash and equivalents beginning of period	4,650	4,198	3,136
Cash and equivalents end of period	**6,399**	**4,650**	**4,198**
Supplementary disclosure of cash flow information			
Interest paid	244	246	274
Taxes paid	1,065	780	594
Carrying value of debt and accrued interest converted into capital stock	–	843	953

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2008, 2007 and 2006 ($ in millions)	Capital stock and additional paid-in capital	Retained earnings
Balance at January 1, 2006	**3,121**	**2,460**
Comprehensive income:		
Net income	–	1,390
Foreign currency translation adjustments	–	–
Effect of change in fair value of available-for-sale securities (net of tax of ($1))	–	–
Minimum pension liability adjustments (net of tax of ($15))	–	–
Change in derivatives qualifying as cash flow hedges (net of tax of ($21))	–	–
Total comprehensive income		
Adjustment upon adoption of SFAS 158 (net of tax of $6)	–	–
Shares issued to Asbestos PI Trust (CE Settlement Shares)	407	–
Treasury share transactions	(1)	–
Dividends paid	–	(203)
Conversion of convertible bonds	903	–
Issuance of shares	47	–
Share-based payment arrangements	21	–
Call options	16	–
Balance at December 31, 2006	**4,514**	**3,647**
Comprehensive income:		
Net income	–	3,757
Foreign currency translation adjustments	–	–
Foreign currency translation adjustments related to divestments of businesses	–	–
Effect of change in fair value of available-for-sale securities (net of tax of $0)	–	–
Unrecognized income related to pensions and other postretirement plans (net of tax of ($5))	–	–
Adjustments related to pensions and other postretirement plans allocated to divestments of businesses (net of tax of $0)	–	–
Change in derivatives qualifying as cash flow hedges (net of tax of $4)	–	–
Total comprehensive income		
Treasury share transactions	(1)	–
Dividends paid	–	(449)
Conversion of convertible bonds	830	–
Issuance of shares	241	–
Share-based payment arrangements	45	–
Call options	5	–
Balance at December 31, 2007	**5,634**	**6,955**
Comprehensive income:		
Net income	–	3,118
Foreign currency translation adjustments	–	–
Foreign currency translation adjustments related to divestments of businesses	–	–
Effect of change in fair value of available-for-sale securities (net of tax of ($26))	–	–
Unrecognized income (expense) related to pensions and other postretirement plans (net of tax of $212)	–	–
Change in derivatives qualifying as cash flow hedges (net of tax of $53)	–	–
Total comprehensive income		
Shares repurchased under buyback program	–	–
Treasury share transactions	(21)	–
Dividends paid in the form of nominal value reduction	(1,060)	–
Issuance of shares	49	–
Share-based payment arrangements	63	–
Call options	30	–
Balance at December 31, 2008	**4,695**	**10,073**

See accompanying Notes to the Consolidated Financial Statements.

Accumulated other comprehensive loss						
Foreign currency translation adjustment	Unrealized gain (loss) on available-for-sale securities	Pension and other post-retirement plan adjustments	Unrealized gain (loss) on cash flow hedge derivatives	**Total accumulated other comprehensive loss**	Treasury stock	**Total stockholders' equity**
(1,756)	**1**	**(214)**	**7**	**(1,962)**	**(136)**	**3,483**
–	–	–	–	–	–	1,390
294	–	–	–	294	–	294
–	(3)	–	–	(3)	–	(3)
–	–	11	–	11	–	11
–	–	–	67	67	–	67
–	–	–	–	–		1,759
–	–	(426)	–	(426)	–	(426)
–	–	–	–	–	–	407
–	–	–	–	–	1	–
–	–	–	–	–	–	(203)
–	–	–	–	–	25	928
–	–	–	–	–	–	47
–	–	–	–	–	6	27
–	–	–	–	–	–	16
(1,462)	**(2)**	**(629)**	**74**	**(2,019)**	**(104)**	**6,038**
–	–	–	–	–	–	3,757
505	–	–	–	505	–	505
51	–	–	–	51	–	51
–	9	–	–	9	–	9
–	–	59	–	59	–	59
–	–	84	–	84	–	84
–	–	–	(19)	(19)	–	(19)
						4,446
–	–	–	–	–	(198)	(199)
–	–	–	–	–	–	(449)
–	–	–	–	–	–	830
–	–	–	–	–	–	241
–	–	–	–	–	–	45
–	–	–	–	–	–	5
(906)	**7**	**(486)**	**55**	**(1,330)**	**(302)**	**10,957**
–	–	–	–	–	–	3,118
(754)	–	–	–	(754)	–	(754)
6	–	–	–	6	–	6
–	76	–	–	76	–	76
–	–	(492)	–	(492)	–	(492)
–	–	–	(216)	(216)	–	(216)
						1,738
–	–	–	–	–	(619)	(619)
–	–	–	–	–	21	–
–	–	–	–	–	–	(1,060)
–	–	–	–	–	–	49
–	–	–	–	–	–	63
–	–	–	–	–	–	30
(1,654)	**83**	**(978)**	**(161)**	**(2,710)**	**(900)**	**11,158**

Notes to the Consolidated Financial Statements

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

Note 1 The Company

ABB Ltd and its subsidiaries (collectively, the Company) together form a leading global company specializing in power and automation technologies that improve the performance of utility and industry customers, while lowering environmental impact. The Company works with customers to engineer and install networks, facilities and plants with particular emphasis on enhancing efficiency, reliability and productivity for customers who generate, convert, transmit, distribute and consume energy.

The Company has a global integrated risk management process. Once a year, the board of directors of ABB Ltd performs a risk assessment in accordance with the Company's risk management processes and discusses appropriate actions, if necessary.

Note 2 Significant accounting policies

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

Basis of presentation

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

Scope of consolidation

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

Reclassifications

Amounts reported for prior years in the Consolidated Financial Statements and Notes have been reclassified to conform to the current year's presentation, primarily related to the separate presentation of warranty provisions and the inclusion of asbestos obligations in accrued expenses in the Company's Consolidated Balance Sheets. Additionally, the Company reclassified certain prior year amounts within changes in operating assets and liabilities in the Company's Consolidated Statements of Cash Flows to conform to the current year's presentation.

Operating cycle

A portion of the Company's operating cycle, including long-term construction activities, exceeds one year. For classification of current assets and liabilities related to these types of construction activities, the Company elected to use the duration of the individual contracts as its operating cycle. Accordingly, there are accounts receivable, inventories and provisions related to these contracts which will not be realized within one year that have been classified as current.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make assumptions and estimates that directly affect the amounts reported in the Consolidated Financial Statements and the accompanying Notes. The accounting estimates that require the Company's most significant, difficult and subjective judgments include:

- Assumptions and projections, principally related to future material, labor and project-related overhead costs, used in determining the percentage-of-completion on projects
- Estimates of loss contingencies associated with litigation or threatened litigation and other claims and inquires, environmental damages, product warranties, regulatory and other proceedings
- Assumptions used in the calculation of pension and postretirement benefits
- Recognition and measurement of current and deferred income tax assets and liabilities (including the measurement of uncertain tax positions)
- Growth rates, discount rates and other assumptions used in the Company's annual goodwill impairment test.

The actual results and outcomes may differ from the Company's estimates and assumptions.

Cash and equivalents

Cash and equivalents include highly liquid investments with maturities of three months or less at the date of acquisition. Currency and other local regulatory limitations exist related to the transfer of funds in a number of countries where the Company operates. Funds, other than regular dividends, fees or loan repayments, cannot be readily transferred offshore from these countries and are therefore deposited and used for working capital needs locally. These funds are included in cash and equivalents as they are not considered restricted.

Marketable securities and short-term investments

Management determines the appropriate classification of held-to-maturity and available-for-sale securities at the time of purchase. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost, adjusted for accretion of discounts to maturity computed under the effective interest method. Such accretion is included in interest and dividend income. Marketable debt and equity securities not classified as held-to-maturity are classified as available-for-sale.

Marketable debt and equity securities classified as available-for-sale at the time of purchase are reported at fair value. Unrealized gains and losses on available-for-sale securities are excluded from the determination of earnings and are instead recognized in the accumulated other comprehensive loss component of stockholders' equity, net of tax, (accumulated other comprehensive loss) until realized. Realized gains and losses on available-for-sale securities are computed based upon the historical cost of these securities using the specific identification method.

Note 2 Significant accounting policies, continued

The Company performs a periodic review of its debt and equity securities to determine whether an other-than-temporary impairment has occurred. Generally, when an individual security has been in an unrealized loss position for an extended period of time, the Company evaluates whether an impairment has occurred. The evaluation is based on specific facts and circumstances at the time of assessment, which include general market conditions, the duration and extent to which the fair value is below cost and the Company's intent and ability to hold the security for a sufficient period of time to allow for recovery in value. In addition, for equity securities, the Company assesses whether the cost value will recover within the near-term. If an other-than-temporary impairment is identified, the security is written down to its fair value. Impairment charges are recorded in interest and other finance expense.

Marketable debt securities are classified as either cash and equivalents or marketable securities and short-term investments according to their maturity at the time of acquisition.

Accounts receivable and allowance for doubtful accounts

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

Concentrations of credit risk

The Company sells a broad range of products, systems and services to a wide range of industrial, commercial and utility customers as well as various government agencies and quasi-governmental agencies throughout the world. Concentrations of credit risk with respect to accounts receivable are limited, as the Company's customer base is comprised of a large number of individual customers. Ongoing credit evaluations of customers' financial positions are performed and generally, no collateral is required. The Company maintains reserves for potential credit losses as discussed above in Accounts receivable and allowance for doubtful accounts. Such losses, in the aggregate, are in line with the Company's expectations.

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

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

Revenue recognition

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

Revenues under long-term contracts are recognized using the percentage-of-completion method of accounting pursuant to Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* (SOP 81-1). The Company principally uses the cost-to-cost or delivery events method to measure progress towards completion on contracts. Management determines the method used by type of contract based on its judgment as to which method best measures progress towards completion on contracts. Short-term construction-type contracts, or long-term contracts for which reasonably dependable estimates cannot be made or for which inherent hazards make estimates difficult, are accounted for under the completed-contract method as required by SOP 81-1. Revenues under the completed-contract method are recognized upon substantial completion that is acceptance by the customer, compliance with performance specifications demonstrated in a factory acceptance test or similar event. These criteria are consistently applied by the Company for all contracts accounted for under the completed-contract method.

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

In accordance with Emerging Issues Task Force No. 00-21, *Revenue Arrangements with Multiple Deliverables,* when multiple elements such as products and services are contained in a single arrangement or in related arrangements with the same customer, the Company allocates revenues to each element based on its relative fair value or according to the residual method should no evidence for the fair value of the delivered item be available, provided that such element meets the criteria for treatment as a separate unit of accounting.

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

Taxes assessed by a governmental authority that are directly imposed on revenue-producing transactions between the Company and its customers, such as sales, use, value-added and some excise taxes are presented on a net basis (excluded from revenues).

Product-related expenses and contract loss provisions

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

Inventories

Inventories are stated at the lower of cost (determined using either the first-in, first-out or the weighted-average cost method) or market. Inventoried costs are stated at acquisition cost or actual production cost, including direct material and labor and applicable manufacturing overheads, reduced by amounts recognized in cost of sales.

Impairment of long-lived assets and accounting for discontinued operations

Long-lived assets that are held and used are assessed for impairment when events or circumstances indicate that the carrying amount of the asset may not be recoverable. If the asset's net carrying value exceeds the asset's net undiscounted cash flows expected to be generated over its remaining useful life including net proceeds expected from disposition of the asset, if any, the carrying amount of the asset is reduced to its estimated fair value, pursuant to the measurement criteria of Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144). Estimated fair value is determined based on discounted cash flows or appraised values depending on the nature of the assets.

In accordance with SFAS 144, assets and liabilities that meet certain criteria with respect to the Company's plans for their sale or abandonment are included in assets and liabilities held for sale and in discontinued operations. Depreciation and amortization cease when the assets meet the criteria to be classified as held for sale. Results from discontinued operations are recognized in the period in which they occur. Assets and liabilities classified as held for sale are measured at the lower of carrying amount or fair value, less cost to sell. Assets and liabilities related to discontinued operations that are retained are not reclassified into assets or liabilities held for sale and in discontinued operations in our Consolidated Balance Sheets; future adjustments of such balances are recorded through income (loss) from discontinued operations, net of tax, in the Consolidated Income Statements. In the Consolidated Statements of Cash Flows, the amounts related to businesses with assets and liabilities held for sale and in discontinued operations are not segregated, as permitted by Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows.*

Goodwill and other intangible assets
In accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets,* goodwill is tested for impairment annually or more frequently if impairment indicators arise. The Company performs its annual impairment assessment on October 1. A fair value approach is used to identify potential goodwill impairment and, when necessary, measure the amount of impairment. The Company uses a discounted cash flow model to determine the fair value of reporting units, unless there is a readily determinable fair market value.

The cost of acquired intangible assets is amortized using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up. The amortization periods typically range from 1 to 10 years. Intangible assets are tested for impairment in accordance with SFAS 144, upon the occurrence of certain triggering events.

Capitalized software costs
Capitalized costs of software for internal use are accounted for in accordance with Statement of Position No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.* Costs incurred in the application development stage until the software is substantially complete are capitalized and are amortized on a straight-line basis over the estimated useful life of the software, typically ranging from 3 to 5 years. Capitalized costs of a software product to be sold are accounted for in accordance with Statement of Financial Accounting Standards No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed.* Costs incurred after the software has demonstrated its technological feasibility until the product is available for general release to the customers are capitalized and are amortized on a straight-line basis over the estimated life of the product. The Company periodically performs an evaluation to determine that the unamortized cost of software to be sold does not exceed the net realizable value.

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

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

Derivative financial instruments and hedging activities
The Company uses derivative financial instruments to manage currency, commodity and interest rate exposures, arising from its global operating, financing and investing activities. The Company accounts for its derivative financial instruments in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended and interpreted (SFAS 133).

Due to the global nature of its operations, the Company is exposed to foreign currency risks in the ordinary course of business. The Company's policies require that its industrial entities economically hedge their foreign currency exposures from binding contracts denominated in foreign currencies, as well as at least fifty percent of the anticipated foreign currency denominated sales volume of standard products and related foreign currency purchases over the next twelve months. Additionally, due to the nature of its products, the Company is exposed to commodity price risks in the ordinary course of business. The Company's policies require that its industrial entities economically hedge their commodity price risks from binding contracts for the purchase of certain commodities, as well as at least fifty percent of the anticipated purchases of those commodities over the next twelve months.

To reduce its interest rate and currency exposure arising from its borrowing activities, the Company uses interest rate and currency swaps. Where interest rate swaps are designated as fair value hedges, changes in the fair value of the swaps are recognized in interest and other finance expense, as are the changes in the fair value of the risk component of the underlying debt being hedged. Consequently where such interest rate swaps do not qualify for the short cut method as defined under SFAS 133, any ineffectiveness is included in interest and other finance expense.

SFAS 133 requires the Company to recognize all derivatives, other than certain derivatives indexed to the Company's own stock, at fair value in the Consolidated Balance Sheets. Derivatives that are not designated as hedging instruments are reported at fair value with derivative gains and losses reported through earnings and classified consistent with the nature of the underlying transaction. If the derivatives are designated as a hedge, depending on the nature of the hedge, changes in the fair value of the derivatives will either be offset against the change in fair value of the hedged item through earnings or recognized in accumulated other comprehensive loss until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings consistent with the classification of the hedged item.

Forward foreign exchange contracts and foreign exchange swaps are the primary instruments used to manage foreign currency risks. Where these foreign exchange contracts are designated as cash flow hedges under SFAS 133, changes in their fair value are recorded in accumulated other comprehensive loss until the hedged item is recognized in earnings. The Company also enters into forward foreign exchange contracts that serve as economic hedges of existing assets and liabilities and certain forecasted transactions. Where these contracts do not qualify for hedge accounting under SFAS 133, changes in their fair value are reported in earnings, consistent with the classification of the hedged item.

If an underlying hedged transaction is terminated early, the hedging derivative instrument is treated as if terminated simultaneously, with any gain or loss on termination of the derivative immediately recognized in earnings. Where derivative financial instruments have been designated as hedges of forecasted transactions and such forecasted transactions are no longer probable of occurring, hedge accounting is discontinued and any derivative gain or loss previously included in accumulated other comprehensive loss is reclassified into earnings consistent with the nature of the original forecasted transaction.

Note 2 Significant accounting policies, continued

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

Derivatives are classified in the Consolidated Statements of Cash Flows in the same section as the underlying item, primarily within cash flows from operating activities.

Sale-leasebacks

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

Translation of foreign currencies and foreign exchange transactions

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

Foreign currency exchange gains and losses, such as those resulting from foreign currency denominated receivables or payables, are included in the determination of earnings, except as they relate to intercompany loans that are equity-like in nature with no reasonable expectation of repayment, which are recognized in accumulated other comprehensive loss. Exchange gains and losses recognized in earnings are included in sales, cost of sales, selling, general and administrative expense or interest and other finance expense consistent with the nature of the underlying item.

Taxes

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

Generally, deferred taxes are not provided on the unremitted earnings of subsidiaries to the extent it is expected that these earnings are permanently reinvested in accordance with Accounting Principles Board Opinion No. 23, *Accounting for Income Taxes – Special Areas* (APB 23). Such earnings may become taxable upon the sale or liquidation of these subsidiaries or upon the remittance of dividends. Deferred taxes are provided in situations where the Company's subsidiaries plan to make future dividend distributions.

The Company operates in numerous tax jurisdictions and, as a result, is regularly subject to audit by tax authorities. The Company provides for tax contingencies on the basis of their technical merits, including relative tax law and Organisation for Economic Co-operation and Development (OECD) guidelines, as well as on items relating to potential audits by tax authorities based upon its best estimate of the facts and circumstances as of each reporting period. Changes in the facts and circumstances could result in a material change to the tax accruals. The Company provides for contingencies whenever it is deemed more likely than not that a tax asset has been impaired or a tax liability has been incurred for events such as tax claims or changes in tax laws.

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 requires applying a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes.* The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50 percent likely of being realized upon ultimate settlement. The Company adopted FIN 48 effective January 1, 2007. The adoption of FIN 48 led to the reclassification of certain income tax-related liabilities in the Consolidated Balance Sheet, but the adjustment to opening retained earnings was immaterial. As required by FIN 48, prior periods were not restated.

Expense related to tax penalties is classified in the Consolidated Financial Statements as provision for taxes. Interest is classified in the Consolidated Financial Statements as interest and other finance expense.

Research and development

Research and development costs are expensed as incurred. Research and development expense included in selling, general and administrative expenses was $1,027 million, $871 million and $758 million in 2008, 2007 and 2006, respectively.

Earnings per share

Basic earnings (loss) per share is calculated by dividing income (loss) by the weighted-average number of shares outstanding during the year. Diluted earnings (loss) per share is calculated by dividing income (loss) by the weighted-average number of shares outstanding during the year, assuming that all potentially dilutive securities were exercised, if dilutive. Potentially dilutive securities comprise: outstanding written call options, outstanding options and shares granted subject to market and/or vesting conditions under the Company's share-based payment arrangements and, prior to September 2007, shares issuable in relation to outstanding convertible bonds. See further discussion related to earnings per share in Note 20 and further discussion of the potentially dilutive securities in Notes 12 and 18.

Share-based payment arrangements

The Company has various share-based payment arrangements, which are described more fully in Note 18. Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), using the modified-prospective transition method. SFAS 123R requires employee equity awards to be accounted for under the fair value method. Accordingly, share-based compensation is measured at the grant date, based on the fair value of the award.

Fair value of financial instruments

The Company uses the fair value measurement principle to record certain of its financial instruments and to determine fair value disclosures. The Company's financial instruments which are recorded at fair value on a recurring basis include foreign currency, commodity and interest rate derivatives and available-for-sale securities.

Note 2 Significant accounting policies, continued

The Company adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), effective January 1, 2008, for fair value measurements of its financial assets and financial liabilities.

SFAS 157 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. SFAS 157 defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company applies various valuation techniques including market and income approaches. SFAS 157 establishes a three-level hierarchy for inputs used in measuring assets and liabilities recorded at fair value, based on the reliability of those inputs. The Company has categorized its financial instruments measured at fair value within this hierarchy based on whether the inputs to the valuation technique are observable or unobservable. An observable input is based on market data obtained from independent sources, while an unobservable input reflects the Company's assumptions about market data.

- Level 1: Valuation inputs consist of (unadjusted) quoted prices in an active market for identical assets or liabilities (observable quoted prices). Assets and liabilities using Level 1 inputs include exchange-traded equity securities, listed derivatives which are actively traded such as foreign exchange futures and most U.S. government securities.
- Level 2: Valuation inputs consist of other observable inputs such as actively quoted prices for similar assets, quoted prices in inactive markets and inputs other than quoted prices such as interest rate yield curves, credit spreads, or inputs derived from other observable data by interpolation, correlation, regression or other means. Sometimes, the adjustments applied to quoted prices or the inputs used in valuation models may be both observable and unobservable. In these cases, the fair value measurement is classified as Level 2 unless the unobservable portion of the adjustment or the unobservable input to the valuation model is significant in which case the fair value measurement would be classified as Level 3. Assets and liabilities using Level 2 inputs include interest rate swaps, cross-currency swaps and commodity swaps as well as foreign exchange forward contracts and foreign exchange swaps.
- Level 3: Valuation inputs are based on the Company's assumptions of relevant market data (unobservable input).

Whenever quoted prices involve bid-ask spreads, we ordinarily determine fair values based on mid-market quotes. The only exception is cash-settled call options serving as hedges of the Company's management incentive plan (MIP), for which bid prices are used.

At December 31, 2008, 14 percent of the Company's net assets, or $1,680 million, consisted of financial instruments recorded at fair value on a recurring basis. Approximately 12 percent and 88 percent, respectively of these financial instruments used valuation methodologies based on Level 1 and 2 inputs, respectively to measure fair value. At December 31, 2008, the Company did not use any valuation methodologies based on level 3 inputs to measure the fair value of its financial instruments. The Company's assets and liabilities measured at fair value are described more fully in Note 5.

Contingencies and asset retirement obligations

The Company is subject to proceedings, litigation or threatened litigation and other claims and inquiries, related to environmental, labor, product, regulatory and other matters and is required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses. A determination of the provision required, if any, for these contingencies is made after analysis of each individual issue, often with assistance from both internal and external legal counsel and technical experts. The required amount of a provision for a contingency of any type may change in the future due to new developments in the particular matter, including changes in the approach to its resolution.

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

The Company provides for anticipated costs for warranties when it recognizes revenues on the related products or contracts. Warranty costs include calculated costs arising from imperfections in design, material and workmanship in the Company's products. The Company makes individual assessments on contracts with risks resulting from order-specific conditions or guarantees and assessments on an overall, statistical basis for similar products sold in larger quantities. There is a risk that actual warranty costs may exceed the amounts provided for, which would result in a deterioration of earnings in the future when these actual costs are determined.

The Company may have a legal obligation to perform environmental clean-up activities as a result of the normal operation of its business or have other asset retirement obligations in the scope of Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143). In some cases, the timing or the method of settlement, or both are conditional upon a future event that may or may not be within the control of the Company, but the underlying obligation itself is unconditional and certain. The Company recognizes a provision for these and other asset retirement obligations when a liability for the retirement or clean-up activity has been incurred and a reasonable estimate of its fair value can be made. These provisions are initially recognized at fair value, and subsequently adjusted for accrued interest and changes in estimates.

Pensions and other postretirement benefits

The Company recognizes an asset for a plan's overfunded status or a liability for a plan's underfunded status in its Consolidated Balance Sheets in accordance with Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (SFAS 158). Additionally, the Company measures a plan's assets and obligations that determine its funded status as of the end of the year and recognizes the changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes are reported in accumulated other comprehensive loss and as a separate component of stockholders' equity.

