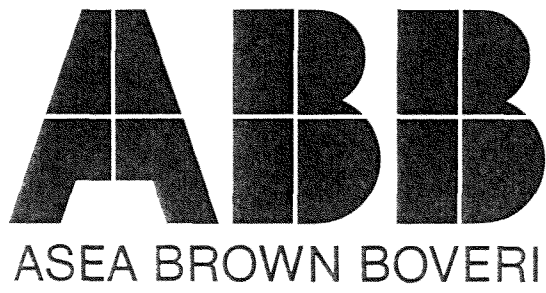


ABB Corporate Communications Ltd
Dept. CC-BI
P.O. Box 8829
CH-8050 Zurich, Switzerland



Annual Report 1988

Table of Contents

Financial Information and Reports	3
Group Structure	4
ABB in Brief	5
Key Figures	6
Letter from the Chairmen	7
President's Comments	8
Group Review 1988	10

Regional Review

Western Europe – European Community	16
Western Europe – EFTA	19
North America	22
Asia and Australasia	24
Others	26

Financial Information and Reports

This Annual Report accounts for the consolidated operations of the ABB Asea Brown Boveri Group in 1988. It conforms to OECD guidelines and recommendations concerning the publication of information.

As this is ABB's first Annual Report, special emphasis has been put on describing the Group's activities and strategies. The financial content is inevitably somewhat limited because there are few meaningful comparative figures for 1987 as a result of the merger, new accounting principles, and major changes in Group structure. The new financial reporting system became operational during the second half of 1988, which will enable ABB to start reporting earnings per Segment in 1989.

Apart from its Annual Report, the ABB Group publishes a Six-month Report in early September, and releases quarterly reports in May and December.

The ABB Group Report is published in English, German, and Swedish. The original English-language version is binding. All figures shown in \$ are in U.S. dollars.

In the Annual Reports of the ABB parent companies, ASEA AB and BBC Brown Boveri Ltd, the ABB Annual Report forms an integral part.

A separate Annual Report for the Holding Company, ABB Asea Brown Boveri Ltd, Zurich, is published in line with Swiss law. This report and a list of major Group companies are published separately and are available on request. In addition, ABB companies in Germany, Sweden, Switzerland, Finland, Norway, and Italy, for example, as well as the Kent Group in the UK, the Fläkt Group in Sweden, and ABB Financial Services publish their own Annual Reports.

Segmental Overview

Power Plants	28
Power Transmission	30
Power Distribution	32
Industry	34
Transportation	36
Environmental Control	38
Financial Services	40
Various Activities	42

Consolidated Income Statement	45
Consolidated Balance Sheet	46
Consolidated Statement of Changes in Financial Position	48
Principles for Consolidated Financial Statements	49
Notes to the Consolidated Financial Statements	52
Auditors' Report	58

ABB Asea Brown Boveri Ltd, Zurich	59
Proposed Appropriation of Profit	60
Auditors' Report to the Shareholders	60

Board of Directors	61
Auditors	61
Group Executive Management	62
Corporate Staffs	64
Business Area Managers	64
Country Managers	65

ASEA Investor Information	66
BBC Investor Information	66

Group Structure

ASEA AB, Stockholm (Sweden), and BBC Brown Boveri Ltd, Baden (Switzerland), own 50 percent each of the shares of ABB Asea Brown Boveri Ltd, Zurich (Switzerland).

ABB Asea Brown Boveri Ltd, Zurich, is the Holding Company and Corporate Headquarters of the ABB Asea Brown Boveri Group, comprising approximately 800 fully or partly owned companies around the world.

While the shares of ABB Asea Brown Boveri Ltd are not publicly traded, the shares of the two parent companies, ASEA AB and BBC Brown Boveri Ltd, are listed on various stock exchanges.