The Company uses actuarial valuations to determine its pension and postretirement benefit costs and credits. The amounts calculated depend on a variety of key assumptions, including discount rates and expected return on plan assets. The Company is required to consider current market conditions in selecting these assumptions. See Note 17 for further discussion of SFAS 158 and the Company's employee benefit plans.

New accounting pronouncements

On December 30, 2008, the Financial Accounting Standards Board issued FASB Staff Position Financial Accounting Standards No. 132(R)-1, *Employer's Disclosures about Postretirement Benefit Plan Assets* (FSP FAS 132R-1). FSP FAS 132R-1 amends Statement of Financial Accounting Standards No. 132 (Revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits,* to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The required disclosures include a description of our investment policies and strategies; the fair value of each major category of plan assets; the inputs and valuation techniques used to measure the fair value of plan assets; the effect of fair value measurements using significant unobservable inputs on changes in plan assets; and the significant concentrations of risk within plan assets. FSP FAS 132R-1 does not change the accounting treatment for postretirement benefits plans. FSP FAS 132R-1 is effective for the Company in 2009.

Note 2 Significant accounting policies, continued

In March 2008, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). SFAS 161 amends and expands the disclosure requirements of SFAS 133 and requires additional qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and credit-risk-related contingent features in derivative agreements. SFAS 161 does not change the accounting treatment for derivative instruments. SFAS 161 will be effective for the Company in 2009. The Statement encourages but does not require disclosures for earlier periods presented for comparative purposes at initial adoption.

In February 2008, the Financial Accounting Standards Board issued FASB Staff Position Financial Accounting Standard No. 157-2, *Effective date of FASB Statement No. 157* (FSP FAS 157-2), which delays the effective date of SFAS 157 for all nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP FAS 157-2 delays the effective date of SFAS 157 for certain items until January 1, 2009. The major categories of assets and liabilities that are recognized or disclosed at fair value for which the Company has not yet applied the provisions of SFAS 157 comprise asset retirement obligations within the scope of SFAS 143, guarantees within the scope of Financial Accounting Standards Board Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees* and impaired tangible assets or intangible assets, including goodwill. The Company does not believe that FSP FAS 157-2 will have a material impact on its Consolidated Financial Statements.

In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51* (SFAS 160). SFAS 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 will be applied prospectively upon adoption in 2009, with the exception of the presentation and disclosure requirements which will be made on a retrospective basis, to all noncontrolling interests. After adoption, noncontrolling interests of $612 million and $592 million in 2008 and 2007, respectively, will be classified as a part of stockholders' equity. Income attributable to noncontrolling interests of $260 million, and $244 million in 2008 and 2007, respectively, will be included in net income, although such income will continue to be deducted to calculate earnings per share. Future purchases and sales of noncontrolling interests will be reported in equity.

In December 2007, the Financial Accounting Standards Board issued revised Statement of Financial Accounting Standards No. 141, *Business Combinations* (SFAS 141R). Under SFAS 141R an entity is required to recognize the assets acquired, liabilities assumed, contractual contingencies and contingent consideration at their fair value on the acquisition date. It further requires that acquisition-related costs are recognized separately from the acquisition and expensed as incurred, restructuring costs generally are expensed in periods subsequent to the acquisition date. Further SFAS 141R requires that changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period impact income tax expense in periods subsequent to the acquisition date. In addition, acquired in-process research and development is capitalized as an intangible asset and amortized over its estimated useful life. The adoption of SFAS 141R will change the Company's accounting treatment for business combinations on a prospective basis beginning in 2009.

In May 2008, the Financial Accounting Standards Board issued FASB Staff Position on APB 14-a *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (including Partial Cash Settlement)* (FSP APB 14-a). FSP APB 14-a requires the issuer to separately account for the liability and equity components of the convertible instrument in a manner that reflects the issuer's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-a requires bifurcation of a component of the debt, classification of that component in equity, and then accretion of the resulting discount on the debt as part of interest expense being reflected in the income statement. As of December 31, 2008 and 2007, the Company did not have any debt instruments outstanding which contained the features outlined in this guidance. However, in 2009, the Company will be required to implement the guidance on a retroactive basis to 2007 as it relates to the CHF 1 billion convertible bonds converted in 2007, resulting in a cumulative effect adjustment to stockholders' equity as of January 1, 2007 and the recording in the Company's Consolidated Income Statement in 2007 of a gain (loss) on conversion of the bonds. The Company is currently quantifying the impact from the implementation of FSP APB 14-a.

Note 3 Acquisitions, divestments and discontinued operations

Acquisitions

During 2008, 2007 and 2006, the Company invested $653 million, $54 million and $3 million, in 12, 14 and 11 new businesses, joint ventures or affiliated companies, respectively. Acquisitions of controlling interests have been accounted for under the purchase method and have been included in the Company's Consolidated Financial Statements since the date of acquisition. The aggregate excess of the purchase price over the fair value of net assets acquired totaled $456 million, $23 million and $2 million in 2008, 2007 and 2006, respectively, and was recorded as goodwill. The Company has not presented the pro forma results of operations of the acquired businesses as the results are not material to the Consolidated Financial Statements.

On August 25, 2008, the Company completed the acquisition of the U.S. transformer company Kuhlman Electric Corporation (Kuhlman). Kuhlman manufactures a wide range of transformers for the industrial and electric utility sectors and was integrated into the Company's Power Products division. The preliminary purchase price, including assumed debt, amounted to $520 million (including $5 million cash acquired). Based on the preliminary purchase price allocation, $114 million was allocated to intangible assets subject to amortization and $400 million to goodwill. Of the $114 million intangible assets, $63 million related to customer relationships with a weighted average useful life of 6 years, $20 million related to order backlog with a useful life of less than 1 year, $16 million related to trademarks and tradenames with a weighted average useful life of 10 years and $15 million related to technology with a weighted average useful life of 4 years. The Company is in final negotiations with the seller on remaining closing adjustments and therefore has not yet finalized the purchase price allocation, however completion is expected by the middle of 2009.

Divestments

In addition to the sold businesses described under discontinued operations below, the Company has divested businesses and investments not considered by management to be aligned with its focus on power and automation technologies as described in Note 1. Since these divestments did not meet the requirements of SFAS 144 for classification as discontinued operations, the results of operations of these divested businesses are included in the Company's Consolidated Income Statements in the respective line items of income from continuing operations, through the date of divestment.

In May 2007, the Company completed the sale of its 50 percent stake in Jorf Lasfar Energy Company S.C.A. (Jorf Lasfar), a power plant based in Morocco, and its 50 percent stake in S.T.CMS Electric Company Private Limited (Neyveli), a power plant in India, to Taqa, the Abu Dhabi National Energy Company. The Company's share of the pre-tax earnings of Jorf Lasfar was $21 million and $67 million for the years ended December 31, 2007 and 2006, respectively. The Company's share of the pre-tax earnings of Neyveli for the years ended December 31, 2007 and 2006 was $4 million and $9 million, respectively. The sale of these investments resulted in a gain of approximately $38 million, which was included in continuing operations and was part of the Company's Corporate and Other division. During 2008, the Company recorded an additional gain of $16 million related to the favorable outcome on an outstanding tax case.

During 2008, 2007 and 2006, the Company sold several operating units and investments, excluding the divestments disclosed above or below in discontinued operations, for total proceeds of $27 million, $27 million and $9 million, respectively, and recognized net gains on disposal of $24 million, $11 million and $3 million, respectively, which are included in other income (expense), net. Revenues and income from these businesses and investments were not significant in 2008, 2007 or 2006.

Note 3 Acquisitions, divestments and discontinued operations, continued

Discontinued operations

The Company's Consolidated Financial Statements were impacted by activities related to the divestment of a number of businesses. The following completed disposals met the SFAS 144 criteria for presentation as held for sale and/or in discontinued operations in the reporting periods. The revenue and operating results of the divested business, discussed below, during the year of disposition reflects the results through the date of disposition.

Transformer business in South Africa

During 2008, the Company sold its 50 percent stake in the shares of ABB Powertech Transformers, located in South Africa, to Powertech, a wholly-owned subsidiary of the Altron Group at a gain of $11 million. This business was part of the Company's Power Products division prior to being reclassified to discontinued operations. The transformer business in South Africa had revenues of $29 million, $167 million and $146 million for the years ended December 31, 2008, 2007 and 2006, respectively. Income for 2008, 2007 and 2006 was $2 million, $15 million and $16 million, respectively, recorded in income (loss) from discontinued operations, net of tax.

Downstream oil and gas business

During the first quarter of 2007, the Company reclassified its downstream oil and gas business, Lummus Global (Lummus), to discontinued operations based on management's decision to sell that business. This business was part of the Company's Corporate and Other division prior to being reclassified to discontinued operations. In November 2007, the Company completed the sale of Lummus to Chicago Bridge & Iron (CB&I) and received net cash proceeds of approximately $810 million. The sale triggered an accelerated payment of $204 million by the Company to the CE Asbestos PI Trust, a trust set up to cover asbestos liabilities of Combustion Engineering. The payment to the trust was executed on November 14, 2007. The Company retained certain liabilities including those for potential fines and penalties connected with suspect payments made prior to completion of the sale (see Note 15).

The Lummus business had revenues of $870 million and $985 million for the years ended December 31, 2007 and 2006, respectively. Income recorded for 2007 and 2006 was $9 million in each year, recorded in income (loss) from discontinued operations, net of tax. In addition, the Company recorded a gain on the sale of Lummus of $530 million in income (loss) from discontinued operations, net of tax. In 2008, the Company recorded certain adjustments that reduced the gain on sale by $5 million.

Building Systems business in Germany

In April 2007, the Company completed the sale of its Building Systems business in Germany to the WISAG Group. This business was part of the Company's Corporate and Other division prior to being reclassified to discontinued operations. The business had revenues of $47 million and $286 million for the years ended December 31, 2007 and 2006, respectively. Losses for 2007 and 2006 were $2 million and $65 million, respectively, recorded in income (loss) from discontinued operations, net of tax. Of the loss reported for 2006, $67 million was an impairment charge based upon the proceeds which were expected from the sale of the business.

Power Lines business

In February 2007, the Company sold its Power Lines businesses in Brazil and Mexico for a sales price of $20 million and no gain or loss. These businesses had revenues of $39 million and $80 million and losses of $3 million and $4 million for the years ended December 31, 2007 and 2006, respectively, which was recorded in income (loss) from discontinued operations, net of tax.

In 2006, the Company disposed of its Power Lines businesses in Venezuela and South Africa. These businesses had revenues of $8 million and a loss of $1 million for the year ended December 31, 2006 recorded in income (loss) from discontinued operations, net of tax.

All Power Lines businesses were part of the Company's Power Systems division prior to being reclassified to discontinued operations.

Cable business

In 2006, the Company sold its cable business in Ireland to Longford Cable Ltd, based in the United Kingdom. This business was part of the Company's Power Products division prior to being reclassified to discontinued operations. Up to the divestment date in 2006, the business recorded revenues of $95 million and a loss of $48 million in income (loss) from discontinued operations, net of tax. The majority of the loss recorded in 2006 related to the sale of the business.

Upstream oil and gas business

In 2006, the Company and the buyer of the upstream oil and gas business entered into an agreement to settle certain items which were disputed by the buyer after the closing of the transaction in 2004. In 2007 and 2006, the Company recorded income in connection with the release of certain provisions, amounting to approximately $21 million and $15 million, respectively, in income (loss) from discontinued operations, net of tax, related to the divestment.

Other

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

Income (loss) from discontinued operations, net of tax, also included costs related to the Company's asbestos obligations of approximately $31 million, $0 million and $70 million for the years ended December 31, 2008, 2007 and 2006, respectively, (see Note 15).

Operating results of the held for sale and discontinued operations are summarized as follows:

Year ended December 31 ($ in millions)	2008	2007	2006
Revenues	32	1,123	1,602
Costs and expenses, finance loss	(82)	(1,047)	(1,668)
Operating income (loss) before taxes	**(50)**	**76**	**(66)**
Tax (expense) benefit	20	(20)	7
Operating income (loss) from discontinued operations	**(30)**	**56**	**(59)**
Gain (loss) from dispositions, net of tax	9	530	(83)
Income (loss) from discontinued operations, net of tax	**(21)**	**586**	**(142)**

At December 31, 2008, there were no amounts included in assets and liabilities held for sale and in discontinued operations. At December 31, 2007, the amounts included in assets and liabilities held for sale and in discontinued operations primarily consisted of cash and equivalents, marketable securities, short-term investments, receivables, inventories, accounts payable and advances from customers. These balances related to the Company's transformer business in South Africa, which was sold in 2008.

Note 4 Cash and equivalents and marketable securities and short-term investments

At December 31, 2008 and 2007, cash and equivalents and marketable securities and short-term investments consisted of the following:

December 31, 2008 ($ in millions)	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value	Cash and equivalents	Marketable securities and short-term investments
Cash	1,736			1,736	1,736	–
Time deposits	3,674			3,674	3,581	93
Cash-settled call options[(1)]	63	19	(29)	53	–	53
Securities held-to-maturity:						
Corporate commercial papers	532	–	–	532	532	–
Debt securities available-for-sale:						
U.S. government obligations	92	8	–	100	–	100
European government obligations	1,397	117	(13)	1,501	550	951
Other government obligations	10	–	(2)	8	–	8
Corporate	132	4	(7)	129	–	129
Other	33	2	–	35	–	35
Equity securities available-for-sale	40	–	(2)	38	–	38
Total	**7,709**	**150**	**(53)**	**7,806**	**6,399**	**1,407**

December 31, 2007 ($ in millions)	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value	Cash and equivalents	Marketable securities and short-term investments
Cash	1,741			1,741	1,741	
Time deposits	5,798			5,798	2,909	2,889
Cash-settled call options[(1)]	34	186	–	220	–	220
Debt securities available-for-sale:						
U.S. government obligations	86	2	–	88	–	88
European government obligations	20	–	(1)	19	–	19
Other government obligations	13	–	–	13	–	13
Corporate	132	2	(2)	132	–	132
Other	35	–	(1)	34	–	34
Equity securities available-for-sale	58	8	(1)	65	–	65
Total	**7,917**	**198**	**(5)**	**8,110**	**4,650**	**3,460**

[(1)] Serving as hedges of the Company's MIP (see Note 18)

To hedge its exposure to fluctuations in fair value of the Company's warrant appreciation rights (WARs) issued under the Company's MIP, the Company purchases cash-settled call options, which entitle the Company to receive amounts equivalent to its obligations under the outstanding WARs. In accordance with EITF No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock* (EITF 00-19) and SFAS 133, the cash-settled call options have been recorded as assets measured at fair value with subsequent changes in fair value recorded in accumulated other comprehensive loss and released to earnings to the extent that they offset the change in fair value of the liability for the WARs. Changes in the fair value of the cash-settled call options included in accumulated other comprehensive loss amounted to $21 million loss at December 31, 2008 and $36 million gain at December 31, 2007.

At December 31, 2008, contractual maturities of available-for-sale debt securities consisted of the following:

($ in millions)	Cost basis	Fair value
Less than one year	1,403	1,507
One to five years	143	147
Six to ten years	86	85
Due after ten years	32	34
Total	**1,664**	**1,773**

Gross realized gains on available-for-sale securities were $1 million, $130 million and $96 million in 2008, 2007 and 2006, respectively. Gross realized losses on available-for-sale securities were not significant in 2008, 2007 or 2006. Such gains and losses were included in interest and other finance expense.

At December 31, 2008, the Company recognized in interest and other finance expense an other-than-temporary impairment of $20 million on its available-for-sale equity securities and adjusted the cost base of these securities accordingly.

Note 4 Cash and equivalents and marketable securities and short-term investments, continued

At December 31, 2008, the gross unrealized losses on those available-for-sale securities that have been in a continuous unrealized loss position were as follows:

	Less than 12 months		12 months or more	
($ in millions)	Unrealized losses	Fair value	Unrealized losses	Fair value
Debt securities:				
European government obligations	(13)	247	–	–
Other government obligations	–	–	(2)	3
Corporate	(2)	26	(5)	37
Total securities in a continuous unrealized loss position	**(15)**	**273**	**(7)**	**40**

Although fair values of certain of the Company's debt securities have declined as of December 31, 2008, the Company still expects to collect all principal and interest amounts due according to the contractual terms of the investment. The Company has the ability and intent to hold those investments until a recovery of fair value, which may be maturity, and therefore does not consider those investments to be other-than-temporarily impaired at December 31, 2008.

At December 31, 2007, the gross unrealized losses on those available-for-sale securities that have been in a continuous unrealized loss position were not significant.

During 2008, the Company changed its intent and sold an individual security (with an amortized cost of $50 million at the time of sale) that had been classified upon purchase as held-to-maturity. The sale took place based on evidence of a significant deterioration in the issuer's creditworthiness. The Company recorded an insignificant gain on the sale.

At December 31, 2008 and 2007, the Company pledged $62 million and $65 million, respectively, of marketable securities as collateral for issued letters of credit and other security arrangements.

Note 5 Financial instruments

Cash flow hedges

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

The amount of derivative financial instrument gains or losses, net of tax reclassified from accumulated other comprehensive loss to earnings was a net gain of $49 million, $79 million and $95 million in 2008, 2007 and 2006, respectively.

At December 31, 2008, accumulated other comprehensive loss included $161 million of unrealized losses on cash flow hedge derivatives. Of this amount $21 million losses related to cash-settled call options purchased to hedge the Company's exposure to fluctuations in the fair value of outstanding WARs under the MIP. Of the $161 million of unrealized losses, $140 million is expected to be reclassified to earnings in 2009 and $21 million is expected to be reclassified to earnings in 2010 through 2011.

During 2008 and 2007, a net gain of $6 million and a net loss of $2 million, respectively, was reclassified into earnings as a result of the discontinuance of cash flow hedge accounting because it became probable that the originally forecasted transactions would not occur. A net loss of $4 million and $2 million in 2008 and 2007, respectively, was included in earnings due to ineffectiveness.

Fair value hedges

To reduce its interest rate and foreign currency exposures arising primarily from its borrowing activities, the Company uses interest rate and cross-currency swaps. Where such instruments are designated as fair value hedges, the changes in fair value of these instruments, as well as the changes in fair value of the risk component of the underlying debt being hedged, are recorded as offsetting gains and losses in interest and other finance expense. The hedge ineffectiveness in 2008, 2007 and 2006, resulted in a (loss) gain of ($3) million, $0 million and $3 million, respectively, included in earnings.

Disclosure about financial instruments carried at fair value

The following table shows the fair value of financial assets and liabilities measured at fair value on a recurring basis:

December 31 ($ in millions)	2008				2007
	Level 1	Level 2	Level 3	Total fair value	Fair value
Assets					
Available-for-sale securities in cash and equivalents	–	550	–	550	–
Available-for-sale securities in marketable securities and short-term investments	202	1,059	–	1,261	351
Cash-settled call options[1]	–	53	–	53	220
Derivative assets – current	5	597	–	602	295
Derivative assets – non-current	–	190	–	190	83
Liabilities					
Derivative liabilities – current	(7)	(789)	–	(796)	(243)
Derivative liabilities – non-current	–	(180)	–	(180)	(162)
Net assets and liabilities measured at fair value	**200**	**1,480**	**–**	**1,680**	**544**

[1] Serving as hedges of the Company's MIP (see Note 18)

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

Note 5 Financial instruments, continued

The Company uses the following methods and assumptions in estimating fair values of assets and liabilities measured at fair value on a recurring basis:

Cash and equivalents, marketable securities and short-term investments

Cash and equivalents include available-for-sale marketable securities, such as treasury bills, which are measured at fair value as well as held-to-maturity marketable securities, such as commercial papers, which are carried at amortized cost and disclosed at fair value. If quoted market prices in active markets for identical assets or liabilities are available, these are considered Level 1 inputs.

If such quoted market prices are not available, fair value is determined based on net asset value (NAV) or using present value techniques and applying an appropriate risk-free interest rate adjusted for nonperformance risk. The inputs used in present value techniques are observable for these instruments and fall into the Level 2 category.

Marketable securities and short-term investments include cash-settled call options serving as hedges of the Company's MIP and treasury bills and other marketable securities, such as fund investments.

Cash-settled call options and marketable securities classified as available-for-sale are re-measured at fair value on a recurring basis based on quoted bid and mid-market prices, respectively.

In addition, for fund investments the NAV is generally used as the basis for fair value measurement. Where NAV quotes are available with sufficient frequency and are supported by sufficient trading activity, the NAV constitutes a Level 1 input. For publicly traded closed-end funds with listed shares traded on secondary markets with sufficient frequency, the quote for the fund's listed shares is the basis for measuring fair value and is considered Level 2, unless significant adjustments based on unobservable inputs are required.

Derivative instruments

The fair values of derivative instruments are determined using quoted prices if available. If quoted prices are not available price quotes for similar instruments, appropriately adjusted, were used, or a discounted cash flow methodology based on available market data or option pricing models. The fair values obtained using price quotes for similar instruments or valuation techniques represent a Level 2 input unless significant unobservable inputs are used.

Although the Company is party to some master netting arrangements, the fair values of the Company's derivative instruments are reported on a gross basis in the Consolidated Balance Sheets. Current derivative assets are recorded in other current assets and non-current derivative assets are recorded in other non-current assets. Current derivative liabilities are recorded in provisions and other and non-current derivative liabilities are recorded in other liabilities.

Disclosure about financial instruments carried on a cost basis

Cash and equivalents, receivables, accounts payable, short-term debt and current maturities of long-term debt

The carrying amounts approximate the fair values as the items are short-term in nature.

Marketable securities and short-term investments

The carrying amounts of short-term investments, including time deposits, approximate their fair values.

Financing receivables and loans (non-current portion)

Financing receivables and loans are carried at amortized cost, less an allowance for credit losses, if required. Fair values are determined using a discounted cash flow methodology based upon loan rates of similar instruments and reflecting appropriate adjustments for non-performance risk.

The carrying values and estimated fair values of long-term loans granted at December 31, 2008, were $99 million and $99 million, respectively and at December 31, 2007, were $104 million and $102 million, respectively.

Long-term debt (non-current portion)

Fair values of public bond issues are based on quoted market prices. The fair values of other debt are based on the present value of future cash flows, discounted at estimated borrowing rates for similar debt instruments, or in the case of private placement bond or note issuances, using the relevant borrowing rates derived from interest rate swap curves. The carrying values and estimated fair values of long-term debt at December 31, 2008, were $2,009 million and $2,014 million, respectively and at December 31, 2007, were $2,138 million and $2,300 million, respectively.

Note 6 Receivables, net

Receivables, net consisted of the following:

December 31 ($ in millions)	2008	2007
Trade receivables	7,028	6,734
Other receivables	604	602
Allowance	(232)	(224)
	7,400	**7,112**
Unbilled receivables, net:		
Costs and estimated profits in excess of billings	2,638	3,370
Advance payments consumed	(793)	(1,900)
	1,845	**1,470**
Total	**9,245**	**8,582**

Trade receivables include contractual retention amounts billed to customers of $262 million and $250 million at December 31, 2008 and 2007, respectively. Management expects that the majority of related contracts will be completed and the majority of the billed amounts retained by the customer will be collected within one year of the respective balance sheet date. Other receivables consisted of value added tax, claims, rental deposits and other non-trade receivables.

Note 6 Receivables, net, continued

Costs and estimated profits in excess of billings represent revenues earned and recognized for contracts under the percentage of completion or completed contract method of accounting. Management expects that the majority of the amounts will be collected within one year of the respective balance sheet date.

The reconciliation of changes in the allowance for doubtful accounts is as follows:

December 31 ($ in millions)	2008	2007	2006
Balance at the beginning of the year	224	174	192
Additions	126	130	75
Deductions	(106)	(143)	(71)
Exchange rate differences	(12)	63	(22)
Balance at the end of the year	**232**	**224**	**174**

Note 7 Inventories, net

Inventories, net, consisted of the following:

December 31 ($ in millions)	2008	2007
Raw materials	1,934	1,879
Work in process	2,106	2,240
Finished goods	1,340	981
Advances to suppliers	350	240
	5,730	**5,340**
Advance payments consumed	(424)	(477)
Total	**5,306**	**4,863**

Work in process contains inventoried costs relating to long-term contracts of $366 million and $356 million at December 31, 2008 and 2007, respectively. Advance payments consumed relate to contractual advances received from customers on work in process.

Note 8 Financing receivables, net

Financing receivables, net consisted of the following:

December 31 ($ in millions)	2008	2007
Loans receivable	99	104
Pledged financial assets	298	298
Other	48	85
Total	**445**	**487**

Loans receivable primarily represent financing arrangements provided to customers related to products manufactured by the Company. Loans receivable are reported in the balance sheet at outstanding principal amount less any write-offs or allowance for uncollectible loans. The Company determines the loan losses based on historical experience and ongoing credit evaluation of the borrower's financial position.

The Company entered into tax-advantaged leasing transactions with U.S. investors prior to 1999. The prepaid rents relating to these transactions are reflected as pledged financial assets, with an offsetting non-current deposit liability, which is included in other liabilities (see Note 13). Net gains on these transactions are being recognized over the lease terms, which expire by 2021.

Note 9 Property, plant and equipment, net

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

December 31 ($ in millions)	2008	2007
Land and buildings	2,817	2,789
Machinery and equipment	5,345	5,500
Construction in progress	534	285
	8,696	**8,574**
Accumulated depreciation	(5,134)	(5,328)
Total	**3,562**	**3,246**

In 2008, 2007 and 2006, depreciation expense including amortization of capital leases was $506 million, $437 million and $399 million, respectively. At December 31, 2008 and 2007, capital leases represented $63 million and $71 million of land and buildings and $48 million and $53 million of machinery and equipment. Total accumulated depreciation associated with assets under capital leases was $56 million and $58 million at December 31, 2008 and 2007, respectively.

Note 10 Goodwill and other intangible assets

The changes in the carrying amount of goodwill for the year ended December 31, 2008 and 2007 were as follows:

($ in millions)	Power Products	Power Systems	Automation Products	Pocess Automation	Robotics	Corporate and Other	Total
Balance at January 1, 2007	**129**	**434**	**723**	**947**	**108**	**28**	**2,369**
Goodwill acquired during the year	21	–	2	–	–	–	**23**
Impairment losses	–	–	–	–	–	(7)	**(7)**
Other	–	(11)	(9)	(52)	–	–	**(72)**
Exchange rate differences	8	5	56	25	10	4	**108**
Balance at December 31, 2007	**158**	**428**	**772**	**920**	**118**	**25**	**2,421**
Goodwill acquired during the year	406	–	11	39	–	–	**456**
Other	–	(2)	–	–	1	–	**(1)**
Exchange rate differences	(10)	(6)	(27)	(11)	(4)	(1)	**(59)**
Balance at December 31, 2008	**554**	**420**	**756**	**948**	**115**	**24**	**2,817**

Amounts in the line item other in 2007 principally relate to goodwill adjustments in connection with the release of valuation allowances related to deferred tax assets of acquired entities. These valuation allowances were initially recorded when the businesses were acquired.

Intangible assets other than goodwill consisted of the following:

December 31 ($ in millions)	2008			2007		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Capitalized software for internal use	564	(369)	195	557	(438)	119
Capitalized software for sale	377	(316)	61	402	(311)	91
Other	255	(100)	155	495	(435)	60
Total	**1,196**	**(785)**	**411**	**1,454**	**(1,184)**	**270**

For the years ended December 31, 2008 and 2007, the Company capitalized intangible assets of $135 million and $89 million, respectively. Of these amounts $130 million, $2 million and $3 million related to software for internal use, software for sale and other, respectively in 2008 and $80 million, $5 million and $4 million related to software for internal use, software for sale and other, respectively in 2007.

Additionally, during 2008, the Company capitalized $176 million in other related to business combinations with a weighted average useful life of approximately 6 years (see Note 3).

Amortization expense of capitalized software for internal use for 2008, 2007 and 2006, recorded in selling, general and administrative expenses, amounted to $54 million, $40 million and $39 million, respectively. Amortization expense of capitalized software for sale for 2008, 2007 and 2006, recorded in cost of sales, amounted to $40 million, $40 million and $51 million, respectively. Amortization expense of other for 2008, 2007 and 2006, recorded in other income (expense), net, amounted to $61 million, $45 million and $44 million, respectively.

The Company recorded insignificant impairment charges to intangible assets in 2008, 2007 and 2006. These charges are included in other income (expense), net, in the Consolidated Income Statements.

Other primarily includes intangibles created through business combinations, such as trademarks, customer relationships, technology and patents.

At December 31, 2008, amortization expense of intangible assets other than goodwill is estimated to be as follows:

($ in millions)	
2009	136
2010	94
2011	78
2012	47
2013	32
Thereafter	24
Total	**411**

Note 11 Investments in equity method accounted companies

The Company recorded pre-tax earnings of investees accounted for under the equity method of accounting of $15 million, $36 million and $83 million in 2008, 2007 and 2006, respectively, in other income (expense), net. The income tax expense related to those earnings was ($4) million, ($11) million and ($22) million, respectively. The investment balance of these investees amounted to $68 million and $63 million at December 31, 2008 and 2007, respectively.

At December 31, 2008, the principal investments accounted for using the equity method of accounting were two VIEs that were established as consortia to develop and operate power plants. At December 31, 2008 and 2007, the Company maintained a combined equity and financing interest in these VIEs of approximately $84 million and $82 million, respectively of which approximately $56 million in each year was recognized as financing receivables. The Company's total interest in the VIEs is in the form of equity and subordinated debt. The Company determined that it is not the primary beneficiary of these VIEs as defined by Financial Accounting Standards Board Interpretation No. 46R *Consolidation of Variable Interest Entities (revised 2003) – an interpretation of ARB No. 51* by determining that the Company's total equity and financing interest in the VIEs is less than the total equity and financing interest of certain other parties involved in the VIEs and consequently these entities have not been consolidated.

Note 11 Investments in equity method accounted companies, continued

The Company's involvement with these VIEs began in 1995 and 1998 at the dates of inception of the VIEs. The purpose of the VIEs is to contract the engineering, procurement, commissioning and financing of the power plants and to operate the plants using intermediaries once construction has been completed. As of and for the years ended December 31, 2008 and 2007, these VIEs reported combined total revenues of $103 million and $133 million, respectively, and earnings before interest and taxes of $18 million and $32 million, respectively. The maximum exposure to loss as a result of involvement with the VIEs is limited to the Company's combined equity and financing interests.

In 2007 and 2006, the principal company in addition to the investments disclosed above accounted for using the equity method of accounting was Jorf Lasfar. The Company sold its 50 percent stake in Jorf Lasfar, as well as its 50 percent stake in Neyveli, a power plant in India, in May 2007 (see Note 3). The Company's share of earnings related to Jorf Lasfar was $21 million and $67 million for the years ended December 31, 2007 and 2006, respectively. At December 31, 2007, the pre-tax earnings of investees accounted for under the equity method of accounting included a gain of approximately $38 million on the sale of the Company's investments in Jorf Lasfar and Neyveli. This gain was offset by an impairment charge of $42 million in respect of one of the Company's equity investments, which it intends to divest, as the anticipated market value was less than its book value. During 2008, the Company recorded adjustments to this gain of $16 million related to a favorable outcome on an outstanding tax case. These equity investments were included in the Company's Corporate and Other division.

Note 12 Debt

The Company's total debt at December 31, 2008 and 2007 amounted to $2,363 million and $2,674 million, respectively.

Short-term debt and current maturities of long-term debt

The Company's short-term debt and current maturities of long-term debt consisted of the following:

December 31 ($ in millions)	2008	2007
Short-term debt (weighted-average interest rate of 12.6% and 8.6%)	159	129
Current maturities of long-term debt (weighted-average nominal interest rate of 4.5% and 4.4%)	195	407
Total	**354**	**536**

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

At December 31, 2008 and 2007, the Company had in place three commercial paper programs: a $1 billion commercial paper program for the private placement of U.S. dollar-denominated commercial paper in the United States; a $1 billion Euro-commercial paper program for the issuance of commercial paper in a variety of currencies and a 5 billion Swedish krona commercial paper program for the issuance of Swedish krona- and euro-denominated commercial paper. No amounts were outstanding under any of these programs at December 31, 2008 and 2007.

In addition, the Company had in place a $2 billion multicurrency revolving credit facility, maturing 2010. Interest costs on drawings under the facility are LIBOR, STIBOR or EURIBOR (depending on the currency of the drawings) plus a margin of 0.175%, while commitment fees (payable on the unused portion of the facility) amount to 0.0525%, and utilization fees (payable on drawings greater than half of the facility) amount to 0.05%. No amount was drawn under the facility at December 31, 2008 and 2007. The facility contains cross-default clauses whereby an event of default would occur if the Company were to default on indebtedness as defined in the facility, at or above a specified threshold.

Long-term debt

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

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

December 31 ($ in millions, except % data)	2008			2007		
	Balance	Nominal rate	Effective rate	Balance	Nominal rate	Effective rate
Floating rate	2,124	5.7%	5.8%	2,398	5.8%	6.8%
Fixed rate	80	4.8%	4.8%	147	2.4%	6.4%
	2,204			**2,545**		
Current portion of long-term debt	(195)	4.5%	3.5%	(407)	4.4%	6.1%
Total	**2,009**			**2,138**		

At December 31, 2008, maturities of long-term debt were as follows:

($ in millions)	
Due in 2009	195
Due in 2010	25
Due in 2011	929
Due in 2012	8
Due in 2013	947
Thereafter	100
Total	**2,204**

Note 12 Debt, continued

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

December 31 (in millions)	2008				2007			
	Nominal outstanding		Carrying value[1]		Nominal outstanding		Carrying value[1]	
Public bonds:								
9.5% EUR Instruments, due 2008	EUR	–	$	–	EUR	77	$	113
10% GBP Instruments, due 2009	GBP	20		30	GBP	20		40
3.75% CHF Bonds, due 2009	CHF	108		102	CHF	108		94
6.5% EUR Instruments, due 2011	EUR	650		915	EUR	650		910
4.625% EUR Instruments, due 2013	EUR	700		941	EUR	700		912
Private placements				33				207
Total outstanding bonds			**$**	**2,021**			**$**	**2,276**

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

All of the public bonds outstanding at December 31, 2008 and 2007, in the table above have been swapped into floating rate obligations through the use of interest rate or cross-currency swaps and consequently are shown as floating rate debt in the table of long-term debt above.

The 10% GBP Instruments, due 2009, contain certain clauses linking the interest paid on the bonds to the credit rating assigned to the bonds. If the rating assigned to these bonds by both Moody's and Standard & Poor's remains at or above Baa3 and BBB–, respectively, then the interest rate on the bonds remains at the level at issuance, that is 10 percent. In line with the Company's policy of reducing its interest and currency exposure, a cross-currency swap has been used to modify the characteristics of the 10% GBP Instruments, due 2009. After considering the impact of the cross-currency swaps, the 10% GBP Instruments, due 2009, effectively became a floating rate U.S. dollar obligation.

The 3.75% CHF Bonds, due 2009, pay interest annually at a fixed annual rate of 3.75 percent.

The 6.5% EUR Instruments, due 2011, pay interest semi-annually in arrears at a fixed annual rate of 6.5 percent. In the event of a change of control of the Company, the terms of these bonds require the Company to offer to repurchase the bonds at 101 percent of the principal amount thereof, plus any accrued interest.

The Company has entered into interest rate swaps to hedge its interest obligations on the 3.75% CHF Bonds, due 2009 and the 6.5% EUR Instruments, due 2011. After considering the impact of these interest rate swaps, the 3.75% CHF Bonds, due 2009, effectively became a floating rate Swiss franc obligation, while the 6.5% EUR Instruments, due 2011, effectively became a floating rate euro obligation.

The 4.625% EUR Instruments, due 2013, pay interest annually in arrears at a fixed annual rate of 4.625 percent. The Company has the option to redeem the bonds early at any time from June 6, 2010, in accordance with the terms of the bonds. In the event of a change of control, a bondholder can require the Company to repurchase or redeem the bonds, in accordance with the terms of the bonds. The Company has entered into interest rate swaps to hedge its interest obligations on the 4.625% EUR Instruments, due 2013. As a result of these swaps, the 4.625% EUR Instruments, due 2013, effectively became a floating rate euro obligation.

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

Bond conversions

During 2007, holders of the total aggregate principle amount of 1 billion Swiss francs of the Company's 3.5% CHF Convertible Bonds, due 2010, converted their bonds into shares. The conversions resulted in the issuance of approximately 105 million shares out of contingent capital. Total debt decreased by approximately $825 million as a result of the conversion of the bonds, while capital stock and additional paid-in capital increased by approximately $830 million, representing the carrying value of debt and accrued interest converted into shares, net of certain charges in connection with the share issuance.

During 2006, the Company announced an offer to holders of its outstanding 4.625% USD Convertible Bonds, due 2007, that contained certain incentives to induce the bondholders to convert their bonds into the Company's American Depositary Shares (ADSs). As a result of the induced conversion and the Company's subsequent call of those bonds whose holders had not accepted the Company's offer to convert, a total of approximately 107 million ADSs were issued to bondholders. In connection with this conversion offer, the Company incurred expenses related to the write-off of unamortized debt issuance costs, inducement payments to bondholders and transaction costs, totaling approximately $55 million, which are included in interest and other finance expense. The impact on equity (capital stock and additional paid-in capital and treasury stock) was an increase of approximately $928 million, after consideration of certain net charges in connection with the share issuance.

Other debt

In addition to the bonds described above, included in long-term debt at December 31, 2008 and 2007, are lease obligations, bank borrowings of subsidiaries and other long-term debt, none of which is individually significant.

Note 13 Provisions and other and non-current other liabilities

Provisions and other current liabilities consisted of the following:

December 31 ($ in millions)	2008	2007
Contract related provisions	508	594
Provisions for contractual penalties and compliance and litigation matters	858	197
Derivatives (see Note 5)	796	243
Pension and other employee benefits (see Note 17)	66	73
Taxes payable	582	451
Income tax related liabilities	14	68
WAR liabilities	42	99
Other	601	597
Total	**3,467**	**2,322**

Non-current other liabilities consisted of the following:

December 31 ($ in millions)	2008	2007
Nuclear technology environmental provisions (see Note 15)	241	245
Non-current deposit liabilities (see Note 8)	298	298
Deferred income	89	113
Non-current derivative liabilities (see Note 5)	180	162
WAR liabilities	3	71
Income tax related liabilities	701	556
Other non-current liabilities	390	352
Total	**1,902**	**1,797**

Note 14 Leases

Lease obligations

The Company's lease obligations primarily relate to real estate and office equipment. In the normal course of business, management expects most leases to be renewed or replaced by other leases. Rent expense was $458 million, $387 million and $365 million in 2008, 2007 and 2006, respectively. Sublease income received on leased assets by the Company was $42 million, $44 million and $40 million 2008, 2007 and 2006, respectively.

At December 31, 2008, future net minimum lease payments for operating leases, having initial or remaining non-cancelable lease terms in excess of one year, consisted of the following:

($ in millions)	
2009	372
2010	325
2011	268
2012	228
2013	213
Thereafter	551
	1,957
Sublease income	(133)
Total	**1,824**

At December 31, 2008, the future net minimum lease payments for capital leases and the present value of the net minimum lease payments consisted of the following:

($ in millions)	
2009	40
2010	32
2011	20
2012	17
2013	15
Thereafter	125
Total minimum lease payments	**249**
Less amount representing estimated executory costs included in total minimum lease payments	(5)
Net minimum lease payments	**244**
Less amount representing interest	(117)
Present value of minimum lease payments	**127**

Minimum lease payments have not been reduced by minimum sublease rentals of $4 million due in the future under noncancelable subleases. The present value of minimum lease payments is presented in short-term debt and current maturities of long-term debt or long-term debt in the Consolidated Balance Sheets.

Note 15 Commitments and contingencies

Contingencies – Environmental

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

Contingencies related to former Nuclear Technology business

The Company retains liabilities for certain specific environmental remediation costs at two sites in the United States that were operated by its former subsidiary, ABB CE-Nuclear Power Inc., which the Company sold to British Nuclear Fuels PLC (BNFL) in 2000. Pursuant to the sale agreement with BNFL, the Company has retained the environmental liabilities associated with its Combustion Engineering, Inc. subsidiary's Windsor, Connecticut, facility and agreed to reimburse BNFL for a share of the costs that BNFL incurs for environmental liabilities associated with its former Hematite, Missouri, facility. The primary environmental liabilities associated with these sites relate to the costs of remediating radiological and chemical contamination. Such costs are not incurred until a facility is taken out of use and generally are incurred over a number of years. Although it is difficult to predict with accuracy the amount of time it may take to remediate radiological and chemical contamination at the Hematite site, based on information that BNFL has made available, the Company believes that it may take until 2015. With respect to the Windsor site, the Company believes the remediation may take until 2012.

Under the terms of the sale agreement, BNFL is responsible to have the remediation of the Hematite site performed in a cost efficient manner and pursue recovery of remediation costs from other potentially responsible parties as conditions for obtaining cost sharing contributions from the Company. Westinghouse Electric Company LLC (Westinghouse), BNFL's former subsidiary, now oversees remediation activities at the Hematite site. Westinghouse was acquired during 2006 by a consortium led by Toshiba Corporation, Japan. Westinghouse brought legal action against the former owners/operators of the Hematite site and the U.S. Government under the Comprehensive Environmental Response Compensation and Liability Act to recover past and future remediation costs. The defendants contested Westinghouse's claims. During 2006, an arbitration ruling, related to indemnification of the former owners/operators contained in the Combustion Engineering purchase agreement for the site, was unfavorable to Westinghouse's claims, potentially increasing the Westinghouse costs subject to the cost sharing agreement. Separately, based on the publicly available draft Remedial Investigation Report and Decommissioning Plan prepared by Westinghouse and other site related data, the Company was able to re-estimate its share of the expected total remediation costs for the Hematite site. The unfavorable outcome of the arbitration was largely offset by a lower site remediation cost estimate. During 2008 and 2007, Westinghouse's efforts were focused on modifying, finalizing and obtaining regulatory approval of its draft decommissioning plan for the Hematite site.

During 2007, the Company reached an agreement with U.S. government agencies to transfer oversight of the remediation of the portion of the Windsor site under the U.S. Government's Formerly Utilized Sites Remedial Action Program from the U.S. Army Corps of Engineers to the Nuclear Regulatory Commission which has oversight responsibility for the remaining radiological areas of that site and the Company's radiological license for the site. Management believes this could result in cost efficiencies as well as expedited completion of the remediation activities at the site.

The Company established a provision of $300 million in income (loss) from discontinued operations in 2000 for its estimated share of the remediation costs for these sites. At December 31, 2008 and 2007, the Company has recorded in non-current other liabilities provisions of $241 million and $245 million, net of payments from inception of $54 million and $50 million, respectively. Expenditures charged against the provision were $4 million, $3 million and $4 million during 2008, 2007 and 2006, respectively. The Company has estimated that during 2009 it will charge expenditures of approximately $27 million to the provision.

Contingencies related to other present and former facilities primarily in north America

The Company is involved in the remediation of environmental contamination at present or former facilities, primarily in the United States. The clean up of these sites involves primarily soil and groundwater contamination. At December 31, 2008 and 2007, the Company has recorded in current and non-current other liabilities reserves totaling $52 million and $32 million, respectively. The increase for 2008 reflects environmental reserves of an acquired company. Substantially all of the acquired entity's remediation liability is indemnified by a prior owner. Accordingly, an asset equal to this increase in the remediation liability is included in other non-current assets. Charges to earnings, including $1 million, $7 million and $6 million in income (loss) from discontinued operations in 2008, 2007 and 2006, were $4 million, $14 million and $9 million for the years ended December 31, 2008, 2007 and 2006, respectively. Expenditures for the years ended December 31, 2008, 2007 and 2006 were $8 million, $4 million and $4 million, respectively. The Company has estimated that during 2009 expenditures on these projects will be approximately $12 million.

Asbestos obligations

The Company's Combustion Engineering, Inc. subsidiary (CE) was a co-defendant in a large number of lawsuits claiming damage for personal injury resulting from exposure to asbestos. A smaller number of claims were also brought against the Company's former Lummus subsidiary as well as against other entities of the Company. Separate plans of reorganization for CE and Lummus, as amended, were filed under Chapter 11 of the U.S. Bankruptcy Code. The CE plan of reorganization and the Lummus plan of reorganization (collectively, the Plans) became effective on April 21, 2006 and August 31, 2006, respectively.

Under the Plans, separate personal injury trusts were created and funded to settle future asbestos related claims against CE and Lummus and on the respective Plan effective dates, channeling injunctions were issued pursuant to Section 524(g) of the U.S. Bankruptcy Code under which all present and future asbestos-related personal injury claims filed against the Company and its affiliates and certain other entities that relate to the operations of CE and Lummus are channeled to the CE Asbestos PI Trust or the Lummus Asbestos PI Trust, respectively.

Funding of the CE Asbestos PI Trust has been made on certain scheduled payment dates. In addition, $204 million was paid to this Trust on November 14, 2007, as required in conjunction with the sale of Lummus which occurred on November 16, 2007. Funding of the Lummus Asbestos PI Trust was completed on May 2, 2007 upon the payment to that Trust of $28 million.

From time to time, other entities of the Company have been named as defendants in asbestos-related claims. At December 31, 2008 and 2007, there were approximately 7,500 and 9,500, respectively, asbestos-related claims outstanding against ABB entities other than CE and Lummus. ABB entities that are subject to such claims will continue to resolve them in the tort system, or otherwise. The Company generally seeks dismissals from claims where there is no apparent linkage between the plaintiff's claimed exposure and a product of the Company. To date, resolving asbestos-related claims against the Company's entities other than CE and Lummus has not had a material impact on the Company's consolidated financial position, results of operations or cash flows.

Note 15 Commitments and contingencies, continued

The effect of asbestos obligations on the Company's Consolidated Income Statements was as follows:

Year ended December 31 ($ in millions)	2008	2007	2006
Income (loss) from discontinued operations, net of tax (see Note 3)	(31)	–	(70)

The effect of asbestos obligations on the Company's Consolidated Statements of Cash Flows was as follows:

Year ended December 31 ($ in millions)	2008	2007	2006
Cash payments to:			
CE Asbestos PI Trust	100	354	70
Lummus Asbestos PI Trust	–	28	9
Fees and other costs	–	–	20
	100	**382**	**99**

The effect of asbestos obligations on the Company's Consolidated Balance Sheets was as follows:

December 31 ($ in millions)	2008	2007	2006
CE Plan (Face value $100 million at December 31, 2007) – current	–	97	146
Other asbestos obligations – current	4	4	4
Asbestos liabilities included in liabilities held for sale and in discontinued operations	–	–	29
Total current liabilities	**4**	**101**	**179**
CE Plan non-current liabilities	50	–	282
Total non-current liabilities	**50**	**–**	**282**

The asbestos obligations relating to the CE Plan as reflected in the Company's Consolidated Financial Statements were payable pursuant to a non-interest bearing promissory note (the ABB Promissory Note). The Company is also liable on a contingent basis under the ABB Promissory Note for two additional payments of $25 million each. One additional payment of $25 million is payable in 2010 or 2011 if the Company attains an earnings before interest and taxes (EBIT) margin of 9% for 2009 or 14% in 2010. The other additional payment of $25 million is payable in 2011 if the Company attains an EBIT margin of 9.5% in 2010. During 2008, the Company recorded both of these contingent payment obligations as, based on forecasted financial results, it expects to achieve the target EBIT margins in 2009 and 2010. If the Company is found by the U.S. Bankruptcy Court (the Bankruptcy Court) to have defaulted on its payment obligations under the ABB Promissory Note, the CE Asbestos PI Trust may petition the Bankruptcy Court to terminate the CE channeling injunction and the protections afforded by that injunction to the Company and other ABB entities as well as certain other entities, including Alstom SA (Alstom).