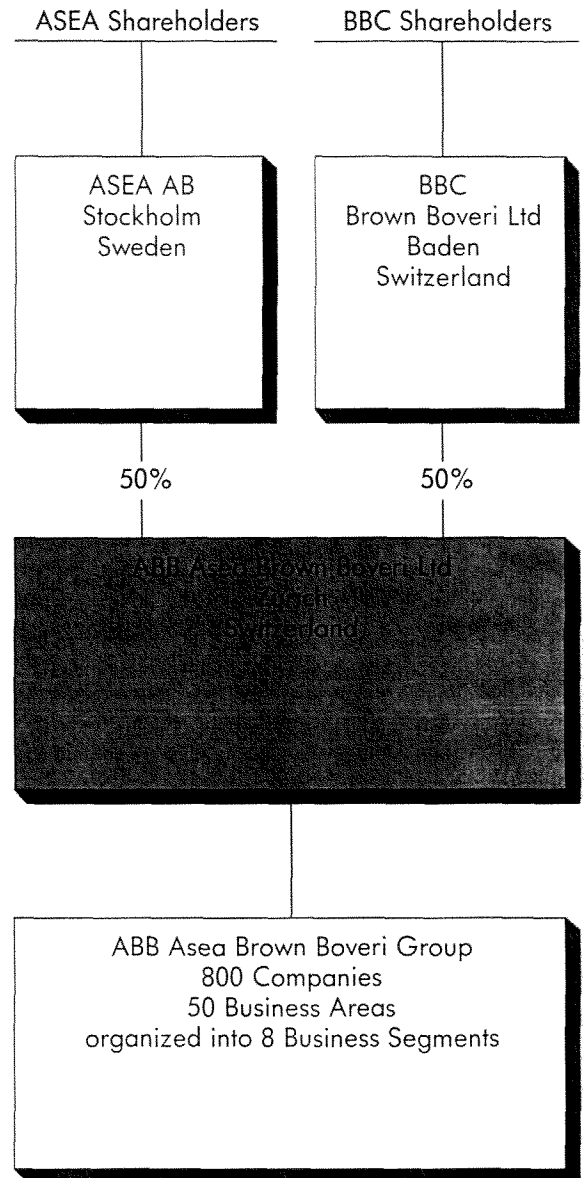


ABB in Brief

Scope of Business

ABB Asea Brown Boveri is an electrotechnical company with global operations, revenues of \$ 18 billion and some 170,000 employees. Net income in 1988 totaled \$ 386 million. ABB develops, produces, sells, and services systems and products in a wide range of areas generally related to the production, distribution, and application of electricity.

Its principal activities are in the fields of:

- power generation plants for primary energy – coal, gas, oil, water, nuclear;
- high-voltage transmission of electricity with such products as switchgear, transformers, relays, and cables;
- medium- and low-voltage distribution with substations, switchgear, and installation.

These three Segments together contribute almost half of total sales.

Further major areas of activity are public transportation such as high-speed trains, locomotives, urban transportation systems; electrical drives, process automation, and metallurgy in the industry sector; and environmental control technology, where the main focus is on air handling and treatment. ABB's activities also include robotics, instrumentation, power lines, general contracting, superchargers, and certain specialties within telecommunications, advanced plastics, and local businesses in installation material, wholesale, and service.

The Financial Services Segment provides services in the areas of financing, leasing, treasury operations, insurance, trading, and portfolio management for companies within the ABB Group and for third parties.

Structure

The ABB Group is essentially a federation of national companies; its focus is on finding efficient solutions to customers' problems and on exporting worldwide in specialized fields.

In its organization, ABB pursues a strong philosophy of decentralization; its aim is to be close to the customer, to have short lines of communication and decision-making, and clearly defined accountability. Overall, there are more than 3,500 individual profit centers.

ABB uses a matrix structure for its organization:

Worldwide business activities are grouped into 8 Business Segments comprising 50 Business Areas. Each carries responsibility for global strategies, business plans, allocation of manufacturing responsibilities, and product development.

Geographically, the Group is broken down into subgroups or companies in industrial countries. In the developing world, it is broken down into regions comprising a number of countries. Company Managers are responsible for operations in each country in line with the global strategies of the Business Areas.

Management

Group Executive Management comprises Percy Barnevik as President and Chief Executive Officer, Thomas Gasser as Deputy, and 11 Executive Vice Presidents. Responsibility for the Business Segments, Regions, and Corporate Staffs is divided among the Group Executive Management members.