Contingencies – Regulatory, Compliance and Legal

Gas Insulated Switchgear business

In May 2004, the Company announced that it had undertaken an internal investigation which uncovered that certain of its employees together with employees of other companies active in the Gas Insulated Switchgear business were involved in anti-competitive practices. The Company has reported such practices upon identification to the appropriate antitrust authorities, including the European Commission. The European Commission announced its decision on January 24, 2007 and granted ABB full immunity from fines assessed to the Company of euro 215 million under the European Commission's leniency program.

The Company continues to cooperate with other antitrust authorities in several locations globally, including Brazil, which are investigating anti-competitive practices related to Gas Insulated Switchgear. At this stage of the proceedings, no reliable estimate of the amount of potential fines, if any, can be made.

In addition, the Company is aware of proceedings issued against it and others in respect of private claims by customers and other third parties alleging harm with regard to the Gas Insulated Switchgear cartel cases. However, an informed judgment about the merits of these claims or the amount of potential loss for the Company, if any, resulting from these proceedings cannot be made at this stage and as such the Company has made no provision at December 31, 2008, for any of these cases.

Power Transformers business

In February 2007, the European Commission conducted dawn raids at the premises of an ABB unit in Bad Honnef, Germany, as part of its investigation into alleged anti-competitive practices of certain manufacturers of power transformers. The German Antitrust Authority *(Bundeskartellamt)* and other antitrust authorities are also reviewing those alleged practices which relate to the German market and other markets. Management is cooperating fully with the authorities in their investigations. The Company anticipates an unfavorable outcome with respect to these alleged anti-competitive practices and expects that fines will be imposed.

Cables business

ABB's cables business is under investigation for alleged anti-competitive practices. Management is cooperating fully with the antitrust authorities in their investigations. An informed judgment about the outcome of these investigations or the amount of potential loss for the Company, if any, relating to these investigations cannot be made at this stage.

Suspect payments

In April 2005, the Company voluntarily disclosed to the United States Department of Justice (DoJ) and the United States Securities and Exchange Commission (SEC) certain suspect payments in its network management unit in the United States. Subsequently, the Company made additional voluntary disclosures to the DoJ and the SEC regarding suspect payments made by other Company subsidiaries in a number of countries in the Middle East, Asia, South America and Europe as well as by its former Lummus business. These payments were discovered by the Company as a result of the Company's internal audit program and compliance reviews. The payments may be in violation of the Foreign Corrupt Practices Act or other applicable laws. The Company is cooperating with the relevant authorities regarding these issues and is continuing its internal investigations and compliance reviews. The Company anticipates an unfavorable outcome with respect to the investigation of these suspect payments and expects that fines will be imposed.

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

Note 15 Commitments and contingencies, continued

Earnings overstatement in an Italian subsidiary

In September 2004, the Company restated its Consolidated Financial Statements for all prior periods as a result of earnings overstatements by a business unit of the Company's Power Products division (part of the former Power Technologies division) in Italy. The restatement followed an internal investigation by the Company which revealed that the business unit had overstated earnings before interest and taxes and net income, as well as that certain employees had participated in arranging improper payments to an employee of an Italian power generation company in order to obtain a contract. The Company has reported this matter to the Italian authorities, who have initiated formal criminal proceedings, as well as to the SEC and the DoJ. The Company cannot reasonably predict the outcome of the criminal proceedings or what action, if any, the SEC or the DoJ may take.

General

In addition, the Company is subject to other various legal proceedings, investigations, and claims that have not yet been resolved. With respect to the above-mentioned regulatory matters and commercial litigation contingencies, the Company will bear the costs of the continuing investigations and any related legal proceedings.

At December 31, 2008 and 2007, the Company accrued aggregate liabilities of approximately $795 million and $140 million, respectively, included in provisions for contractual penalties and compliance and litigation matters and other non-current liabilities (see Note 13) for the above regulatory, compliance and legal contingencies. As it is not possible to make an informed judgement on the outcome of certain matters and as it is not possible based on information currently available to management to estimate the maximum potential liability on other matters, there could be material adverse outcomes beyond the accrued liabilities.

Guarantees – general

The following table provides quantitative data regarding the Company's third-party guarantees. The maximum potential payments represent a "worst-case scenario" and do not reflect management's expected results.

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

December 31 ($ in millions)	2008		2007	
	Maximum potential payments	Carrying amount of liabilities	Maximum potential payments	Carrying amount of liabilities
Performance guarantees	413	1	957	9
Financial guarantees	95	–	131	–
Indemnification guarantees	277	2	328	1
Total	**785**	**3**	**1,416**	**10**

Guarantees – performance

Performance guarantees represent obligations where the Company guarantees the performance of a third party's product or service according to the terms of a contract. Such guarantees may include guarantees that a project will be completed within a specified time. If the third party does not fulfill the obligation, the Company will compensate the guaranteed party in cash or in kind. Performance guarantees include surety bonds, advance payment guarantees and performance standby letters of credit.

The Company retained obligations for guarantees related to the Power Generation business contributed in mid-1999 to the former ABB Alstom Power NV joint venture (Alstom Power NV). The guarantees primarily consist of performance guarantees, advance payment guarantees and other miscellaneous guarantees under certain contracts such as indemnification for personal injuries and property damages, taxes and compliance with labor laws, environmental laws and patents. The guarantees are related to projects which are expected to be completed by 2013 but in some cases have no definite expiration date. In May 2000, the Company sold its interest in Alstom Power NV to Alstom. As a result, Alstom and its subsidiaries have primary responsibility for performing the obligations that are the subject of the guarantees. Further, Alstom, the parent company and Alstom Power NV, have undertaken jointly and severally to fully indemnify and hold harmless the Company against any claims arising under such guarantees. Management's best estimate of the total maximum potential exposure of quantifiable guarantees issued by the Company on behalf of its former Power Generation business was approximately $120 million and $171 million at December 31, 2008 and 2007, respectively. The Company has not experienced any losses related to guarantees issued on behalf of the former Power Generation business.

The Company retained obligations for guarantees related to the Upstream Oil and Gas business sold in 2004. The guarantees primarily consist of performance guarantees, advance payment guarantees and other miscellaneous guarantees. The guarantees have original maturity dates ranging from one to seven years. The maximum amount payable under the guarantees was approximately $239 million and $393 million at December 31, 2008 and 2007, respectively. The Company has the ability to recover potential payments under these guarantees through certain backstop guarantees. The maximum potential recovery under these backstop guarantees was approximately $16 million at December 31, 2008 and 2007.

At December 31, 2008, the Company no longer has any retained obligations for performance guarantees related to the Lummus business sold in 2007. At December 31, 2007, the maximum amount payable under these obligations was $301 million. All performance guarantees remaining at year end 2007 were officially released during 2008.

The Company retained obligations for guarantees related to the Building Systems business in Germany sold in 2007. The guarantees primarily consist of performance guarantees. The guarantees have original maturity dates ranging from one to thirteen years. The maximum amount payable under the guarantees was approximately $54 million and $92 million at December 31, 2008 and 2007, respectively.

Guarantees – financial

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

At December 31, 2008 and 2007, the Company had $95 million and $131 million, respectively, of financial guarantees outstanding. Of those amounts, $22 million and $56 million, respectively, were issued on behalf of companies in which the Company currently has or formerly had an equity interest. The guarantees have various maturity dates. The majority of the durations run to 2013 with the longest expiring in 2021.

Note 15 Commitments and contingencies, continued

Guarantees – indemnification

The Company has indemnified certain purchasers of divested businesses for potential claims arising from the operations of the divested businesses. To the extent the maximum loss related to such indemnifications could not be calculated, no amounts have been included under maximum potential payments in the table above. Indemnifications for which maximum losses could not be calculated include indemnifications for legal claims.

The Company delivered to the purchasers of Lummus guarantees related to assets and liabilities divested in 2007. The maximum liability at December 31, 2008 and 2007, of $50 million, relating to this business will reduce over time, pursuant to the sales agreements.

The Company delivered to the purchasers of its interest in Jorf Lasfar guarantees related to assets and liabilities divested in 2007. The maximum liability at December 31, 2008 and 2007, of $143 million and $189 million, respectively, relating to this business will reduce over time, pursuant to the sales agreements.

The Company delivered to the purchaser of the Reinsurance business guarantees related to assets and liabilities divested in 2004. The maximum liability at December 31, 2008 and 2007, of approximately $84 million and $89 million, respectively, relating to this business will reduce over time, pursuant to the sales agreement.

With respect to the sale of Lummus, the Company retained certain liabilities, including for potential fines and penalties connected with suspect payments made prior to completion of the sale. The Company has disclosed these suspect payments to the SEC and DoJ. The Company believes that an unfavorable outcome is likely and has recorded a provision as discussed in more detail in the suspect payment disclosures section above.

Product and order related contingencies

The Company calculates its provision for product warranties based on historical claims experience and specific review of certain contracts.

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

December 31 ($ in millions)	2008	2007
Balance at the beginning of year	1,121	998
Claims paid in cash or in kind	(173)	(243)
Net increase to provision for changes in estimates, warranties issued and warranties expired	203	267
Exchange rate differences	(46)	99
Balance at the end of year	**1,105**	**1,121**

IBM Outsourcing Agreement

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

Further, pursuant to the global framework agreement, IBM will receive monthly payments from the Company's subsidiaries in the respective countries related to information systems infrastructure services. Annual costs during 2008, 2007 and 2006 were $285 million, $251 million and $236 million, respectively, reflecting the current level of usage of the services.

Related party transactions

The Company conducts business with companies where members of the Company's Board of Directors act as directors or board members. This includes the IBM global frame agreement, the Company's banking relationships with Skandinaviska Enskilda Banken AB (Publ) and Dresdner Bank AG and various sales of products and services. The Company's Board of Directors has determined that the Company's business relationships with those companies do not constitute material business relationships. This determination was made in accordance with the Company's related party transaction policy which was prepared based on the Swiss Code of Best Practice and the independence criteria set forth in the corporate governance rules of the New York Stock Exchange.

Note 16 Taxes

Provision for taxes consisted of the following:

Year ended December 31 ($ in millions)	2008	2007	2006
Current taxes on income	1,282	939	564
Deferred taxes	(163)	(344)	122
Tax expense from continuing operations	**1,119**	**595**	**686**
Tax expense (benefit) from discontinued operations	(36)	36	(7)

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

Note 16 Taxes, continued

Year ended December 31 ($ in millions, except % data)	2008	2007	2006
Reconciliation of taxes:			
Income from continuing operations before taxes and minority interest	4,518	4,010	2,397
Weighted average tax rate	**28.1%**	**29.7%**	**29.7%**
Taxes at weighted average tax rate	1,270	1,189	712
Items taxed at rates other than the weighted average tax rate	3	4	(55)
Changes in valuation allowance	(414)	(698)	(60)
Changes in tax laws and enacted tax rates	(19)	(15)	(3)
Other, net	279	115	92
Tax expense from continuing operations	**1,119**	**595**	**686**
Effective tax rate for the year	**24.8%**	**14.8%**	**28.6%**

The reconciliation of taxes for 2008, 2007 and 2006 included changes in the valuation allowance recorded in certain jurisdictions in respect of deferred tax assets that were recognized for net operating losses and timing differences incurred in those jurisdictions. The change in valuation allowance was required as the Company determined that it was more likely than not that such deferred tax assets would be realized. In 2008 the change in valuation allowance was predominantly related to the Company's operations in north America with approximately $330 million. In 2007 the change in valuation allowance was predominantly related to the Company's operations in north America with approximately $550 million.

In 2008, the reconciling item other, net included an expense of approximately $140 million related to a pending tax dispute in north Europe. In addition, other, net included an expense of approximately $100 million relating to costs of previously disclosed investigations by U.S. and European authorities into suspect payments and alleged anti-competitive practices, respectively, that were deducted for financial accounting purposes, but were not tax deductible. The line item also included a reduction of expense of approximately $53 million related to the court decision in north Europe concerning certain sale and leaseback transactions as well as to the favorable outcome related to the interpretation of tax law and double tax treaty agreements by competent tax authorities in north Africa. The line item also included an expense of approximately $50 million relating to items that were deducted for financial accounting purposes, but were not tax deductible such as interest expense, state and local taxes on productive activities, disallowed meals and entertainment expenses and other similar items. Further, other, net included an additional expense of approximately $40 million relating to a net increase in tax accruals. The Company's policy for such accruals is outlined in Note 2.

In 2007, the reconciling item other, net included an expense of approximately $35 million related to the interpretation of tax law and double tax treaty agreements by competent tax authorities in north Africa. Further, other, net included an additional expense of approximately $45 million relating to a net increase in tax accruals. The Company's policy for such accruals is outlined in Note 2. In addition, other, net included an expense of approximately $35 million relating to items that were deducted for financial accounting purposes, but were not tax deductible such as interest expense, state and local taxes on productive activities, disallowed meals and entertainment expenses and other similar items.

In 2006, the reconciling item other, net included an expense of approximately $70 million relating to a net increase in tax accruals. Further, other, net included an expense of approximately $35 million relating to items that were deducted for financial accounting purposes, but were not tax deductible such as interest expense, state and local taxes on productive activities, disallowed meals and entertainment expenses and other similar items.

Deferred income tax assets and liabilities consisted of the following:

December 31 ($ in millions)	2008	2007
Deferred tax assets:		
Pension and other accrued liabilities	988	770
Unused tax losses and credits	1,234	1,443
Inventories	245	180
Other	231	212
Total deferred tax asset	**2,698**	**2,605**
Valuation allowance	(488)	(960)
Deferred tax asset, net of valuation allowance	**2,210**	**1,645**
Deferred tax liabilities:		
Property, plant and equipment	(221)	(220)
Pension and other accrued liabilities	(291)	(221)
Inventories	(170)	(140)
Other	(271)	(197)
Total deferred tax liability	**(953)**	**(778)**
Net deferred tax asset	**1,257**	**867**

At December 31, 2008 and 2007, the line item other in total deferred tax asset included approximately $100 million and $90 million, respectively, related to property, plant and equipment.

Certain entities have deferred tax assets related to net operating loss carry-forwards and other items. Because recognition of these assets did not meet the more likely than not standard, valuation allowances of $488 million and $960 million had been established at December 31, 2008 and 2007, respectively. At December 31, 2008, the line item unused tax losses and credits included approximately $300 million which, due to limitations imposed by the relevant tax law, the Company has determined that it is more likely than not that such deferred tax assets would not be realized. The Company has therefore established a full valuation allowance for this matter.

Note 16 Taxes, continued

At December 31, 2008, net operating loss carry-forwards of $3,440 million and tax credits of $124 million were available to reduce future taxes of certain subsidiaries, of which $2,336 million loss carry-forwards and $95 million tax credits which will expire in varying amounts through 2028. These carry-forwards were predominantly related to the Company's U.S. operations.

At December 31, 2008 and 2007, the line item other in total deferred tax liability included approximately $100 million and $85 million, respectively, related to the recognition of deferred taxes under APB 23.

Unrecognized tax benefits consisted of the following:

($ in millions)	Unrecognized tax benefits	Penalties and interest related to unrecognized tax benefits	Total
Classification as unrecognized tax items on January 1, 2007	524	107	631
Increase relating to prior year tax positions	101	48	149
Decrease relating to prior year tax positions	(128)	(7)	(135)
Increase relating to current year tax positions	76	2	78
Decrease related to current year tax positions	(4)	–	(4)
Decrease due to settlements with taxing authorities	(30)	(16)	(46)
Decrease as a result of the applicable statute of limitations	(37)	(10)	(47)
Exchange difference average	16	5	21
Balance at December 31, 2007 which would, if recognized, affect the effective tax rate	**518**	**129**	**647**
Net change due to acquisitions and divestments	6	1	7
Increase relating to prior year tax positions	189	75	264
Decrease relating to prior year tax positions	(20)	(1)	(21)
Increase relating to current year tax positions	93	1	94
Decrease related to current year tax positions	(17)	(1)	(18)
Decrease due to settlements with taxing authorities	(127)	(55)	(182)
Decrease as a result of the applicable statute of limitations	(25)	(5)	(30)
Exchange difference average	(19)	(5)	(24)
Balance at December 31, 2008 which would, if recognized, affect the effective tax rate	**598**	**139**	**737**

In 2008, the reconciling item increase relating to prior year tax positions included an expense of approximately $85 million in taxes and approximately $50 million in penalties and interest relating to a pending tax dispute in north Europe. Further, it included an increase of provision of approximately $33 million in taxes relating to a pending assessment by competent tax authorities in central Europe.

In 2008, the reconciling item decrease due to settlements with taxing authorities included the release of provisions of approximately $53 million in taxes and approximately $48 million in penalties and interest relating to court cases in north Europe concerning certain sale and leaseback transactions as well as to the favorable outcome in north Africa relating to the interpretation of tax law and double tax treaty agreements by competent tax authorities. Further, it included the release of provision of approximately $33 million in taxes relating to the favorable outcome of an assessment by competent tax authorities in central Europe.

In 2007, the reconciling item decrease relating to prior year positions included approximately $100 million related to the outcome of a court decision in north Europe where the Company had claimed in its tax return a divestment loss that had not met the technical merits for recognition under FIN 48 accounting principles. Neither penalty nor interest were due as a result of this court decision.

The Company expected the resolution of uncertain tax positions related to pending court cases amounting to be approximately $180 million for taxes, penalties and interest within the next twelve months. Otherwise, the Company had not identified any significant changes which were expected to occur, reasonably possible within the next twelve months.

At December 31, 2008, the earliest significant open tax years that remained subject to examination were the following:

Region	Year
Central Europe	2002
Mediterranean	2004
Middle East & Africa	2006
North America	2005
North Asia	2001
North Europe	2003
South America	2004
South Asia	2002

Note 17 Employee benefits

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

Some of these plans require employees to make contributions and enable employees to earn matching or other contributions from the Company. The funding policies of the Company's plans are consistent with the local government and tax requirements. The Company has several pension plans that are not required to be funded pursuant to local government and tax requirements. The Company uses a December 31 measurement date for its plans.

On December 31, 2006, the Company adopted SFAS 158, which requires the Company to recognize in its Consolidated Balance Sheets the funded status of its defined benefit pension and postretirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation. This resulted in a charge to ending accumulated other comprehensive loss at December 31, 2006, of $426 million, net of tax.

Obligations and funded status

The following tables set forth the change in benefit obligations, the change in plan assets and the funded status recognized in the Consolidated Balance Sheets at December 31, 2008 and 2007, for the Company's benefit plans:

	Pension benefits		Other benefits	
December 31 ($ in millions)	2008	2007	2008	2007
Benefit obligation at the beginning of the year	8,884	8,278	215	222
Service cost	204	189	2	1
Interest cost	438	361	13	12
Contributions by plan participants	45	38	–	–
Benefit payments	(525)	(538)	(16)	(12)
Benefit obligations of businesses disposed and acquired	31	(5)	2	–
Actuarial (gain) loss	(619)	(78)	(5)	(11)
Plan amendments and other	(243)	23	(1)	–
Exchange rate differences	(454)	616	(3)	3
Benefit obligation at the end of the year	**7,761**	**8,884**	**207**	**215**
Fair value of plan assets at the beginning of the year	8,906	8,163	–	–
Actual return on plan assets	(1,053)	370	–	–
Contributions by employer	300	297	16	12
Contributions by plan participants	45	38	–	–
Benefit payments	(525)	(538)	(16)	(12)
Plan assets of businesses disposed and acquired	28	–	–	–
Plan amendments and other	(253)	(16)	–	–
Exchange rate differences	(397)	592	–	–
Fair value of plan assets at the end of the year	**7,051**	**8,906**	**–**	**–**
Funded status – under/(over)funded	**710**	**(22)**	**207**	**215**

The amounts recognized in accumulated other comprehensive loss related to continuing operations in 2008 and 2007 consisted of:

	Pension benefits		Other benefits	
December 31 ($ in millions)	2008	2007	2008	2007
Transition liability	–	–	(3)	(4)
Net actuarial loss	(1,239)	(530)	(76)	(86)
Prior service cost	(40)	(47)	79	90
Amount recognized in accumulated other comprehensive loss	**(1,279)**	**(577)**	**–**	**–**
Taxes associated with amount recognized in accumulated other comprehensive loss	301	91	–	–
Total amount recognized in accumulated other comprehensive loss, net of tax	**(978)**	**(486)**	**–**	**–**

The following amounts related to continuing operations have been recognized in the Company's Consolidated Balance Sheets at December 31, 2008 and 2007:

	Pension benefits		Other benefits	
December 31 ($ in millions)	2008	2007	2008	2007
Overfunded plans	(72)	(379)	–	–
Accrued pension cost current	22	22	18	18
Accrued pension cost non-current	760	335	189	197
Funded status	**710**	**(22)**	**207**	**215**

Note 17 Employee benefits, continued

December 31 ($ in millions)	2008	2007
Non-current assets		
Overfunded pension plans non-current	(72)	(379)
Other employee related benefits that do not meet the SFAS 87 criteria	(1)	(1)
Prepaid pension and other employee benefits	**(73)**	**(380)**

December 31 ($ in millions)	2008	2007
Current liabilities		
Underfunded pension plans current	22	22
Underfunded other benefit plans current	18	18
Employee related benefit costs that do not meet the SFAS 87 criteria	26	33
Total other current pension and other employee benefit liability	**66**	**73**

December 31 ($ in millions)	2008	2007
Non-current liabilities		
Underfunded pension plans non-current	760	335
Underfunded other benefit plans non-current	189	197
Other employee related benefits that do not meet the SFAS 87 criteria	122	99
Total other non-current pension and other employee benefit liability	**1,071**	**631**

The funded status, calculated by the projected benefit obligation (PBO) and fair value of plan assets, for pension plans with a PBO in excess of fair value of plan assets or fair value of plan assets in excess of PBO, respectively, was:

December 31 ($ in millions)	2008			2007		
	PBO	Assets	Difference	PBO	Assets	Difference
Underfunded plans	7,035	6,253	782	2,383	2,026	357
Overfunded plans	726	798	(72)	6,501	6,880	(379)
Total	**7,761**	**7,051**	**710**	**8,884**	**8,906**	**(22)**

The accumulated benefit obligation (ABO) for all defined benefit pension plans was $7,522 million and $8,573 million at December 31, 2008 and 2007, respectively. The funded status, calculated by the ABO and fair value of plan assets for pension plans with ABO in excess of fair value of plan assets or fair value of plan assets in excess of ABO, respectively was:

December 31 ($ in millions)	2008			2007		
	ABO	Assets	Difference	ABO	Assets	Difference
ABO exceeds assets	6,654	6,039	615	347	56	291
Assets exceed ABO	868	1,012	(144)	8,226	8,850	(624)
Total	**7,522**	**7,051**	**471**	**8,573**	**8,906**	**(333)**

All of the Company's other postretirement benefit plans are unfunded.

Components of net periodic benefit cost and other amounts recognized in accumulated other comprehensive loss

For the years ended December 31, 2008, 2007 and 2006, net periodic benefit cost consisted of the following:

	Pension benefits			Other benefits		
Year ended December 31 ($ in millions)	2008	2007	2006	2008	2007	2006
Service cost	204	189	180	2	1	2
Interest cost	438	361	329	13	12	12
Expected return on plan assets	(471)	(400)	(353)	–	–	–
Amortization transition liability	–	–	–	1	1	1
Amortization prior service cost	14	4	4	(11)	(11)	(11)
Amortization of net actuarial loss	13	31	39	5	7	8
Curtailments, settlements and special termination benefits	38	21	7	–	–	–
Other	–	3	1	–	1	1
Net periodic benefit cost	**236**	**209**	**207**	**10**	**11**	**13**

The net actuarial loss and prior service cost for the defined benefit pension plans that is estimated to be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year are $70 million and $14 million, respectively.