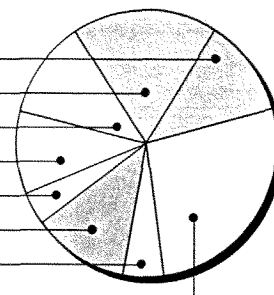
Key Figures

(US\$ in millions, unless otherwise stated)

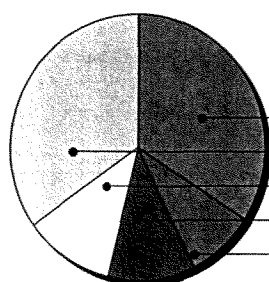
	1988
Orders received	17,822
Revenues	17,832
Operating earnings after depreciation	854
Earnings after financial income and expense	560
Net income	386
Stockholders' equity (excluding minority interest)	3,122
Total capital	18,965
Capital expenditure for property, plant, and equipment	736
Capital expenditure for acquisitions	544
Operating earnings / revenues	4.8%
Return on capital employed	13.6%
Return on equity	12.5%
Debt / equity ratio	0.8
Interest coverage ratio	2.2
Number of employees	169,459

Group Orders Received and Revenues per Business Segment

Business Segment	Orders received	Revenues	As % of total revenues
Power Plants	2,194	2,510	12%
Power Transmission	3,376	3,619	18%
Power Distribution	2,522	2,480	12%
Industry	1,966	2,047	10%
Transportation	993	747	4%
Environmental Control	2,786	2,511	13%
Financial Services	1,065	1,046	5%
Various Activities	5,295	5,375	26%
Total	20,197	20,335	100%
Intra-Group transactions	- 2,375	- 2,503	-
Net total	17,822	17,832	-

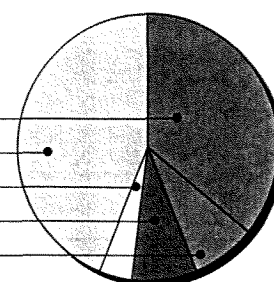


Group Revenues per Region*



33%	Western Europe – European Community	36%
33%	Western Europe – EFTA	44%
12%	North America	4%
12%	Asia and Australasia	8%
10%	Others	8%

Group Employees per Region



* Total third party revenues in each region, excluding exports, which are accounted for in the revenue figures of the importing regions.

Letter from the Chairmen

On January 5, 1988, the electrotechnical operations of ASEA and BBC were merged to become ABB Asea Brown Boveri (ABB), the world's largest electrotechnical supplier. This bold and unexpected move has since triggered major developments throughout the industry. While some of ABB's competitors have announced their own plans for joining forces, ABB has forged ahead in restructuring its operations, with better usage of its human and capital resources, and propelling the Group into a position of competitive leadership.

Through several acquisitions and joint ventures undertaken in 1988 and early 1989, ABB has further strengthened its core operations. No other group in the industry is today so totally dedicated to serving electrotechnical markets with products and services as is the ABB Group.

We believe in the world's future need for electricity. The majority of ABB's operations directly involve electrotechnical activities, such as power and industrial equipment, transportation, environmental control, or businesses supporting these.

ABB's commitment to the electrotechnical market is reinforced through its substantial investments in research and development (R&D). The merger has given both complementary strength and additional resources in key R&D areas. The Group is committed to continuing its policy of remaining at the forefront of technological developments in its field.

One of ABB's prime competitive strengths is its multidomestic geographical presence. The Group has widespread and substantial manufacturing facilities in Europe, with approximately equal numbers of employees inside and outside the European Community. It is therefore able to meet demand throughout Europe with locally manufactured products.

In the developing countries, ABB's local operations have more than 25,000 employees engaged in engineering, manufacturing, sales, and service activities. In North America, ABB is presently undertaking a major move to rapidly expand its local presence. ABB has started a major effort to strengthen its position in the Far East. Thus, ABB can claim to be locally present on a global basis.

The past twelve months have been a tremendous challenge for all our employees. A very large amount of work and dedication has been required from employees at all levels in the organiza-

tion in order to lay the complex foundations for the merger, and to implement the many action plans.

In addition, a number of acquisitions and co-operation agreements undertaken simultaneously have made the task even more demanding. All this has had to be achieved in parallel with fulfilling our customers' ongoing demands for ABB products and services. It is with satisfaction and gratitude that we have noted the progress made since ABB's foundation, and we would like to thank all those involved for their tireless efforts and vast contributions.