The estimated net actuarial loss, transition cost and prior service cost for the defined benefit non-pension postretirement plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year are $5 million, $2 million and $(11) million, respectively.

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

Note 17 Employee benefits, continued

Assumptions

The following weighted-average assumptions were used to determine benefit obligations at December 31, 2008 and 2007:

	Pension benefits		Other benefits	
December 31 (%)	2008	2007	2008	2007
Discount rate	5.63	5.16	6.30	6.17
Rate of compensation increase	2.22	2.35	–	–
Pension increase assumption	1.49	1.49	–	–

The discount rate assumptions reflect the rates at which the benefit obligations could effectively be settled. The principal assumption was that the relevant fixed income securities are AA rated corporate bonds. In those countries with sufficient liquidity in corporate bonds, the Company used the current market long-term corporate bond rates and matched the bond duration with the average duration of the pension liabilities. In those countries where the liquidity of the AA corporate bonds was deemed to be insufficient, the Company determined the discount rate by adding the credit spread derived from an AA corporate bond index in another relevant liquid market, as adjusted for interest rate differentials, to the domestic government bond curve or interest rate swap curve.

The following weighted-average assumptions were used to determine the net periodic benefit cost for years ended December 31, 2008, 2007 and 2006:

	Pension benefits			Other benefits		
Year ended December 31 (%)	2008	2007	2006	2008	2007	2006
Discount rate	5.16	4.39	4.29	6.17	5.70	5.50
Expected long-term return on plan assets	5.55	5.00	4.92	–	–	–
Rate of compensation increase	2.35	2.32	2.35	–	–	–

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

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

December 31	2008	2007
Health care cost trend rate assumed for next year	9.82%	10.72%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.97%	4.96%
Year that the rate reaches the ultimate trend rate	2017	2017

A one-percentage-point change in assumed health care cost trend rates would have the following effects at December 31, 2008:

($ in millions)	1-percentage-point increase	1-percentage-point decrease
Effect on total of service and interest cost	1	(1)
Effect on postretirement benefit obligation	13	(12)

Plan assets

The Company's pension plan weighted-average asset allocations at December 31, 2008 and 2007 and approximate long-term target allocations are as follows:

	Plan assets		Long-term target allocation
December 31 (%)	2008	2007	2008
Asset category:			
Equity securities	25	32	20–40
Debt securities	58	55	50–70
Real estate	9	7	0–15
Other	8	6	0–15
Total	**100**	**100**	

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

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

The Company does not expect any plan assets to be returned to the employer during the 12-month period ending December 31, 2009.

At December 31, 2008 and 2007, the plan assets included approximately 769,000 shares and 623,000 shares of the Company's capital stock with a total value of $11 million and $18 million, respectively.

Note 17 Employee benefits, continued

Contributions

The Company made non-cash contributions of $89 million of available-for-sale debt securities to certain of the Company's pension plans in Finland, Germany and in the U.S. in 2008. The Company made non-cash contributions of $49 million of available-for-sale debt securities to certain of the Company's pension plans in Germany in 2007. The Company also made cash contributions of $211 million and $248 million to other pension plans and $16 million and $12 million to other benefit plans during 2008 and 2007, respectively.

The Company expects to contribute approximately $221 million to its pension plans and $18 million to its other postretirement benefit plans in 2009.

The Company also maintains several defined contribution plans. The expense for these plans was $65 million, $68 million and $55 million in 2008, 2007 and 2006, respectively. The Company also contributed $22 million, $20 million and $19 million to multi-employer plans in 2008, 2007 and 2006, respectively.

Estimated future benefit payments

The expected future cash flows to be paid by the Company in respect of pension and other postretirement benefit plans at December 31, 2008 are as follows:

	Pension benefits	Other postretirement benefits	
($ in millions)		Benefit payments	Medicare subsidies
2009	538	19	(1)
2010	559	20	(1)
2011	568	20	(1)
2012	584	19	(1)
2013	594	19	(1)
Years 2014–2018	3,090	98	(7)

The Medicare subsidies column represents payments estimated to be received from the United States government as part of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The United States government began making the subsidy payments for employers in 2006.

Note 18 Share-based payment arrangements

The Company has three share-based payment plans, as more fully described in the respective sections below.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123R, using the modified-prospective transition method. Under that transition method, compensation cost recognized in 2006 includes i) compensation cost for all share-based payment arrangements granted prior to, but not yet vested as of, January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and ii) compensation cost for all share-based payment arrangements granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. In 2008 and 2007, the Company recorded a total charge of $63 million and $32 million, respectively, for equity awards. In 2006, as a result of adopting SFAS 123R, the Company recorded a total charge of $18 million in respect of equity awards. The tax benefits in 2008, 2007 and 2006 were insignificant. Charges recorded in respect of share-based liabilities are disclosed in the WAR section of this note.

In May 2007, the Company repurchased, in two transactions, a total of 10 million of its shares for use in connection with share-based payment arrangements. At December 31, 2008, the Company had the ability to issue up to approximately 38 million new shares out of contingent capital in connection with share-based payment arrangements.

As the primary trading market for the shares of ABB Ltd is the SIX Swiss Exchange, on which the shares are traded in Swiss francs, certain data disclosed below related to the instruments granted under share-based payment arrangements are presented in Swiss francs.

MIP

Under the MIP, the Company offers physically-settled warrants, cash-settled warrant appreciations rights (WARs) and, as of the May 2007 launch, options, to key employees for no consideration.

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

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

Warrants and options

The fair value of each warrant and option is estimated on the date of grant using a lattice model that uses the assumptions noted in the table below. Expected volatilities are based on implied volatilities from equivalent listed warrants on ABB Ltd shares. The expected term of the warrants and options granted has been assumed to be the contractual six-year life of each warrant and option, based on the fact that after the vesting period, a participant can elect to sell the warrant or option rather than exercise the right to purchase shares, thereby realizing the time value of the warrants and options. The risk-free rate is based on a six-year Swiss franc interest rate, reflecting the six-year contractual life of the warrants and options. In estimating forfeitures, the Company has used the data from previous comparable MIP launches.

	2008 grant	2007 grant	2006 grant
Expected volatility	36%	27%	28%
Dividend yield	1.42%	1.14%	1.06%
Expected term	6 years	6 years	6 years
Risk-free interest rate	3.36%	3.00%	2.30%

Note 18 Share-based payment arrangements, continued

Presented below is a summary of the activity related to warrants and options for the year ended December 31, 2008:

	Number of instruments	Number of shares[1]	Weighted-average exercise price (in Swiss francs)[2]	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value (in millions of Swiss francs)[3]
Outstanding at January 1, 2008	**57,675,275**	**11,535,055**	**17.97**		
Granted	29,941,875	5,988,375	36.40		
Exercised[4]	(12,758,585)	(2,551,717)	7.35		
Forfeited	(932,475)	(186,495)	28.07		
Outstanding at December 31, 2008	**73,926,090**	**14,785,218**	**27.14**	**4.4**	**10**
Vested and expected to vest at December 31, 2008	**68,710,131**	**13,742,026**	**26.88**	**4.4**	**10**
Exercisable at December 31, 2008	**9,093,515**	**1,818,703**	**13.48**	**2.6**	**9**

(1) Information presented reflects the number of shares of ABB Ltd that can be received upon exercise, as warrants and options have a conversion ratio of 5:1.
(2) Information presented reflects the exercise price per share of ABB Ltd.
(3) Computed using the closing price, in Swiss francs, of ABB Ltd shares on the SIX Swiss Exchange and the exercise price per share of ABB Ltd.
(4) The cash received upon exercise amounted to $18 million. The shares were issued out of contingent capital.

Of the outstanding instruments at December 31, 2008, 2007 and 2006, 3.0 million, 9.5 million and 14.4 million, respectively, have been sold to a third-party by participants, representing 0.6 million, 1.9 million and 3.5 million shares, respectively.

At December 31, 2008, there was $60 million of total unrecognized compensation cost related to non-vested warrants and options granted under the MIP. That cost is expected to be recognized over a weighted-average period of 2.2 years. The weighted-average grant-date fair value of warrants and options granted during 2008, 2007 and 2006 was 2.32 Swiss francs, 1.35 Swiss francs and 0.73 Swiss francs, respectively. In 2008 and 2007, the aggregate intrinsic value (on the days of exercise) was 57 million Swiss francs and 117 million Swiss francs, respectively. There were no exercises in 2006.

Presented below is a summary, by launch, related to instruments outstanding at December 31, 2008:

Exercise price [1] (in Swiss fancs)	Number of instruments	Number of shares[2]	Weighted-average remaining contractual term (in years)
7.00	1,680,500	336,100	0.9
7.50	3,819,165	763,833	1.9
15.30	11,367,500	2,273,500	3.1
26.00	27,367,050	5,473,410	4.4
36.40	29,691,875	5,938,375	5.4
Total number of instruments and shares	**73,926,090**	**14,785,218**	**4.4**

(1) Information presented reflects the exercise price per share of ABB Ltd.
(2) Information presented reflects the number of shares of ABB Ltd that can be received upon exercise.

WARs

As each WAR gives the holder the right to receive cash equal to the market price of an equivalent listed warrant on date of exercise, the Company records a liability based upon the fair value of outstanding WARs at each period end, accreted on a straight-line basis over the three-year vesting period. In selling, general and administrative expenses, the Company recorded income of $83 million and expense of $142 million and $106 million for 2008, 2007 and 2006, respectively, as a result of changes in both the fair value and vested portion of the outstanding WARs. To hedge its exposure to fluctuations in the fair value of outstanding WARs, the Company purchased cash-settled call options, which entitle the Company to receive amounts equivalent to its obligations under the outstanding WARs. In accordance with EITF 00-19 and SFAS 133, the cash-settled call options have been recorded as assets measured at fair value (see Note 4), with subsequent changes in fair value recorded through earnings to the extent that they offset the change in fair value of the liability for the WARs. In 2008, 2007 and 2006, the Company recognized expense of $98 million and income of $132 million and $97 million, respectively, in selling, general and administrative expenses related to the cash-settled call options.

The aggregate fair value of outstanding WARs was $53 million and $220 million at December 31, 2008 and 2007, respectively. The fair value of WARs was determined based upon the trading price of equivalent warrants listed on the SIX Swiss Exchange.

Presented below is a summary of activity of WARs granted to participants for the year ended December 31, 2008:

	Number of WARs
Outstanding at January 1, 2008	**58,879,135**
Granted	15,111,815
Exercised	(13,482,730)
Forfeited	(836,790)
Outstanding at December 31, 2008	**59,671,430**
Exercisable at December 31, 2008	**10,910,165**

The aggregate fair value at date of grant of WARs granted in 2008, 2007 and 2006 was $33 million, $7 million and $19 million, respectively. In 2008, 2007 and 2006, share-based liabilities of $53 million, $106 million and $18 million, respectively, were paid upon exercise of WARs by participants.

ESAP
The employee share acquisition plan (ESAP) is an employee stock-option plan with a savings feature. Employees save over a twelve-month period, by way of monthly salary deductions. At the end of the savings period, employees choose whether to exercise their stock options using their savings plus interest to buy ABB Ltd shares (American Depositary Shares (ADS) in the case of employees in the United States – each ADS representing one registered share of the Company) at the exercise price set at the grant date, or have their savings returned with interest. The savings are accumulated in a bank account held by a third-party trustee on behalf of the participants and earn interest. Employees can withdraw from the ESAP at any time during the savings period and will be entitled to a refund of their accumulated savings.

The fair value of each option is estimated on the date of grant using the same option valuation model as described under the MIP, using the assumptions noted in the table below. The expected term of the option granted has been determined to be the contractual one-year life of each option, at the end of which the options vest and the participants are required to decide whether to exercise their options or have their savings returned with interest. The risk-free rate is based on one-year Swiss franc interest rates, reflecting the one year contractual life of the options. In estimating forfeitures, the Company has used the data from previous ESAP launches.

	2008 grant	2007 grant	2006 grant
Expected volatility	57%	34%	30%
Dividend yield	2.61%	0.89%	0.81%
Expected term	1 year	1 year	1 year
Risk-free interest rate	1.44%	2.82%	2.13%

Presented below is a summary of activity under the ESAP during the year ended December 31, 2008:

	Number of shares[(1)]	Weighted-average exercise price (in Swiss francs)[(2)]	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value (in millions of Swiss francs)[(2)(3)]
Outstanding at January 1, 2008	**2,772,670**	**34.98**		
Granted	6,261,920	15.30		
Forfeited	(141,400)	34.98		
Not exercised (savings returned plus interest)	(2,631,270)	34.98		
Outstanding at December 31, 2008	**6,261,920**	**15.30**	**0.8**	**1.8**
Vested and expected to vest at December 31, 2008	**5,992,657**	**15.30**	**0.8**	**1.7**
Exercisable at December 31, 2008	**–**	**–**	**–**	**–**

(1) Includes shares represented by ADS.
(2) Information presented for ADS is based on equivalent Swiss franc denominated awards.
(3) Computed using the closing price, in Swiss francs, of ABB Ltd shares on the SIX Swiss Exchange and the exercise price of each option in Swiss francs.

The exercise prices per ABB Ltd share and per ADS of 15.30 Swiss francs and $12.98, respectively, for the 2008 grant, 34.98 Swiss francs and $29.78, respectively, for the 2007 grant and 18.55 Swiss francs and $14.75, respectively, for the 2006 grant were determined using the closing price of the ABB Ltd share on SIX Swiss Exchange and ADS on the New York Stock Exchange on the respective grant dates.

At December 31, 2008, there was $16 million of total unrecognized compensation cost related to non-vested options granted under the ESAP. That cost will be recognized over the first ten months of 2009. The weighted-average grant-date fair value of options granted during 2008, 2007 and 2006, was 3.34 Swiss francs, 4.93 Swiss francs and 2.32 Swiss francs, respectively. The total intrinsic value (on the day of exercise) of options exercised in 2007 and 2006 was 61 million Swiss francs and 50 million Swiss francs, respectively. No options were exercised in 2008.

LTIP
The Company has a long-term incentive plan (LTIP) for members of its Executive Committee and other executives (Eligible Participants), as defined in the terms of the LTIP and determined by the Company's Governance, Nomination and Compensation Committee. The LTIP involves annual grants (subject to market and vesting conditions) of the Company's stock and, as of the 2006 launch, contains a co-investment component, in addition to the share-price performance component existing in the previous launches.

Under the share-price performance component, the number of shares conditionally granted is dependent upon the base salary of the Eligible Participant. The actual number of shares that each Eligible Participant will receive free-of-charge at a future date is dependent on i) the performance of ABB Ltd shares during a defined period (Evaluation Period) compared to those of a selected peer group of publicly-listed multinational companies and ii) the term of service of the respective Eligible Participant in their capacity as an Eligible Participant during the Evaluation Period. The actual number of shares received after the Evaluation Period cannot exceed 100 percent of the conditional grant.

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

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

Note 18 Share-based payment arrangements, continued

Under the co-investment component of the LTIP, each Eligible Participant is invited to invest in the Company's shares, up to an individually defined maximum number of shares. If the Eligible Participant remains the owner of such shares until the end of the Evaluation Period, the Company will deliver free-of-charge to the Eligible Participant a matching number of shares.

Presented below is a summary of launches of the LTIP outstanding at December 31, 2008:

Launch year	Evaluation Period	Conditionally granted shares outstanding at December 31, 2008	Reference price (Swiss francs)[1]
2006	March 15, 2006, to March 15, 2009	598,824	15.48
2007	March 15, 2007, to March 15, 2010	503,659	21.08
2008	March 15, 2008, to March 15, 2011	661,001	26.20

[1] For the purpose of comparison with the peers, the reference price is calculated as the average of the closing prices of the ABB Ltd share on SIX Swiss Exchange over the 20 trading days preceding March 15 of the respective launch year.

Presented below is a summary of activity under the LTIP for the year ended December 31, 2008:

	Number of shares	Weighted-average grant-date fair value per share (Swiss francs)
Nonvested at January 1, 2008	**2,265,416**	**17.14**
Granted	696,118	31.47
Vested	(1,128,947)	13.63
Forfeited	(69,103)	28.12
Nonvested at December 31, 2008	**1,763,484**	**24.62**

Effective January 1, 2006, the Company accounts for the LTIP in accordance with SFAS 123R. The charge is based on the market price of the ABB Ltd share on grant date and is recorded in selling, general and administrative expenses over the vesting period, which is from grant date to the end of the Evaluation Period.

The aggregate fair value, at the dates of grant, of shares conditionally granted in 2008, 2007 and 2006 was approximately $21 million, $16 million and $10 million, respectively.

At December 31, 2008, there was $21 million of total unrecognized compensation cost related to non-vested shares conditionally granted under the LTIP. Such cost is expected to be recognized over a weighted-average period of 1.9 years. The total grant-date fair value of shares that vested during 2008 and 2006 was 15 million Swiss francs and 3 million Swiss francs, respectively. No grants under LTIP vested in 2007. The weighted-average grant-date fair value of shares conditionally granted during 2008, 2007 and 2006, was 31.47 Swiss francs, 23.75 Swiss francs and 16.75 Swiss francs, respectively.

Other share-based payments

The Company has other insignificant share-based payment arrangements. In 2008 and 2007, such arrangements represented an aggregate grant of less than 1 million and less than half a million shares, respectively, and the expense recorded in selling, general and administrative expenses for such arrangements totaled $8 million and $3 million, respectively. The 2006 amounts were insignificant.

Note 19 Stockholders' equity

At December 31, 2008, the Company had 2,770,314,755 authorized shares, of which 2,322,792,835 were registered and issued. At December 31, 2007, the Company had 2,570,314,947 authorized shares, of which 2,316,015,102 were registered and issued.

In February 2008, the Company announced a share buyback program to purchase up to a maximum value of 2.2 billion Swiss francs (equivalent to $2 billion at then-current exchange rates) with the intention of completing the buyback program prior to the Annual General Meeting of Shareholders in 2010 and proposing the cancellation of the shares at that meeting. Up to December 31, 2008, a total of 22.675 million shares have been repurchased at a total cost of 652 million Swiss francs ($619 million, using exchange rates effective at the respective repurchase dates). The repurchased shares are included in treasury stock at December 31, 2008. On February 12, 2009, the Company stated that given the market uncertainty, the Company is not actively pursuing new purchases under the program.

In May 2008, the Annual General Meeting of Shareholders approved a proposal to reduce the nominal value of ABB Ltd's shares from 2.50 Swiss francs per share to 2.02 Swiss francs per share and to distribute the 0.48 Swiss francs per share to shareholders. The distribution, equivalent to $1.06 billion, resulted in a reduction in capital stock and additional paid-in capital.

Upon and in connection with each launch of the Company's MIP, the Company sold call options to a bank at fair value, giving the bank the right to acquire shares equivalent to the number of shares represented by the MIP warrant and WAR awards to participants. Under the terms of the agreement with the bank, the call options can only be exercised by the bank to the extent that MIP participants have either sold or exercised their warrants or exercised their WARs. During 2008, the bank exercised a portion of the call options held (with strike prices of 7.00 and 7.50 Swiss francs) that had been issued at fair value during 2003 and 2004. As a result, approximately 6.8 million shares were issued by the Company resulting in a net increase in capital stock and additional paid-in capital of $49 million.

At December 31, 2008, call options representing 21.6 million shares and with strike prices ranging from 7.00 to 36.40 Swiss francs were held by the bank. These call options expire in periods ranging from December 2009 to May 2014. However, at December 31, 2008, only 1.3 million of these instruments, with strike prices ranging from 7.00 to 36.40 Swiss francs, could be exercised under the terms of the agreement with the bank.

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

Note 19 Stockholders' equity, continued

In addition to the above, at December 31, 2008, the Company had further outstanding obligations to deliver:

- up to 2.8 million shares, at a strike price of 26.00 Swiss francs, relating to the options granted under the 2007 launch of the MIP, vesting in May 2010 and expiring in May 2013;
- up to 3.1 million shares, at a strike price of 36.40 Swiss francs, relating to the options granted under the 2008 launch of the MIP, vesting in May 2011 and expiring in May 2014;
- up to 6.3 million shares, at a strike price of 15.30 Swiss francs, to employees under the ESAP, vesting and expiring in November 2009;
- up to 1.8 million shares free-of-charge to Eligible Participants under the 2008, 2007 and 2006 launches of the LTIP, vesting and expiring in March 2011, 2010 and 2009, respectively;
- less than a million shares in connection with certain other share-based payment arrangements with employees.

See Note 18 for a description of the above share-based payment arrangements.

As described in Note 12, during 2007, the bondholders of the Company's 1 billion Swiss franc convertible bonds converted their bonds, resulting in the issuance of 105 million shares and an increase in capital stock and additional paid-in capital of $830 million.

During 2007, the Company purchased on the open market 10 million of its own shares for use in connection with share-based payment arrangements. These transactions resulted in an increase in treasury stock of $199 million.

In November 2007 and 2006, the Company issued 3.7 million and 5.7 million shares, respectively, from contingent capital stock for the purposes of fulfilling the Company's obligations under the ESAP. This share issuance resulted in an increase in capital stock and additional paid-in capital of $60 million and $47 million, respectively.

During 2007, the bank holding call options issued during 2001, 2003 and 2004 (in connection with the launches of the Company's MIP in those years), and with strike prices ranging from 7.00 to 13.49 Swiss francs, exercised a portion of the call options held. As a result, approximately 19.6 million shares were issued by the Company and there was a net increase in capital stock and additional paid-in capital of $181 million.

In 2006, as a result of the Company's induced conversion of its $968 million, 4.625% USD Convertible Bonds, due 2007, and its subsequent call of the remaining outstanding bonds, a total of approximately 105 million shares were issued out of contingent capital and a further 2 millions ADSs were delivered out of treasury stock. These transactions resulted in an increase in the Company's equity (capital stock and additional paid-in capital and treasury stock) of approximately $928 million, after consideration of certain charges in connection with share issuance.

In 2005, 30,298,913 ABB Ltd shares were reserved to cover part of the Company's asbestos liabilities. These shares were contributed to the CE Asbestos PI Trust on April 21, 2006, and resulted in a reduction in asbestos obligations by $407 million, the fair value of the shares on the date of contribution. This amount was offset by a corresponding increase in capital stock and additional paid-in capital in the Consolidated Balance Sheets.

Dividends are payable to the Company's stockholders based on the requirements of Swiss law, ABB Ltd's Articles of Incorporation and stockholders' equity as reflected in the unconsolidated financial statements of ABB Ltd, Zurich prepared in compliance with Swiss law. At December 31, 2008, of the 12,567 million Swiss francs stockholders' equity reflected in such unconsolidated financial statements, 4,692 million Swiss francs is share capital, 2,665 million Swiss francs is restricted, 2,655 million Swiss francs is unrestricted and 2,555 million Swiss francs is available for distribution. At December 31, 2007, of the 12,833 million Swiss francs stockholders' equity reflected in such unconsolidated financial statements, 5,790 million Swiss francs is share capital, 4,096 million Swiss francs is restricted, 1,175 million Swiss francs is unrestricted and 1,772 million Swiss francs is available for distribution.

In February 2009, the Board of Directors announced that a proposal will be put to the Annual General Meeting to reduce the nominal value of the shares from 2.02 Swiss francs per share to 1.54 Swiss francs per share and distribute the 0.48 Swiss francs per share to shareholders.

Note 20 Earnings per share

Basic earnings (loss) per share is calculated by dividing income (loss) by the weighted-average number of shares outstanding during the year. Diluted earnings (loss) per share is calculated by dividing income (loss) by the weighted-average number of shares outstanding during the year, assuming that all potentially dilutive securities were exercised, if dilutive. Potentially dilutive securities comprise: outstanding written call options; outstanding options and shares granted subject to market and/or vesting conditions under the Company's share-based payment arrangements; and, prior to September 2007, shares issuable in relation to outstanding convertible bonds. In 2008, 2007 and 2006, outstanding securities representing a maximum of 24 million, 3 million and 4 million shares, respectively, were excluded from the calculation of diluted earnings (loss) per share as their inclusion would have been anti-dilutive.

Year ended December 31 ($ in millions, except per share data in $)	2008	2007	2006
Income from continuing operations	3,139	3,171	1,532
Income (loss) from discontinued operations, net of tax	(21)	586	(142)
Net income	**3,118**	**3,757**	**1,390**
Weighted-average number of shares outstanding (in millions)	2,287	2,258	2,128
Basic earnings (loss) per share:			
Income from continuing operations	1.37	1.40	0.72
Income (loss) from discontinued operations, net of tax	(0.01)	0.26	(0.07)
Net income	**1.36**	**1.66**	**0.65**

Note 20 Earnings per share, continued

Year ended December 31 ($ in millions, except per share data in $)	2008	2007	2006
Income from continuing operations	3,139	3,171	1,532
Effect of dilution:			
Interest on convertible bonds, net of tax	–	9	29
Income from continuing operations	**3,139**	**3,180**	**1,561**
Income (loss) from discontinued operations, net of tax	(21)	586	(142)
Net income, adjusted	**3,118**	**3,766**	**1,419**
Weighted-average number of shares outstanding (in millions)	2,287	2,258	2,128
Effect of dilutive securities:			
Call options and shares	9	18	15
Convertible bonds	–	32	105
Dilutive weighted-average number of shares outstanding (in millions)	**2,296**	**2,308**	**2,248**
Diluted earnings (loss) per share:			
Income from continuing operations	1.37	1.38	0.69
Income (loss) from discontinued operations, net of tax	(0.01)	0.25	(0.06)
Net income, adjusted	**1.36**	**1.63**	**0.63**

Note 21 Transformer business consolidation program and other restructuring charges

In 2005, the Company announced its decision to consolidate its global transformer business in the Power Products division, including closing certain plants and employment reductions, as a result of overcapacity, increasing raw material costs and a regional shift in demand experienced by the transformer business. The Company finalized the transformer business consolidation program in 2008 and expensed a total of $241 million between 2005 and the end of 2008.

During 2008, the Company recorded an expense of $46 million; $27 million was recorded in cost of sales, $16 million in selling, general and administrative expenses and $3 million in other income (expense) net. This expense consisted of $16 million charges related to employee severance costs, $26 million of estimated contract settlement, loss order and other costs and $4 million related to inventory and long-lived asset impairments.

During 2007, the Company recorded an expense of $34 million; $23 million was recorded in cost of sales, $2 million in selling, general and administrative expenses and $9 million in other income (expense) net. This expense consisted of $15 million charges related to employee severance costs, $9 million of estimated contract settlement and loss order costs and $10 million related to inventory and long-lived asset impairments.

During 2006, the Company recorded an expense of $38 million; $26 million was recorded in cost of sales, $9 million in selling, general and administrative expenses and $3 million in other income (expense), net. This expense consisted of $47 million of estimated contract settlement and loss order costs, $3 million charges related to employee severance costs and $1 million related to inventory and long-lived asset impairments and costs. These expenses were offset by a change in estimate of $13 million related to employee severance costs.

Liabilities associated with these expenses consisted of the following:

($ in millions)	Employee severance costs	Contractual settlement/ (loss) order costs	Total
Liability at December 31, 2006	**26**	**37**	**63**
Expenses	17	15	32
Cash payments	(10)	(31)	(41)
Exchange rate differences	2	3	5
Change in estimates	(2)	(6)	(8)
Liability at December 31, 2007	**33**	**18**	**51**
Expenses	22	26	48
Cash payments	(14)	(14)	(28)
Exchange rate differences	2	1	3
Change in estimates	(6)	–	(6)
Liability at December 31, 2008	**37**	**31**	**68**

Further, in 2008, the Company initiated its plan to adjust its engineering, manufacturing and service capacities in the Robotics division, primarily in western Europe and the U.S. as a result of the economic downturn in some of the division's key markets as well as increase the presence in emerging markets. The plan includes closing certain production lines as well as employment reductions and is expected to be completed by the end of 2009. The Company recorded liabilities of $62 million related to employee severance costs and additional expenses of $5 million related to inventory and long-lived asset impairments. $47 million was recorded in cost of sales and $20 million in selling, general and administrative expenses.

Note 22 Operating segment and geographic data

Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131), establishes standards for reporting information about operating segments. The Chief Operating Decision Maker (CODM), as defined by SFAS 131, is the Company's Executive Committee. The CODM allocates resources to and assesses the performance of each operating segment using the information outlined below. The Company's operating segments consist of Power Products, Power Systems, Automation Products, Process Automation and Robotics. The remaining operations of the Company are included in Corporate and Other. Effective January 1, 2008, following the sale of the majority of the Company's non-core activities, Non-core and Other is no longer presented separately but included in Corporate and Other. All periods presented have been restated to reflect the Company's current organizational structure.

- Power Products manufactures and sells high- and medium-voltage switchgear and apparatus, circuit breakers for all current and voltage levels, power and distribution transformers and sensors for electric, gas and water utilities for industrial and commercial customers.
- Power Systems installs and upgrades transmission and distribution systems and power plant automation and electrification solutions, incorporating components manufactured by both the Company and by third parties.
- Automation Products produces low-voltage switchgear, breakers, switches, control products, DIN-rail components, enclosures, wiring accessories, instrumentation, drives, motors, generators, power electronics systems and services related to these products that help customers to increase productivity, save energy and increase safety.
- Process Automation develops and sells control, plant optimization, automation products and solutions, industry specific application knowledge and services for the pulp and paper, metals and minerals, chemicals and pharmaceuticals, oil and gas, utility automation, marine and turbocharging industries.
- Robotics offers robot products, systems and service for the automotive and other manufacturing industries.
- Corporate and Other includes Headquarter, Central Research and Development, the Company's Real Estate activities, Group Treasury Operations and other minor activities.

The Company evaluates performance of its segments based on earnings before interest and taxes, which excludes interest and dividend income, interest and other finance expense, provision for taxes, minority interest and income (loss) from discontinued operations, net of tax. In accordance with SFAS 131, the Company presents division revenues, depreciation and amortization, earnings before interest and taxes, net operating assets and capital expenditures. The Company accounts for inter-division sales and transfers as if the sales and transfers were to third parties, at current market prices.

The following tables summarize information for each segment:

2008 ($ in millions)	Third party revenues	Interdivisional revenues	Total revenues	Depreciation and amortization	Earnings before interest and taxes	Total assets	Capital expenditures
Power Products	9,866	2,024	11,890	161	2,100	7,136	305
Power Systems	6,673	239	6,912	54	592	4,402	89
Automation Products	9,100	1,150	10,250	162	1,908	5,782	305
Process Automation	7,574	241	7,815	100	926	4,438	79
Robotics	1,612	30	1,642	20	9	856	28
Corporate and Other	87	1,606	1,693	164	(983)	10,567	365
Inter-division elimination	–	(5,290)	(5,290)	–	–	–	–
Discontinued operations	–	–	–	–	–	–	–
Consolidated	**34,912**	**–**	**34,912**	**661**	**4,552**	**33,181**	**1,171**

2007 ($ in millions)	Third party revenues	Interdivisional revenues	Total revenues	Depreciation and amortization	Earnings before interest and taxes	Total assets	Capital expenditures
Power Products	8,228	1,549	9,777	131	1,596	5,770	209
Power Systems	5,604	228	5,832	57	489	4,167	50
Automation Products	7,651	993	8,644	150	1,477	5,371	193
Process Automation	6,176	244	6,420	109	683	4,111	91
Robotics	1,389	18	1,407	21	79	821	14
Corporate and Other	135	1,429	1,564	129	(301)	10,629	192
Inter-division elimination	–	(4,461)	(4,461)	–	–	–	–
Discontinued operations	–	–	–	5	–	132	7
Consolidated	**29,183**	**–**	**29,183**	**602**	**4,023**	**31,001**	**756**

2006 ($ in millions)	Third party revenues	Interdivisional revenues	Total revenues	Depreciation and amortization	Earnings before interest and taxes	Total assets	Capital expenditures
Power Products	6,238	1,037	7,275	119	939	4,322	145
Power Systems	4,310	234	4,544	59	279	3,345	26
Automation Products	6,130	707	6,837	138	1,053	4,554	148
Process Automation	5,216	232	5,448	114	541	3,644	70
Robotics	1,280	8	1,288	23	1	750	14
Corporate and Other	107	1,200	1,307	102	(256)	7,130	117
Inter-division elimination	–	(3,418)	(3,418)	–	–	–	–
Discontinued operations	–	–	–	15	–	1,397	16
Consolidated	**23,281**	**–**	**23,281**	**570**	**2,557**	**25,142**	**536**

Note 22 Operating segment and geographic data, continued
Geographic information

	Revenues year ended December 31,			Long-lived assets at December 31,	
($ in millions)	2008	2007	2006	2008	2007
Europe	15,815	13,322	10,969	2,455	2,358
The Americas	6,428	5,247	4,394	328	258
Asia	8,967	7,480	5,863	663	522
Middle East and Africa	3,702	3,134	2,055	116	108
	34,912	**29,183**	**23,281**	**3,562**	**3,246**

Revenues have been reflected in the regions based on the location of the customer. China generated approximately 11 percent, 11 percent and 12 percent of the Company's total revenues in 2008, 2007 and 2006, respectively. The United States generated approximately 11 percent of the Company's total revenues in 2008, 2007 and 2006. Germany generated approximately 8 percent of the Company's total revenues in 2008, 2007 and 2006. More than 95 percent of the Company's total revenues were generated outside Switzerland in 2008, 2007 and 2006. Long-lived assets represent property, plant and equipment, net and are shown by location of the assets. Switzerland and Germany represented approximately 19 percent and 13 percent, respectively, of the Company's long-lived assets at December 31, 2008 and approximately 19 percent and 15 percent at December 31, 2007.

The Company does not segregate revenues derived from transactions with external customers for each type or group of products and services. Accordingly, it is not practicable for the Company to present revenues from external customers by product and service type.

Approximately 64 percent of the Company's employees are subject to collective bargaining agreements in various countries. These agreements are subject to various regulatory requirements and are renegotiated on a regular basis in the normal course of business.

Report of management on internal control over financial reporting

The Board of Directors and management of the ABB Group are responsible for establishing and maintaining adequate internal controls over financial reporting. The ABB Group's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of the published Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America.

Because of their inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management conducted an assessment of the effectiveness of internal controls over financial reporting based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management has concluded that internal control over financial reporting was effective as of December 31, 2008.

Ernst & Young AG, an independent registered public accounting firm, has issued an opinion on the effectiveness of the ABB Group's internal control over financial reporting as of December 31, 2008 which is included on page 128 of the annual report.

Joe Hogan
CEO

Zurich, March 9, 2009

Report of the Statutory Auditor on the Consolidated Financial Statements

To the General Meeting of ABB Ltd, Zurich

As statutory auditor, we have audited the accompanying consolidated financial statements of ABB Ltd, which are comprised of the consolidated balance sheets as of December 31, 2008 and 2007, and the related consolidated statements of income, cash flows, and changes in stockholders' equity, and notes thereto, for each of the three years in the period ended December 31, 2008.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audits in accordance with Swiss law, Swiss Auditing Standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ABB Ltd as of December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in accordance with U.S. generally accepted accounting principles and comply with Swiss law.

Report on Other Legal and Regulatory Requirements
We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of the consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109". As also discussed in Note 17 to the consolidated financial statements, effective December 31, 2006, the company adopted Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)."

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), ABB Ltd's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 9, 2009 expressed an unqualified opinion on the effectiveness of ABB Ltd's internal control over financial reporting.

Ernst & Young Ltd

N. Jones
Licensed audit expert
(Auditor in charge)

M. Sills
Licensed audit expert

Zurich, Switzerland
March 9, 2009

Report of the Group Auditor on internal control over financial reporting

To the Board of Directors and Stockholders of ABB Ltd, Zurich

We have audited ABB Ltd's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). ABB Ltd's Board of Directors and management are responsible for maintaining effective internal control over financial reporting and management is responsible for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of management on internal control over financial reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, ABB Ltd maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with Swiss law, Swiss Auditing Standards and the standards of the Public Company Accounting Oversight Board (United States), the 2008 consolidated financial statements of ABB Ltd and our report dated March 9, 2009, expressed an unqualified opinion thereon.

Ernst & Young Ltd

N. Jones **M. Sills**
(Auditor in charge)

Zurich, Switzerland
March 9, 2009

Financial Statements of ABB Ltd, Zurich

Income Statement

Year ended December 31 (CHF in thousands)	2008	2007
Dividend income	1,200,000	1,135,000
Finance income	110,416	161,593
Other income	22,704	18,189
Finance expense	(26,823)	(47,382)
Personnel expenses	(82,621)	(46,020)
Other expenses	(32,547)	(31,341)
Revaluation loss on own shares	(407,211)	–
Net income before taxes	**783,918**	**1,190,039**
Income taxes	(703)	(15,500)
Net income	**783,215**	**1,174,539**

Balance Sheet

December 31 (CHF in thousands)	2008	2007
Cash and equivalents	1,395,012	595,910
Receivables	5,851	14,520
Short-term loan – group	84,964	89,976
Total current assets	**1,485,827**	**700,406**
Long-term loans – group	1,880,893	3,366,345
Participation	8,999,388	8,996,335
Own shares	624,883	408,688
Total non-current assets	**11,505,164**	**12,771,368**
Total assets	**12,990,991**	**13,471,774**
Current liabilities	53,198	62,186
Short-term loan – group	84,964	90,726
Long-term loans – group	177,593	278,045
Bonds	108,300	208,300
Total liabilities	**424,055**	**639,257**
Share capital	4,692,042	5,790,038
Legal reserve	1,632,704	3,686,683
Reserve for own shares	1,032,094	408,688
Other reserves	2,654,617	1,174,844
Retained earnings	1,772,264	597,725
Net income	783,215	1,174,539
Total stockholders' equity	**12,566,936**	**12,832,517**
Total liabilities and stockholders' equity	**12,990,991**	**13,471,774**

Notes to Financial Statements

Note 1 General

ABB Ltd, Zurich (the Company) is the parent company of the ABB Group whose consolidated financial statements include 100 percent of the assets, liabilities, revenues, expenses, income and cash flows of ABB Ltd and group companies in which the Company has a controlling interest, as if the Company and its group companies were a single company. The consolidated financial statements are of overriding importance for the purpose of the economic and financial assessment of the Company. The unconsolidated financial statements of the Company are prepared in accordance with Swiss law and serve as complementary information to the consolidated financial statements.

Note 2 Cash and equivalents

December 31 (CHF in thousands)	2008	2007
Cash in bank	369	643
Cash deposit with ABB Group Treasury Operations	1,394,643	595,267
Total	**1,395,012**	**595,910**

ABB Group maintains an internal treasury function, Group Treasury Operations, comprising certain indirect subsidiaries of the Company, to provide group companies with deposit and borrowing facilities.

Note 3 Receivables

(CHF in thousands)	2008	2007
Non-trade receivables	161	292
Non-trade receivables – group	128	4,309
Accrued income – group	5,562	9,919
Total	**5,851**	**14,520**

Note 4 Long-term loans – group

(CHF in thousands)	2008	2007
Long-term loans – group	1,880,893	3,366,345

The Company maintains interest bearing credit agreements with ABB Asea Brown Boveri Ltd, Zurich, Switzerland, and ABB Inc, Norwalk, United States. These loans are stated at the lower of cost or fair value.

Note 5 Participation

				Ownership interest	
Company name	**Purpose**	**Domicile**	**Share capital**	**2008**	**2007**
ABB Asea Brown Boveri Ltd	Holding	CH-Zurich	CHF 2,768,000,000	100%	100%

The participation is valued at the lower of cost or fair value, using valuation models accepted under Swiss law.

Note 6 Current liabilities

(CHF in thousands)	2008	2007
Non-trade payables	7,398	16,446
Non-trade payables – group	1,103	1,873
Accrued expenses	43,610	40,965
Accrued expenses – group	1,087	2,902
Total	**53,198**	**62,186**

Note 7 Bonds

(CHF in thousands)	2008	2007
Note 2001–2008 3.75% coupon	–	100,000
Bond 1999–2009 3.75% coupon	108,300	108,300
Total	**108,300**	**208,300**

The bonds are stated at their nominal value. On July 24, 2008, the Company repaid the CHF 100 Million Note.

The Company, through Group Treasury Operations, has entered into interest rate swap transactions with banks to effectively convert the bond into a floating rate Swiss franc obligation.

Note 8 Stockholders' equity

(CHF in thousands)	Share capital	Legal reserve	Reserve for own shares	Other reserves	Retained earnings	Net income	Total 2008
Opening balance as of January 1	5,790,038	3,686,683	408,688	1,174,844	597,725	1,174,539	12,832,517
Allocation to retained earnings					1,174,539	(1,174,539)	0
Release of other reserves			623,406	(623,406)			0
Nominal capital reduction	(1,114,940)			16,496			(1,098,444)
Management plan issuance	16,944	32,704					49,648
Reclassification of legal reserve		(2,086,683)		2,086,683			0
Net income for the year						783,215	783,215
Closing balance as of December 31	**4,692,042**	**1,632,704**	**1,032,094**	**2,654,617**	**1,772,264**	**783,215**	**12,566,936**

Share capital as of December 31, 2008	Number of registered shares	Par value	Total (CHF in thousands)
Issued shares	2,322,792,835	CHF 2.02	4,692,042
Contingent shares	247,521,920	CHF 2.02	499,994
Authorized shares	200,000,000	CHF 2.02	404,000

Share capital as of December 31, 2007	Number of registered shares	Par value	Total (CHF in thousands)
Issued shares	2,316,015,102	CHF 2.50	5,790,038
Contingent shares	54,299,845	CHF 2.50	135,750
Authorized shares	200,000,000	CHF 2.50	500,000

At the Company's Annual General Meeting on May 3, 2007, the shareholders approved an amendment to the Company's Articles of Incorporation, which created an authorized share capital in an amount not to exceed CHF 500,000 thousand through the issuance of up to 200,000,000 shares with a par value of CHF 2.50 each, by not later than May 3, 2009.

At the Company's Annual General Meeting on May 8, 2008, the shareholders approved an amendment to the Company's Articles of Incorporation, which increased the contingent share capital in an amount not to exceed CHF 500,000 thousand through the issuance of up to 200,000,000 shares with a par value of CHF 2.50 each.

As part of the nominal value reduction, the nominal value per share, including all contingent and authorized shares, was reduced to CHF 2.02 effective July 28, 2008.

During 2008, a bank holding call options related to ABB Group's management incentive plan (MIP) exercised a portion of the options. Such options had been issued by the group company that facilitates the MIP (related to MIP launches during 2003 and 2004) at fair value and with strike prices of CHF 7.00 and CHF 7.50. At issuance, the group company had entered into intercompany option agreements with the same terms and conditions to enable it to meet its future obligations. As a result of the exercise by the bank, the Company issued 1,377,000 shares at CHF 7.00 and 5,400,733 shares at CHF 7.50 out of contingent capital, thereby increasing the Company's share capital and legal reserve by CHF 16,944 thousand and CHF 32,704 thousand, respectively.

In February 2008, the Company announced a share buyback program of up to CHF 2.2 billion. During the year, the Company purchased 22,675,000 shares at an average price of CHF 28.74 in connection with that program.

In May 2007, the Company purchased 10,000,000 own shares on the open market at an average price of CHF 24.33 for use in connection with share-based programs. In December 2007, the Company purchased 4,407 own shares from another group company at the then market price of CHF 32.08 per share.

In 2008 and 2007, the Company transferred 1,292,461 and 61,653 own shares at an average price per share of CHF 21.83 and CHF 19.75, respectively to fulfill its obligations under share-based programs.

The average acquisition price of the own shares as of December 31, 2008 and 2007, was CHF 25.73 and CHF 21.83, respectively.

Note 8 Stockholders' equity, continued

Number of own shares	2008	2007
Opening balance as of January 1	18,725,475	8,782,721
Purchases	22,675,000	10,004,407
Subtotal	41,400,475	18,787,128
Transfers	(1,292,461)	(61,653)
Closing balance as of December 31	**40,108,014**	**18,725,475**

The own shares are stated at the lower of cost or fair value. As a consequence of decreases in the fair value, the own shares were revalued to CHF 15.58 per share at December 31, 2008, resulting in a write down of CHF 407,211 thousand in 2008.

Note 9 Contingent liabilities

The Company had issued a support letter to a surety institution for the issuance of surety bonds on behalf of group companies. The amount issued under this letter was CHF 318,615 thousand as of December 31, 2008 (CHF 337,522 as of December 31, 2007).

Furthermore, the Company has Keep-well agreements with certain group companies. A Keep-well agreement is a shareholder agreement between the Company and a group company. These agreements provide for maintenance of a minimum net worth in the group company and the maintenance of 100 percent direct or indirect ownership by the Company.

The Keep-well agreements additionally provide that if at any time the group company has insufficient liquid assets to meet any payment obligation on its debt (as defined in the agreements) and has insufficient unused commitments under its credit facilities with its lenders, the Company will make available to the group company sufficient funds to enable it to fulfill such payment obligation as it falls due. A Keep-well agreement is not a guarantee by the Company for payment of the indebtedness, or any other obligation, of a group company. No party external to the ABB Group is a party to any of these Keep-well agreements.

Combustion Engineering Inc (CE), an indirect wholly owned subsidiary of the Company had been a defendant in numerous asbestos-related claims in the United States. On April 21, 2006, a channeling injunction was issued and became effective pursuant to Section 524(g) of the U.S. Bankruptcy Code under which all present and future asbestos-related personal injury claims filed against the Company and its affiliates and certain other entities that relate to the operations of CE are channeled to the CE Asbestos PI Trust. Potential commitments and current provisions of the Company and its direct and indirect subsidiaries in respect of this matter are further described in note 15 of the Consolidated Financial Statements of ABB Ltd. The Company's financial guarantee to the CE Asbestos PI Trust is CHF 53,102 thousand as of December 31, 2008.

The Company through certain of its direct and indirect subsidiaries is involved in various regulatory and legal matters. The Company's direct and indirect subsidiaries have made certain related accruals as further described in note 15 of the Consolidated Financial Statements of ABB Ltd. There could be material adverse outcomes beyond the accrued liabilities.

The Company is part of a value added tax group and therefore is jointly liable to the Swiss Federal Tax Department for the value added tax liabilities of the other members.

Note 10 Credit facility agreement

The Company and certain of its group companies are parties to a $2 billion multicurrency revolving credit facility, maturing 2010. No amounts were drawn under this facility at December 31, 2008 and 2007.

Note 11 Significant shareholders

As of December 31, 2007, Investor AB, Sweden, held 166,330,142 ABB Ltd shares. This holding remained unchanged during 2008 and represents a quota of 7.2 percent of the Company's share capital and voting rights.

To the best of the Company's knowledge, no other shareholder held 3 percent or more of ABB's total share capital and voting rights as registered in the Commercial Register on December 31, 2008.

Note 12 Board of Directors compensation

The compensation levels of members of the board of directors were as follows:

(CHF)	Board term 2008/2009	Board term 2007/2008
Chairman of the Board	1,200,000	1,200,000
Member of the Board and Committee chairman	400,000	400,000
Member of the Board	300,000	300,000

Board compensation is payable in semi-annual installments in arrears. The first payment is made in November, for the period of board membership from election at the annual general meeting to October of that year. The second payment is made in May of the following year for the period of board membership from November to the end of that board term.