Dr. Fritz Leutwiler
Co-Chairman ABB
Asea Brown Boveri Ltd
Chairman BBC
Brown Boveri Ltd

Dr. Curt Nicolin
Co-Chairman ABB
Asea Brown Boveri Ltd
Chairman ASEA AB

President's Comments

We have now passed the first two critical phases in the formation of the ABB Group:

- All the formal merger agreements followed by key organizational and management staffing decisions in the autumn of 1987.
- Decisions on major strategies and a common set of policies for ABB. Decisions on restructuring and the start of implementation in 1988.

Progress so far, considering this short period of time, is very satisfying. This Annual Report gives a number of examples of activities that have been completed or are under way: company mergers in over fifty countries, establishing some 3,500 profit centers in a process of decentralization, capital and overhead-cost reduction programs, product exchanges, plant mergers, factory and engineering rationalization, divestment of operations, and formation of new companies. The Annual Report also describes simultaneous efforts to expand our business and to position ourselves in a rapidly changing industry through a number of strategic acquisitions and joint ventures.

All these efforts are part of a global program within ABB to make our Group the world low-cost producer in core businesses, to develop a more flexible and leaner organization closer to our markets and customers, and to be the technology leader in the electrotechnical field.

Behind all this, there are thousands of our employees who have been doing a tremendous job. A merger of this size is obviously neither a simple nor a painless task – jobs have been eliminated and others have been created, long-standing relationships need to be changed and completely new situations must be handled. Work load and stress have been high in many areas. Language problems and cultural differences add to the complexity of the situation and, in some places, the many changes have created uncertainty about the future. But many people have taken on new and greater responsibilities, have provided leadership and created enthusiasm for the challenges that lie ahead. Information and motivational tasks for our managers, the need to reach out and mobilize all our employees, will remain a key priority in the years to come.

My colleagues and I want to express our sincere appreciation for the enormous amount of dedicated work put in by so many employees, and for the loyalty they have shown to ABB in a difficult and demanding process of change. I hope that many of our ABB employees share the rewarding feeling of contributing to and being part of some-

thing new – a truly multidomestic group with many home countries and global cooperation across borders.

Restructuring and Globalization of our Industry

All through the 1980s, the electrotechnical industry has been plagued by overcapacity. In Europe the industry was fragmented and crowded by some 20 large and medium-sized companies, in some countries state-owned, subsidized, and/or protected. The merger of the electrotechnical activities at ASEA and BBC into ABB, and our subsequent acquisitions and joint ventures, triggered much-needed restructuring of the whole industry. With the Internal Market of 1992 looming, European industry must prepare itself for increased crossborder competition within Europe, but also against increased competition from offshore suppliers. Some of ABB's acquisitions and joint ventures in the power and railway equipment fields in countries such as Italy, the UK, and Germany, are important steps in that direction, and they have also strengthened ABB inside the European Community. Consolidation of ABB's new structure in Europe is now taking place, with a major presence in both the EC and the EFTA countries.

Outside Europe, ABB is moving West and East in order to continue to develop more globalized business operations. North America has some 30 percent of the worldwide potential in our field but only 12 percent of ABB sales; we would like to see that share double within a reasonable period of time. The joint venture with Westinghouse in the field of transmission and distribution marks a further important step towards ABB's objective of becoming a truly domestic supplier in the power field with major R&D, manufacturing, and engineering resources in North America. Expansion is also planned in the fields of industry, transportation, and environmental control.

In the developing countries, rapid population growth and urbanization demand substantial infrastructure investments in such fields as electrification, transportation, telecommunications, environmental protection, and water. Seventy percent of the population still has no access to electric power. Thus, in the next 20 years, as much electric generating capacity will be needed as was installed in industrial countries in the last 100 years. ABB is present in most countries, and its strategy of being "an insider rather than an invader" will lead

to further transfer of technology and domestic investments in manufacturing facilities to complement project export from Europe and North America. Particularly strong growth is anticipated in some of the Asian countries, where ABB already has local platforms and plans further investments.

ABB – a Multidomestic Company

The word "multidomestic" illustrates ABB's structure with strong national companies, or national groups of companies. These have local manufacturing and engineering facilities to supply their home markets and also to export products in which they have particular competitive advantages. This "federation of national companies" is especially visible in Europe, and makes ABB uniquely equipped to serve its customers through its strong local presence both before 1992 and beyond.