Board members elect to receive either 50 percent or 100 percent of their compensation in ABB shares. The reference price for the shares to be delivered (and hence the calculation of the number of shares to be delivered) is the average closing price of the ABB share during a defined 30-day period which is different for each installment. The ABB shares are kept in a blocked account for three years after the date of original delivery and may only be disposed of earlier if the respective person has left the board of directors and has not agreed to the shares remaining blocked for the original three-year period. In addition, all shares that were in the blocked account at the beginning of May 2007 will remain blocked until May 2010 and may be disposed of earlier only if the respective board member shall have left the Board before 2010 and shall not have agreed to the shares remaining blocked until 2010.

Note 12 Board of Directors compensation, continued

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

		Paid in 2008					Paid in 2007		
		November Board term 2008/2009		May Board term 2007/2008			November Board term 2007/2008		
Name	Function	Settled in cash[1]	Settled in shares – number of shares received[2]	Settled in cash[1]	Settled in shares – number of shares received[2]	Compensation paid 2008 Total[3]	Settled in cash[1]	Settled in shares – number of shares received[2]	Compensation paid 2007 Total[4]
		(CHF)		(CHF)		(CHF)	(CHF)		(CHF)
Hubertus von Grünberg	Chairman of the Board	300,000	10,139	300,000	7,919	1,200,000	300,000	6,779	600,000
Roger Agnelli[5]	Member of the Board	75,000	2,514	75,000	1,968	300,000	75,000	1,677	150,000
Louis R. Hughes[6]	Member of the Board	75,000	2,514	75,000	1,968	300,000	75,000	1,677	150,000
Hans Ulrich Märki	Member of the Board and Chairman of the Governance, Nomination and Compensation Committee	–	9,204	–	7,199	400,000	–	6,149	200,000
Michel de Rosen[5]	Member of the Board	75,000	2,514	75,000	1,968	300,000	75,000	1,677	150,000
Michael Treschow	Member of the Board	75,000	2,543	75,000	1,971	300,000	75,000	1,677	150,000
Bernd W. Voss	Member of the Board and Chairman of the Finance, Audit and Compliance Committee	100,000	3,387	100,000	2,644	400,000	100,000	2,273	200,000
Jacob Wallenberg[6]	Member of the Board	75,000	2,514	–	3,936	300,000	–	3,354	150,000
Total		**775,000**	**35,329**	**700,000**	**29,573**	**3,500,000**	**700,000**	**25,263**	**1,750,000**

(1) Represents gross amounts paid, prior to deductions for social security, withholding tax etc.
(2) Number of shares per Board member is calculated based on net amount due after deductions for social security, withholding tax etc.
(3) In addition to the board remuneration stated in the above table the Company paid in 2008 CHF 223,267 in employee social security payments. For the 2008–2009 Board term, all members have elected to receive 50 percent of their gross compensation in the form of ABB shares, except for Hans Ulrich Märki who elected to receive 100 percent.
(4) Effective as of 2007 Board compensation became payable in semi-annual installments in arrears and therefore there was only one payment in 2007. For the 2007–2008 Board term, all members elected to receive 50 percent of their gross compensation in the form of ABB shares, except for Hans Ulrich Märki and Jacob Wallenberg who elected to receive 100 percent.
(5) Member of the Governance, Nomination and Compensation Committee.
(6) Member of the Finance, Audit and Compliance Committee.

Board members do not receive pension benefits and are not eligible to participate in any of ABB's employee incentive programs. No loans or guarantees were granted to board members in 2008. No payments were made to former board members in 2008.

Other than as disclosed herein, no members of the board, or parties related to any of them received any additional fees and remunerations for services rendered to ABB. A related party includes a spouse, children below the age of eighteen, legal or natural person acting as a fiduciary and legal entities controlled by a member of the board.

Note 13 Executive committee compensation

On September 1, 2008, Joe Hogan joined ABB as Chief Executive Officer. His base salary for 2008 was CHF 1.9 million pro-rated for the four months he was employed. In connection with his joining ABB, he received (1) a sign-on bonus in the amount of CHF 3,000,000 and (2) sign-on grants of ABB shares with a value of CHF 10 million (based on the average ABB share price in the 20 trading days preceding his start date) – 50 percent to vest in 3 years and 50 percent to vest in 5 years from the date he commenced employment with ABB provided he does not elect to leave ABB before those dates and that he is not terminated for cause prior to those dates. These sign-on amounts were to compensate him for certain forfeited benefits from his previous employer. Mr. Hogan, like other members of the executive committee, also received conditional grants under the 2008 launch of ABB's Long-Term Incentive Plan as well as the right to participate in the co-investment portion of that plan. In addition, he received customary additional benefits including pension contributions, relocation compensation, car, schooling for children, health insurance and other miscellaneous benefits. In 2009, he will be entitled to receive an annual bonus up to 150 percent of his pro-rated base salary in 2008. His compensation, together with the compensation of the other members of the executive committee, is detailed further in the remainder of this note.

Note 13 Executive committee compensation, continued

The total compensation of members of the executive committee is summarized in the table below:

Name	Function	Total salary and other non share-based compensation 2008	Total share-based compensation[1] 2008	Total 2008
		(CHF)	(CHF)	(CHF)
Joe Hogan[2]	Chief Executive Officer	4,119,134	15,084,279	19,203,413
Michel Demaré	Chief Financial Officer	3,330,059	3,963,209	7,293,268
Gary Steel	Human Resources responsible	2,352,667	2,082,413	4,435,080
Ulrich Spiesshofer	Corporate Development responsible	2,077,822	1,978,285	4,056,107
Diane de Saint Victor	General Counsel	1,903,921	1,973,985	3,877,906
Bernhard Jucker	Power Products Division responsible	2,077,401	2,469,149	4,546,550
Peter Leupp	Power Systems Division responsible	1,980,773	2,081,199	4,061,972
Tom Sjökvist	Automation Products Division responsible	1,974,501	1,906,201	3,880,702
Veli-Matti Reinikkala	Process Automation Division responsible	1,863,471	1,765,876	3,629,347
Anders Jonsson	Robotics Division responsible	1,458,202	1,652,547	3,110,749
Total current executive committee members		**23,137,951**	**34,957,143**	**58,095,094**
Fred Kindle	President & Chief Executive Officer until February 13, 2008	8,660,961	–	8,660,961
Ravi Uppal	President Global Markets from July 1, 2007 to October 31, 2008	4,264,595	1,936,379	6,200,974
Total former executive committee members		**12,925,556**	**1,936,379**	**14,861,935**
Total		**36,063,507**	**36,893,522**	**72,957,029**

[1] The total share-based compensation amounts have been calculated using the market value of the ABB share on the day of grant and assume 100 percent vesting, although less than 100 percent may actually vest.

[2] Joe Hogan's total compensation for 2008 includes CHF 13 million of sign-on bonuses to compensate him for certain forfeited benefits from his previous employer.

Name	Function	Total salary and other non share-based compensation 2007	Total share-based compensation[1] 2007	Total 2007
		(CHF)	(CHF)	(CHF)
Fred Kindle	President & Chief Executive Officer	3,979,989	5,545,689	9,525,678
Michel Demaré	Chief Financial Officer	2,002,044	3,289,469	5,291,513
Gary Steel	Human Resources responsible	1,802,850	2,472,964	4,275,814
Ulrich Spiesshofer	Corporate Development responsible	1,585,372	1,038,384	2,623,756
Diane de Saint Victor	General Counsel	1,385,964	3,053,627	4,439,591
Ravi Uppal	President Global Markets since July 1, 2007	511,742	–	511,742
Bernhard Jucker	Power Products Division responsible	2,074,906	1,241,391	3,316,297
Peter Leupp	Power Systems Division responsible	1,398,770	1,855,839	3,254,609
Tom Sjökvist	Automation Products Division responsible	2,489,911	1,101,153	3,591,064
Veli-Matti Reinikkala	Process Automation Division responsible	1,523,328	1,039,682	2,563,010
Anders Jonsson	Robotics Division responsible	1,378,847	761,926	2,140,773
Total current executive committee members		**20,133,723**	**21,400,124**	**41,533,847**
Dinesh Paliwal	President Global Markets and Technology until June 30, 2007	2,974,974	1,498,518	4,473,492
Total former executive committee members		**2,974,974**	**1,498,518**	**4,473,492**
Total		**23,108,697**	**22,898,642**	**46,007,339**

[1] The total share-based compensation amounts have been calculated using the market value of the ABB share on the day of grant and assume 100 percent vesting, although less than 100 percent may actually vest.

Note 13 Executive committee compensation, continued

The table below shows the gross payments (i.e. compensation before deduction of employees social insurance and pension contributions) that were made to or on behalf of the members of the executive committee but excluding share-based compensation which is shown in a separate table.

Name	Base salary	Bonus[1]	Additional compen-sation	Employer's pension contri-butions	Costs of company car leasing	Costs of health insurance	Costs of children's education	Employer's social security payments	2008 Total
	(CHF)	(CHF)	(CHF)	(CHF)	(CHF)	(CHF)	(CHF)	(CHF)	(CHF)
Joe Hogan[2]	633,335	–	3,150,000	85,055	2,666	3,153	4,500	240,425	4,119,134
Michel Demaré[3]	1,190,043	832,832	325,706	242,710	26,575	8,644	31,320	672,229	3,330,059
Gary Steel	765,004	685,462	706	257,484	26,574	9,622	27,000	580,815	2,352,667
Ulrich Spiesshofer	723,337	659,640	706	210,850	28,460	7,820	–	447,009	2,077,822
Diane de Saint Victor[4]	725,005	649,250	4,900	232,079	–	8,632	–	284,055	1,903,921
Bernhard Jucker	904,999	773,145	706	252,640	29,963	8,412	–	107,536	2,077,401
Peter Leupp[5]	758,338	682,500	73,706	262,232	27,278	9,622	–	167,097	1,980,773
Tom Sjökvist[6]	761,672	702,000	96,466	275,866	29,368	9,031	–	100,098	1,974,501
Veli-Matti Reinikkala[7]	702,123	582,337	77,929	419,312	25,488	9,458	–	46,824	1,863,471
Anders Jonsson	608,333	493,350	706	248,210	27,080	9,224	–	71,299	1,458,202
Total current executive committee members	**7,772,189**	**6,060,516**	**3,731,531**	**2,486,438**	**223,452**	**83,618**	**62,820**	**2,717,387**	**23,137,951**
Fred Kindle[8]	2,325,250	2,480,426	1,483,022	185,088	34,881	6,281	–	2,146,013	8,660,961
Ravi Uppal[9]	1,211,669	1,317,119	1,172,020	213,203	25,496	8,064	–	317,024	4,264,595
Total former executive committee members	**3,536,919**	**3,797,545**	**2,655,042**	**398,291**	**60,377**	**14,345**	**0**	**2,463,037**	**12,925,556**
Total	**11,309,108**	**9,858,061**	**6,386,573**	**2,884,729**	**283,829**	**97,963**	**62,820**	**5,180,424**	**36,063,507**

[1] The table above provides compensation amounts with respect to 2008 on a cash basis. Consequently, the table shows bonuses relating to 2007, paid in 2008, except for Fred Kindle who received a proportional bonus for the period January to September 2008. The CEO has a maximum bonus opportunity of 150 percent of his base salary. All other executive committee members have a maximum bonus opportunity of 100 percent of their base salary, except Michel Demaré who, for the time served as interim CEO, had a maximum bonus opportunity of 150 percent of his base salary. Total accrued bonus payments at December 31, 2008, amounted to CHF 9,052,622, including CHF 1,632,825 representing a one-off cash award conditional upon certain perfomance criteria. Bonus payments will be made in March 2009, after the financial results are published.

[2] Additional compensation for Joe Hogan includes a CHF 3,000,000 sign-on bonus and CHF 150,000 as compensation for relocation expenses.

[3] The base salary of Michel Demaré includes an additional amount of CHF 178,375 for the period he was interim CEO. His additional compensation figure includes a one-time cash payment of CHF 325,000.

[4] Additonal compensation for Diane de Saint Victor includes CHF 4,900 for annual train transportation in lieu of receiving a company car.

[5] Peter Leupp received a cash payment of CHF 73,000 to cover expenses incurred as a result of his relocation to Switzerland, which are included in additional compensation above.

[6] Tom Sjökvist received CHF 95,760 cash compensation for foregone pension benefits as a result of him continuing to work for the Company after the age of 60, included in additional compensation above.

[7] Veli-Matti Reinikkala received 50 percent of his base salary in USD and 50 percent in EUR at a fixed exchange rate. The USD expense related to the salary was converted into Swiss francs using a rate of 1.062 per U.S. dollar. For the period January to June 2008 the employer's pension contributions and social security payments for Veli-Matti Reinikkala were paid in EUR and converted in the table above into Swiss francs at a rate of 1.607 per EUR. Since July 2008 such payments have been paid in USD and converted into Swiss francs at a rate of 1.062. His additional compensation includes a cash reimbursement of CHF 71,026 for taxes incurred on benefits and CHF 6,903 for financial counseling. His employer's pension contributions include a one-time pension contribution of CHF 216,837 related to pension obligations for 2006 and 2007.

[8] In February 2008, Fred Kindle left the Company. He received payment of salary, bonus and other benefits for the period up to February 28, 2009 (including pension contributions and the payout of unused vacation days) amounting to a total of CHF 8,660,961. This amount included a final payment of CHF 1,483,022.

[9] Ravi Uppal left the Company on October 31, 2008. He received payment of salary, bonus and other benefits for the period up to August 31, 2009, totalling CHF 4,264,595. His base salary includes an amount of CHF 608,333 covering his notice period up to August 31, 2009. His bonus includes CHF 329,490 for the year 2007 and CHF 987,630 for the period January 1, 2008, until August 31, 2009. His additional compensation includes a one-time payment of CHF 1,169,000 in settlement of all contractual obligations of the Company.

Note 13 Executive committee compensation, continued

Name	Base salary	Bonus[1]	Additional compen-sation	Employer's pension contri-butions	Costs of company car leasing	Costs of health insurance	Costs of children's education	Employer's social security payments[2]	Total[1] 2007
	(CHF)	(CHF)	(CHF)	(CHF)	(CHF)	(CHF)	(CHF)	(CHF)	(CHF)
Fred Kindle	1,487,507	1,977,615	–	207,845	35,000	8,296	–	263,726	3,979,989
Michel Demaré	866,677	756,480	–	210,585	29,000	8,478	26,600	104,224	2,002,044
Gary Steel	736,668	654,264	–	224,356	27,000	8,970	62,000	89,592	1,802,850
Ulrich Spiesshofer	683,338	616,395	–	165,217	29,000	7,780	–	83,642	1,585,372
Diane de Saint Victor[3]	700,012	–	403,000	203,664	–	8,947	–	70,341	1,385,964
Ravi Uppal[4]	350,000	–	–	125,335	–	4,776	–	31,631	511,742
Bernhard Jucker	816,669	721,500	–	220,181	30,000	8,187	–	278,369	2,074,906
Peter Leupp	700,000	303,286	–	227,854	25,000	9,486	–	133,144	1,398,770
Tom Sjökvist[5]	716,674	689,150	474,830	244,279	30,000	8,354	–	326,624	2,489,911
Veli-Matti Reinikkala[6]	629,832	553,808	58,975	214,787	41,839	4,517	–	19,570	1,523,328
Anders Jonsson	545,007	319,800	–	215,003	27,000	9,091	–	262,946	1,378,847
Total current executive committee members	**8,232,384**	**6,592,298**	**936,805**	**2,259,106**	**273,839**	**86,882**	**88,600**	**1,663,809**	**20,133,723**
Dinesh Paliwal[7]	427,386	1,454,086	165,630	743,916	13,496	17,823	73,317	79,320	2,974,974
Total former executive committee members	**427,386**	**1,454,086**	**165,630**	**743,916**	**13,496**	**17,823**	**73,317**	**79,320**	**2,974,974**
Total	**8,659,770**	**8,046,384**	**1,102,435**	**3,003,022**	**287,335**	**104,705**	**161,917**	**1,743,129**	**23,108,697**

(1) The table above provides compensation amounts with respect to 2007 on a cash basis. Consequently, the table shows bonuses relating to 2006, paid in 2007, except for Dinesh Paliwal, whose bonus includes a pro rata share for 2007 (see note 6 below). The CEO has a maximum bonus opportunity of 150 percent of his base salary. All other executive committee members have a maximum bonus opportunity of 100 percent of their base salary. Accrued bonus at December 31, 2007, amounted to CHF 8,060,008. Bonus payments will be made in March 2008, after the 2007 financial results are published.

(2) The numbers reported in the above table under the Employer's social security payments have been updated to include CHF 205,539 for employer family allowance contributions.

(3) Diane de Saint Victor received 250,000 euros as a sign-on bonus upon joining the Company. This amount has been translated into Swiss francs using a rate of 1.612.

(4) Ravi Uppal was appointed to the executive committee effective July 1, 2007. Therefore the table shows his compensation from that date and excludes compensation he received during 2007 in respect of his previous role within ABB.

(5) Tom Sjökvist received additional compensation of CHF 474,830 upon reaching the age of 60, under an agreement entered prior to his becoming an executive committee member.

(6) Veli-Matti Reinikkala received his compensation and car benefits in U.S. dollars which have been converted into Swiss francs using a rate of 1.1247 per U.S. dollar. He received his employer's pension contributions and health insurance benefits in euro which have been converted into Swiss francs using a rate of 1.65528 per euro. His additional compensation was for relocation expenses, financial counseling and term life insurance premiums.

(7) Dinesh Paliwal left the Company as of the end of June, 2007 and therefore received a pro rata share of his compensation for 2007, including an amount of CHF 480,121 in respect of his 2007 bonus. He received his compensation in U.S. dollars which has been converted into Swiss francs using a rate of 1.1247 per U.S. dollar. His additional compensation was for cost of living adjustments, financial counseling and term life insurance premiums.

Note 13 Executive committee compensation, continued

Share-based compensation granted to members of the executive committee during 2008 is summarized in the table below. The vesting dates of the respective awards, principally granted under the long-term incentive plan (LTIP), are listed in the footnotes to the table. The numbers of shares awarded under LTIP and their valuation assume 100 percent vesting, although less than 100 percent may actually vest.

Name	Number of conditionally granted shares under the performance component of the 2008 launch of LTIP[1]	Number of conditionally granted shares under the co-investment component of the 2008 launch of LTIP[1]	Total fair value LTIP 2008[2]	Number of shares granted in respect of sign-on bonus[3]	Fair value of shares in respect of sign-on bonus[2]	Number of shares granted in respect of special bonus[4]	Fair value of shares in respect of special bonus[2]	Total fair value of share-based awards granted in 2008
			(CHF)		(CHF)		(CHF)	(CHF)
Joe Hogan	145,039	26,923	4,704,880	379,364	10,379,399	–	–	15,084,279
Michel Demaré	71,880	10,490	2,703,383	–	–	44,643	1,259,825	3,963,209
Gary Steel	29,390	8,634	1,247,948	–	–	29,570	834,465	2,082,413
Ulrich Spiesshofer	27,863	8,309	1,187,165	–	–	28,034	791,119	1,978,285
Diane de Saint Victor	27,863	8,178	1,182,866	–	–	28,034	791,119	1,973,985
Bernhard Jucker	35,115	9,739	1,472,108	–	–	35,331	997,041	2,469,149
Peter Leupp	29,390	8,597	1,246,733	–	–	29,570	834,465	2,081,199
Tom Sjökvist	29,390	8,842	1,254,774	–	–	29,570	651,427	1,906,201
Veli-Matti Reinikkala	23,902	6,866	1,009,806	–	–	26,792	756,070	1,765,876
Anders Jonsson	23,665	6,214	980,629	–	–	23,810	671,918	1,652,547
Total current executive committee members	**443,497**	**102,792**	**16,990,292**	**379,364**	**10,379,399**	**275,354**	**7,587,452**	**34,957,143**
Fred Kindle[5]	–	–	–	–	–	–	–	–
Ravi Uppal[6]	27,863	6,800	1,137,640	–	–	28,304	798,739	1,936,379
Total former executive committee members	**27,863**	**6,800**	**1,137,640**	**0**	**0**	**28,304**	**798,739**	**1,936,379**
Total	**471,360**	**109,592**	**18,127,932**	**379,364**	**10,379,399**	**303,658**	**8,386,190**	**36,893,522**

(1) Vesting date March 15, 2011.
(2) Fair value represents market value of the shares as per grant date of the respective award.
(3) 189,682 shares vest on each of September 1, 2011 and September 1, 2013.
(4) Vesting date March 1, 2010, except for Tom Sjökvist for whom 14,785 shares vest on each of March 1, 2009 and March 1, 2010.
(5) Fred Kindle left the company in February 2008 and therefore was not granted any awards. Upon leaving the company he received 547,309 ABB shares, which had been granted on previous launches.
(6) Ravi Uppal left the Company on October 31, 2008. He received a pro rata allocation of 3,306 shares related to the co-investment component of LTIP 2008 and 21,026 shares related to the special bonus share grant 2008.

Name	Number of conditionally granted shares under the 2005 launch of LTIP[1]	Fair value LTIP 2005[2]	Number of conditionally granted shares under the 2006 launch of LTIP[3]	Fair value LTIP 2006[2]	Number of conditionally granted shares under the performance component of the 2007 launch of LTIP[4]	Number of conditionally granted shares under the co-investment component of the 2007 launch of LTIP[4]	Total fair value LTIP 2007[2]	Fair value of shares in respect of bonus[2][5]	Fair value of share-based award in lieu of certain pension arrangements[2][6]	Total fair value of share-based awards granted in 2007
		(CHF)		(CHF)			(CHF)	(CHF)	(CHF)	(CHF)
Fred Kindle	–	–	–	–	71,158	30,959	2,501,867	1,500,000	1,543,822	5,545,689
Michel Demaré	–	–	–	–	41,746	11,843	1,312,931	–	1,976,538	3,289,469
Gary Steel	–	–	–	–	35,105	10,243	1,111,026	–	1,361,938	2,472,964
Ulrich Spiesshofer	–	–	–	–	32,733	9,650	1,038,384	–	–	1,038,384
Diane de Saint Victor	59,150	1,197,788	41,526	840,902	33,207	8,219	1,014,937	–	–	3,053,627
Ravi Uppal[7]	–	–		–	–	–	–	–	–	0
Bernhard Jucker	–	–		–	39,374	11,295	1,241,391	–	–	1,241,391
Peter Leupp	–	–	41,526	840,902	33,207	8,219	1,014,937	–	–	1,855,839
Tom Sjökvist	–	–	–	–	34,156	10,789	1,101,153	–	–	1,101,153
Veli-Matti Reinikkala	–	–	–	–	33,022	9,414	1,039,682	–	–	1,039,682
Anders Jonsson	–	–	–	–	26,092	5,007	761,926	–	–	761,926
Total current executive committee members	**59,150**	**1,197,788**	**83,052**	**1,681,804**	**379,800**	**115,638**	**12,138,234**	**1,500,000**	**4,882,298**	**21,400,124**
Dinesh Paliwal[8]					44,608	16,556	1,498,518			1,498,518
Total former executive committee members	**0**	**0**	**0**	**0**	**44,608**	**16,556**	**1,498,518**	**0**	**0**	**1,498,518**
Total	**59,150**	**1,197,788**	**83,052**	**1,681,804**	**424,408**	**132,194**	**13,636,752**	**1,500,000**	**4,882,298**	**22,898,642**

(1) Vesting date March 15, 2008.
(2) Fair value represents market value of the shares as per grant date of the respective award.
(3) Vesting date March 15, 2009. Includes a total of 16,478 shares deliverable under the co-investment component of the 2006 launch of LTIP.
(4) Vesting date March 15, 2010.
(5) In 2007, Fred Kindle was allocated an additional bonus for 2006 of CHF 1.5 million to be paid in the form of 63,966 shares. 31,983 shares were delivered in March 2007 and the remaining 31,983 shares will vest and be delivered in March 2008.
(6) In 2007, a total of 199,685 shares, vesting on March 1, 2010, were awarded to these individuals to compensate for a change in pension arrangements.
(7) The table excludes share-based compensation received by Ravi Uppal in connection with his previous role within ABB, prior to his becoming a member of the executive committee.
(8) Upon leaving the Company, Dinesh Paliwal forfeited all unvested share-based awards.

In addition to the above awards, 7 members of the executive committee plus one spouse who is an employee in one of the Company's subsidiaries, participated in the fifth launch of ESAP which will allow them to save over a twelve-month period and, in November 2009, use their savings to acquire up to a maximum of 650 and 700 ABB shares (depending on their savings' currency) at an exercise price of CHF 15.30 (USD 12.98) per share.

No parties related to any member of the executive committee received any fees or remunerations for services rendered to ABB, other than on an arm's length basis. A related party includes a spouse, children below the age of eighteen, legal or natural persons acting as fiduciary and legal entities controlled by a member of the executive committee.

No loans or guarantees were granted to members of the executive committee in 2008.

Note 14 Share Ownership of ABB by board members and members of the executive committee

As of December 31, 2008, the members of the board of directors as of that date, held the following numbers of shares (or ADSs representing such shares):

Name	Total number of shares held at Dec. 31, 2008[1]	Total number of shares held at Dec. 31, 2007[1]
Hubertus von Grünberg	30,037	6,779
Roger Agnelli	138,964	134,482
Louis R. Hughes	64,233	59,751
Hans Ulrich Märki	330,454	304,051
Michel de Rosen	96,148	90,115
Michael Treschow	75,521	71,007
Bernd W. Voss	143,838	137,807
Jacob Wallenberg[2]	153,174	146,724
Total	**1,032,369**	**950,716**

[1] Includes as of December 31, 2008 and 2007, respectively, a total of 879,559 and 814,657 shares paid as compensation to board members in current and prior years and currently blocked in accordance with the terms of the board compensation.
[2] Share amounts provided in this section do not include the shares beneficially owned by Investor AB, of which Mr. Wallenberg is chairman.

As of December 31, 2008, the members of the executive committee as of that date, held the following numbers of shares (or ADSs representing such shares), the conditional rights to receive ABB shares under the LTIP, warrants or options (either vested or unvested as indicated) under the MIP and unvested shares in respect of bonus and/or pension arrangements:

		Unvested at December 31, 2008											
Name	Total number of shares held[1]	Number of conditionally granted shares under the 2006 launch of the LTIP	Number of matching shares deliverable under the 2006 co-investment portion of LTIP	Number of conditionally granted shares under the 2007 launch of the LTIP	Number of matching shares deliverable under the 2007 co-investment portion of LTIP	Number of conditionally granted shares under the 2008 launch of the LTIP	Number of matching shares deliverable under the 2008 co-investment portion of LTIP	Number of warrants held under the MIP[2] 2006 Grant	Number of warrants held under the MIP[2] 2007 Grant	Number of warrants held under the MIP[2] 2008 Grant	Shares in respect of special bonus 2008	Shares in lieu of pension arrangements	Number of shares granted in respect of sign-on bonus[3]
		(vesting 2009)	(vesting 2009)	(vesting 2010)	(vesting 2010)	(vesting 2011)	(vesting 2011)	(vesting 2009)	(vesting 2010)	(vesting 2011)	(vesting 2010)	(vesting 2010)	(vesting 2011 and 2013)
Joe Hogan	26,923	–	–	–	–	145,039	26,923	–	–	–	–	–	379,364
Michel Demaré[4]	224,304	51,680	15,014	41,746	11,843	71,880	10,490	–	–	–	44,643	80,840	–
Gary Steel	97,974	46,512	13,416	35,105	10,243	29,390	8,634	–	–	–	29,570	55,703	–
Ulrich Spiesshofer	83,285	41,990	13,372	32,733	9,650	27,863	8,309	–	–	–	28,034	–	–
Diane de Saint Victor	82,850	33,287	8,239	33,207	8,219	27,863	8,178	–	–	–	28,034	–	–
Bernhard Jucker	31,375	48,450	8,595	39,374	11,295	35,115	9,739	–	–	–	35,331	–	–
Peter Leupp	40,488	33,287	8,239	33,207	8,219	29,390	8,597	–	–	–	29,570	–	–
Tom Sjökvist[5]	40,011	45,220	12,451	34,156	10,789	29,390	8,842	–	–	–	29,570	–	–
Veli-Matti Reinikkala	38,738	43,001	5,680	33,022	9,414	23,902	6,866	–	–	–	26,792	–	–
Anders Jonsson[6]	73,505	33,592	3,603	26,092	5,007	23,665	6,214	100,000	96,300	138,000	23,810	–	–
Total	**739,453**	**377,019**	**88,609**	**308,642**	**84,679**	**443,497**	**102,792**	**100,000**	**96,300**	**138,000**	**275,354**	**136,543**	**379,364**

[1] Includes shares deposited as match for the co-investment portion of the LTIP. These shares may be sold/transferred but then the corresponding number co-investment shares would be forfeited.
[2] Warrants/options may be sold or exercised/converted into shares at the ratio of 5 warrants/options for 1 share.
[3] 189,682 shares vest in each of 2011 and 2013.
[4] Total number of shares held includes 4,500 shares held jointly with spouse.
[5] Total number of shares held includes 7,560 shares held by spouse or child. 14,785 shares in respect of bonus 2008 vest in each of 2009 and 2010.
[6] Total number of shares held includes 55,529 shares held by or jointly with spouse. The warrants vesting in 2009, 2010 and 2011 were received by Anders Jonsson's spouse in connection with her role as an ABB employee.

Note 14 Share Ownership of ABB by board members and members of the executive committee, continued

Below the overview for the year ended December 31, 2007:

	Vested at December 31, 2007	Unvested at December 31, 2007[1]								
Name	Total number of shares held[2]	Number of conditionally granted shares under the 2005 launch of the LTIP	Number of conditionally granted shares under the 2006 launch of the LTIP	Number of matching shares deliverable under the 2006 co-investment portion of LTIP	Number of conditionally granted shares under the 2007 launch of the LTIP	Number of matching shares deliverable under the 2007 co-investment portion of LTIP	Number of warrants/options held under the MIP[3] 2006 Grant	Number of warrants/options held under the MIP[3] 2007 Grant	Shares in respect of bonus 2006	Shares in lieu of pension arrangements
		(vesting 2008)	(vesting 2009)	(vesting 2009)	(vesting 2010)	(vesting 2010)	(vesting 2009)	(vesting 2010)	(vesting 2008)	(vesting 2010)
Fred Kindle	165,453	272,728	92,055	40,115	71,158	30,959	–	–	31,983	63,142
Michel Demaré[4]	62,961	157,343	51,680	15,014	41,746	11,843	–	–	–	80,840
Gary Steel	51,120	146,854	46,512	13,416	35,105	10,243	–	–	–	55,703
Ulrich Spiesshofer	25,330	107,955	41,990	13,372	32,733	9,650	–	–	–	–
Diane de Saint Victor	20,000	59,150	33,287	8,239	33,207	8,219	–	–	–	–
Ravi Uppal	30,717	–	–	–	–	–	–	237,220	–	–
Bernhard Jucker	31,375	–	48,450	8,595	39,374	11,295	–	–	–	–
Peter Leupp	32,988	–	33,287	8,239	33,207	8,219	–	–	–	–
Tom Sjökvist[5]	40,011	–	45,220	12,451	34,156	10,789	–	–	–	–
Veli-Matti Reinikkala	22,538	–	43,001	5,680	33,022	9,414	–	–	–	–
Anders Jonsson[6]	67,291	–	33,592	3,603	26,092	5,007	100,000	96,300	–	–
Total	**549,784**	**744,030**	**469,074**	**128,724**	**379,800**	**115,638**	**100,000**	**333,520**	**31,983**	**199,685**

[1] Excluded on the grounds of immateriality are unvested shares in respect of the fourth launch of ESAP. For details see note 20 to ABB's consolidated financial statement contained in "the financial review" part of this annual report.
[2] Includes shares deposited as match for the co-investment portion of the LTIP. These shares may be sold/transferred but then the corresponding number co-investment shares would be forfeited.
[3] Warrants/options may be sold or exercised/converted into shares at the ratio of 5 warrants/options for 1 share.
[4] Total number of shares held includes 500 shares held jointly with spouse.
[5] Total number of shares held includes 7,560 shares held by spouse or child.
[6] Total number of shares held includes 55,529 shares held by or jointly with spouse. The warrants vesting in 2009 and 2010 were received by Anders Jonsson's spouse in connection with her role as an ABB employee.

Furthermore, as of December 31, 2008, the following members of the executive committee held warrant appreciation rights (WARs) that entitle the holder to exercise such WARs and receive in cash the market value of the equivalent listed warrant at the time of exercise.

	Number of fully vested WARs held under the MIP 2004 Grant	Number of unvested WARs held under the MIP 2006 Grant (vesting 2009)
Bernhard Jucker	–	375,000
Peter Leupp	–	375,000
Tom Sjökvist	–	375,000
Veli-Matti Reinikkala	200,000	375,000
Anders Jonsson	–	375,000
Total	**200,000**	**1,875,000**

Note 14 Share Ownership of ABB by board members and members of the executive committee, continued

Below the overview for WAR holdings as of December 31, 2007:

	Number of fully vested WARs held under the MIP		Number of unvested WARs held under the MIP
	2003 Grant	2004 Grant	2006 Grant (vesting 2009)
Ravi Uppal	–	275,000	375,000
Bernhard Jucker	–	–	375,000
Peter Leupp	62,500	225,000	375,000
Tom Sjökvist	–	–	375,000
Veli-Matti Reinikkala	75,000	312,500	375,000
Anders Jonsson	–	–	375,000
Total	**137,500**	**812,500**	**2,250,000**

The members of our board of directors and executive committee owned less than 1 percent of the Company's total shares outstanding as of December 31, 2008 and 2007.

Other than as disclosed, as of December 31, 2008, no party related to any member of the board of directors or executive committee holds any shares of ABB or options in ABB shares.

Note 15 Risk assessment

Once a year, the Company's board of directors performs a risk assessment in accordance with the group's risk management process and discusses appropriate actions if necessary.

Note 16 Other information

In addition, the Company announced in February 2008 its decision to launch a share buyback program up to a maximum value of CHF 2.2 billion with the intention of completing such program prior to the annual general meeting of shareholders in 2010 and proposing the cancellation of the shares latest at that meeting. On February 12, 2009, the Company stated that given the market uncertainty, the Company is not actively pursuing new purchases under that program.

On February 12, 2009 the board of directors announced that a proposal will be put to the May 2009 annual general meeting to reduce the nominal value of the shares from CHF 2.02 to CHF 1.54 and distribute CHF 0.48 per share.

Proposed appropriation of available earnings

(CHF in thousands)	2008	2007
Net income for the year	783,215	1,174,539
Carried forward from previous year	1,772,264	597,725
Earnings available to the Annual General Meeting	**2,555,479**	**1,772,264**
Dividend	0	0
Balance to be carried forward	**2,555,479**	**1,772,264**

The board of directors proposes to release CHF 650,000 thousand of the legal reserves and allocate those released reserves to other reserves and to carry forward the available earnings in the amount of CHF 2,555,479 thousand.

Report of the Statutory Auditor

As statutory auditor, we have audited the accompanying financial statements of ABB Ltd, which comprise the balance sheet, income statement and notes for the year ended December 31, 2008.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended December 31, 2008 comply with Swiss law and the company's articles of incorporation.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (Art. 728 Code of Obligations (CO) and Art. 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation.
We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

N. Jones	**Y. Vontobel**
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

Zurich, March 9, 2009

Investor information

ABB Ltd share price trend during 2008

During 2008, the price of ABB Ltd shares listed on the SIX Swiss Exchange (traded on SWX Europe) decreased 52 percent, while the Swiss Performance Index decreased 34 percent. The price of ABB Ltd shares on NASDAQ OMX Stockholm decreased 37 percent, compared to the OMX 30 Index, which decreased 39 percent. The price of ABB Ltd American Depositary Shares traded on the New York Stock Exchange decreased 48 percent compared to the Dow Jones Industrial Index, which decreased by 34 percent.

Source: SIX Swiss Exchange, NASDAQ OMX Stockholm, New York Stock Exchange

Share price (data based on closing prices)

	SIX Swiss Exchange (CHF)	NASDAQ OMX Stockholm (SEK)	New York Stock Exchange (US$)
High	35.04	198.50	32.95
Low	11.92	80.75	9.12
Year-end	15.58	116	15.01
Average daily traded number of shares	17,690,000	4,930,000	6,210,000

Market capitalization

On December 31, 2008, ABB Ltd's market capitalization based on outstanding shares (total number of outstanding shares: 2,282,684,821) was approximately $34.3 billion (CHF 35.6 billion, SEK 264.8 billion).

Shareholder structure

As of December 31, 2008, the total number of shareholders directly registered with ABB Ltd was approximately 177,000. In addition, another 303,000 shareholders hold shares indirectly through nominees. In total, ABB has approximately 480,000 shareholders.

Major shareholders

As of December 31, 2008, Investor AB, Stockholm, Sweden, owned 166,330,142 shares of ABB Ltd, corresponding to 7.2 percent of total capital and votes.

To the best of ABB's knowledge, no other shareholder holds 3 percent or more of the total voting rights.

Dividend proposal

ABB's Board of directors has proposed a dividend for 2008 of CHF 0.48 per share in the form of a nominal value reduction. Translated into U.S. dollars using year-end 2008 exchange rates, the dividend corresponds to approximately 33 percent of ABB's 2008 net income. The proposal is subject to approval by shareholders at ABB's annual general meeting, scheduled for May 5, 2009, in Zurich, Switzerland. If approved, the ex-dividend and payout date in Switzerland is expected to be at the end of July, 2009.

Key data

	2008	2007
Dividend per share (CHF)	0.48(1)	0.48
Par value per share (CHF)	2.02(1)	2.50
Votes per share	1	1
Earnings per share (USD) (2)	1.36	1.63
Stockholders' equity per share (USD) (3)	4.89	4.77
Cash flow from operations per share (USD) (2)	1.72	1.35
Dividend pay-out-ratio (%)	33%	26%
Weighted average number of shares outstanding (in millions)	2,287	2,258
Dilutive weighted average number of shares outstanding (in millions)	2,296	2,308

(1) Proposed by the Board of directors and subject to approval by shareholders at the Annual General Meeting on May 5, 2009, in Zurich, Switzerland, by way of reducing the nominal value of shares from CHF 2.02 to CHF 1.54.
(2) Calculation based on dilutive weighted average number of shares outstanding
(3) Calculation based on the number of shares outstanding as of December 31

ABB Ltd annual general meeting

The 2009 Annual General Meeting of ABB Ltd will be held at 10:00 a.m. on Tuesday, May 5, 2009 at the Messe Zurich hall in Zurich-Oerlikon, Switzerland. The Annual General Meeting will be held principally in German and will be simultaneously translated into English and French. Shareholders entered in the share register, with the right to vote, by April 24, 2009, are entitled to participate in the Annual General Meeting.

Admission cards

Holders of registered shares of ABB Ltd will receive their admission cards on request using the reply form enclosed with the invitation. The reply form or a corresponding notification must reach the company no later than April 28, 2009. For technical reasons, notifications arriving after that date can no longer be taken into consideration. The full text of the invitation in accordance with Article 700 of the Swiss Code of Obligations will be published in the Schweizerisches Handelsamtsblatt of April 9, 2009.

For shareholders in Sweden an Information Meeting will be held in Västerås, Sweden, on May 6, 2009 at 10:00 a.m.

ABB shareholders' calendar 2009

Three-month results 2009	April 23
ABB Ltd Annual General Meeting, Zurich	May 5
ABB Ltd Information Meeting, Västerås	May 6
Six-month results 2009	July 23
Nine-month results 2009	October 29

Stock Exchange listings

ABB Ltd is listed on the SIX Swiss Exchange (traded on SWX Europe), NASDAQ OMX Stockholm and the New York Stock Exchange.

The global ISIN code for the ABB share is: CH 001 222 171 6.

Ticker symbols for ABB Ltd

SIX Swiss Exchange (SWX Europe)	ABBN
NASDAQ OMX Stockholm	ABB
New York Stock Exchange (NYSE)	ABB

Ticker symbols for ABB Ltd at Bloomberg

SIX Swiss Exchange (SWX Europe)	ABBN VX
NASDAQ OMX Stockholm	ABB SS
New York Stock Exchange (NYSE)	ABB US

Ticker symbols for ABB Ltd at Reuters

SIX Swiss Exchange (SWX Europe)	ABBN.VX
NASDAQ OMX Stockholm	ABB.ST
New York Stock Exchange (NYSE)	ABB.N

Credit rating for ABB Ltd as of February 24, 2009

Standard & Poor's

Long-term corporate credit rating:	A–
Long-term senior unsecured debt:	A–
Short-term corporate credit rating:	A–2

Outlook: Stable

Moody's

Long-term senior unsecured rating:	A3
Short-term debt rating:	Prime-2

Outlook: Stable

These credit ratings are subject to revision at any time. ABB does not have any other agreements with nationally recognized statistical rating organizations to provide long-term and short-term credit ratings.

Bondholder information

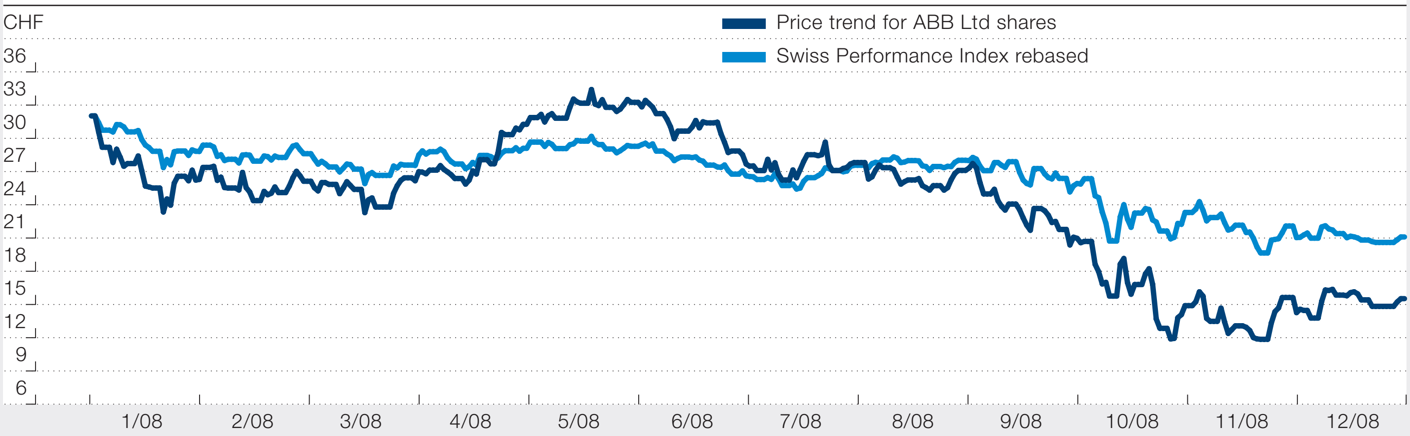
Outstanding public bonds as of February 24, 2009.

	Original issued principal amount	Coupon	Due	Bloomberg ticker	Reuters ticker
ABB International Finance Ltd	GBP 200 million[(1)]	10%	2009	ABB 10 05/29/09	CH014855661=
ABB Ltd	CHF 500 million[(2)]	3.75%	2009	ABB 3.75 09/30/09	CH896367=S
ABB International Finance Ltd	EUR 650 million	6.5%	2011	ABB 6.5 11/30/11	CH018119617=
ABB International Finance Ltd	EUR 700 million	4.625%	2013	ABB 4.625 06/06/13	CH025291581=

[(1)] Outstanding amount = GBP 20 million
[(2)] Outstanding amount = CHF 108 million

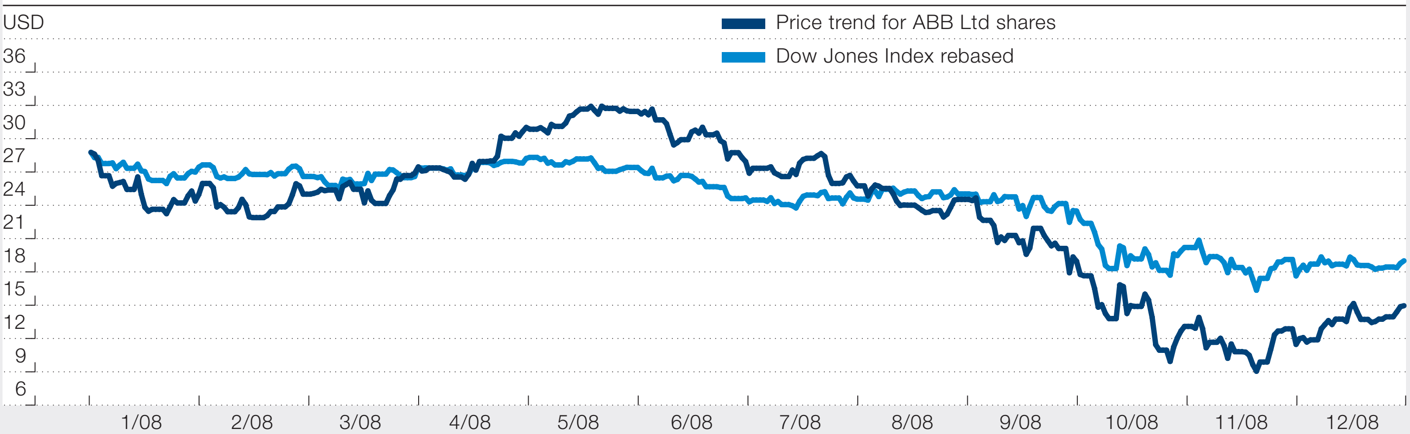
Price trend for ABB Ltd shares

Zurich



Stockholm

New York



Source: Bloomberg

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Parts of the ABB Annual Report 2008 have been translated into German and/or Swedish. Please note that the English-language version of the ABB Annual Report is the binding version.

Caution concerning forward-looking statements

The ABB Annual Report 2008 includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We have based these forward-looking statements largely on current expectations, estimates and projections about the factors that may affect our future performance, including global economic conditions as well as the economic conditions of the regions and the industries that are major markets for ABB. The words "believe," "may," "will," "estimate," "continue," "target," "anticipate," "intend," "expect" and similar words and the express or implied discussion of strategy, plans or intentions are intended to identify forward-looking statements. These forward-looking statements are subject to risks, uncertainties and assumptions, including among other things, the following: (i) costs associated with compliance activities; (ii) the difficulty of forecasting future market and economic conditions; (iii) the effects of, and changes in, laws, regulations, governmental policies, taxation, or accounting standards and practices; (iv) changes in raw materials prices; (v) the effects of competition and changes in economic and market conditions in the product markets and geographic areas in which we operate; (vi) our ability to anticipate and react to technological change and evolving industry standards in the markets in which we operate; (vii) the timely development of new products, technologies, and services that are useful for our customers; (viii) unanticipated cyclical downturns in the industries that we serve; (ix) the risks inherent in large, long-term projects served by parts of our business; (x) the difficulties encountered in operating in emerging markets; (xi) the amount of revenues we are able to generate from backlog and orders received; (xii) changes in interest rates and fluctuations in currency exchange rates and (xiii) other factors described in documents that we may furnish from time to time with the U.S. Securities and Exchange Commission, including our Annual Reports on Form 20-F. Although we believe that the expectations reflected in any such forward-looking statements are based on reasonable assumptions, we can give no assurance that they will be achieved. We undertake no obligation to update publicly or revise any forward-looking statements because of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking information, events and circumstances might not occur. Our actual results and performance could differ substantially from those anticipated in our forward-looking statements.

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