The phrase "think global, act local" reflects ABB's fundamental idea of combining the multidomestic structure with cooperation and trade across borders to gain economies-of-scale advantages. Numerous product exchanges are now taking place, not least in Europe, thus contributing to lower unit costs. National companies also use the Group's total resources in research, in distribution channels, and in finance. Just as examples: our Finnish company exports industrial equipment to India by using ABB's well-established Indian distribution and service network; our Italian generator plant draws on the state-of-the-art technology in ABB corporate laboratories; and our American company is financially supported for major acquisitions.

In addition, within the national companies we are striving for far-reaching decentralization in order to stimulate flexibility, promote entrepreneurship, and stay close to the customer.

Business Development

ABB intends to continue to focus on the electrotechnical field and not to diversify into unrelated areas. The Group has a good balance between mature cash-generating business and high-growth, R&D-intensive business.

Demands for a better environment and energy conservation will increasingly be driving forces for many of our Business Areas. We will therefore further develop nuclear technologies, continue our drive towards high-efficiency power plants and

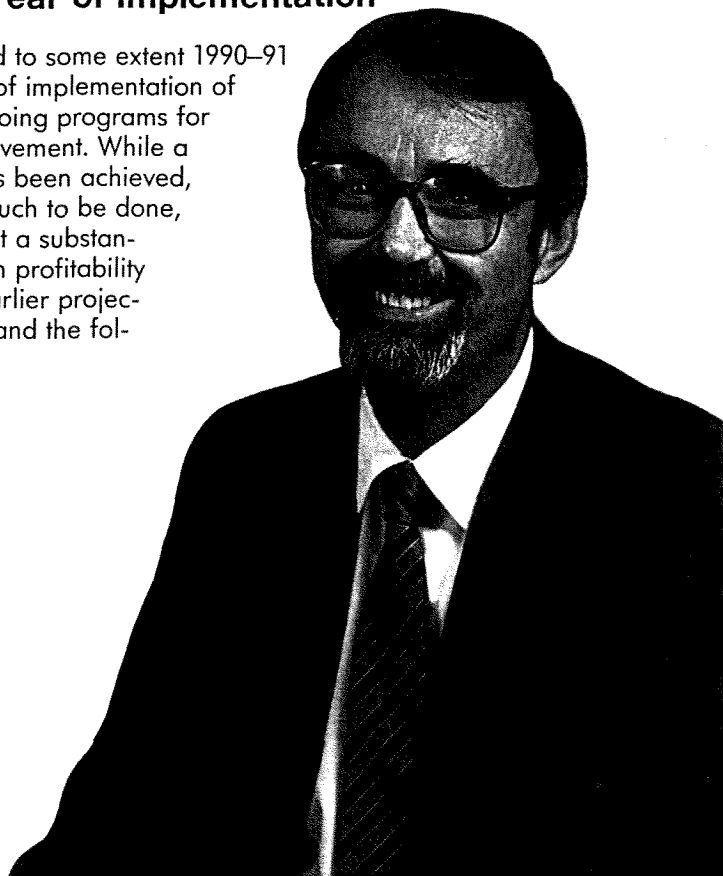
clean coal technologies, expand air pollution control activities, and improve electric distribution systems. Demand for efficient and clean mass transportation in polluted and congested metropolitan areas as well as for high-speed passenger transport for longer distances will provide growth for the Transportation Segment. We also foresee a need to revamp aging industrial plants to raise productivity, improve quality, and conserve raw materials and energy. Our process- and factory-automation activities will spearhead these growing business opportunities.

The developing countries have enormous need for new capacity in power generation and distribution. In the industrial world we are still facing several years of moderate growth in this sector. When this market revives in the 1990s, we will be well equipped to respond to the increased demand.

Our R&D investments will focus on these business opportunities. Excellence in technology and quality will give ABB a major competitive edge, just as ASEA and BBC have always had.

1989 – a Year of Implementation

1989 and to some extent 1990–91 will be years of implementation of the many ongoing programs for internal improvement. While a great deal has been achieved, there is still much to be done, and we expect a substantial increase in profitability in line with earlier projections in 1989 and the following years.



Percy Barnevik
President and Chief Executive Officer