ABB Group Annual Report 2001

Contents

Forward looking statement

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

The Annual Report includes forward-looking statements. We have based these forward-looking statements largely on current expectations and projections about future events, financial trends and economic conditions affecting our business. These forward-looking statements are subject to risks, uncertainties and assumptions, including among other things, the following: (i) the difficulty of forecasting future market and economic conditions: (ii) the effects of, and in charges in, laws, regulations, governmental policies, taxation, or accounting standards and practices; (iii) the effects of competition in the product markets and geographic areas in which we operate; (iv) our ability to anticipate and react to technological change and evolving industry standards in the markets we operate; (v) the timely development of new products, technologies, and services that are useful for our customers; (vi) unanticipated cyclical downturns in some of the industries that we serve; (vii) the risks inherent in large, long-term projects served by parts of our business; (viii) the difficulties encountered in operating in emerging markets; and (ix) factors described in documents that we may furnish from time to time with the U.S. Securities and Exchange Commission. Although we believe that the expectations reflected in any such forward-looking statement are based on reasonable assumptions, we can give no assurance that they will be achieved.

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

About ABB

ABB is a global leader in power and automation technologies that enable utility and industry customers to improve performance while lowering environmental impact. ABB is present in more than 100 countries. We rank number one, two or three in almost all of our activities.

We are organized from the outside in to make sure our customers have quick and easy access to everything they need, where and when they need it – whether they buy from us directly or through distributors, wholesalers, system integrators or other partners.

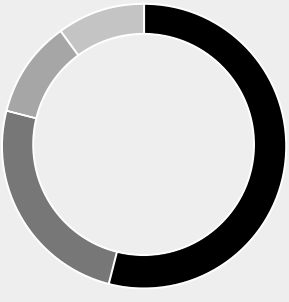
ABB is moving all its offerings to a common systems integration architecture, to deliver Industrial IT-enabled products and services. Industrial IT allows our customers to optimize their operations and link up in real time with their suppliers and customers. The result is a leap in efficiency, quality and competitiveness.

Key figures and highlights

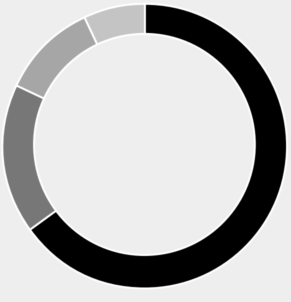
Total Group

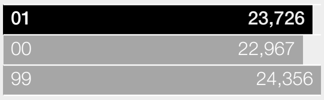
Year ended December 31 (U.S. dollar amounts in millions, except per share amounts)	2001	2000
Orders received	23,779	25,440
Revenues	23,726	22,967
Earnings before interest and taxes (EBIT)	279	1,385
Income from continuing operations before taxes and minority interest	45	1,306
Net income (loss)	(691)	1,443
Stockholders' equity	2,014	5,171
Total assets	32,344	30,962
Capital expenditure, excluding purchased intangible assets	645	485
Capital expenditure for acquisitions	597	896
Divestitures	283	1,963
Research and development expense	654	703
Order-related development expenditure	916	985
Earnings before interest and taxes/Revenues	1.2%	6.0%
Return on equity	(19.2)%	30.6%
Net operating cash flow	2,193	1,022
Number of employees	156,865	160,818
Basic earnings (loss) per share	(0.61)	1.22
Diluted earnings (loss) per share	(0.61)	1.22

Revenues by region 2001
- Europe 54%
- The Americas 25%
- Asia 11%
- Middle East and Africa 10%

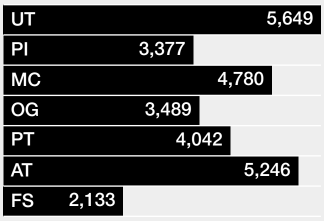


Employees by region 2001
- Europe 65%
- The Americas 17%
- Asia 11%
- Middle East and Africa 7%

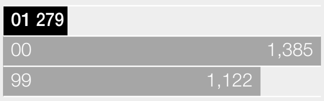




Group revenues
($ in millions)

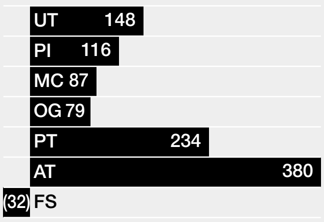


Revenues by division 2001
($ in millions)
Utilities (UT)
Process Industries (PI)
Manufacturing and
Consumer Industries (MC)
Oil, Gas and Petrochemicals (OG)
Power Technology Products (PT)
Automation Technology
Products (AT)
Financial Services (FS)



Group earnings
before interest and taxes
($ in millions)*

* Group earnings before interest and taxes include total capital gains of $ 57 million in 2001, $ 447 million in 2000 and $ 180 million in 1999.



Earnings before interest and taxes by division 2001
($ in millions)
Utilities (UT)
Process Industries (PI)
Manufacturing and
Consumer Industries (MC)
Oil, Gas and Petrochemicals (OG)
Power Technology Products (PT)
Automation Technology
Products (AT)
Financial Services (FS)

For more information about ABB:

Web site:
w www.abb.com

Media:
e media.relations@ch.abb.com

Shareholders:
e investor.relations@ch.abb.com

Chairman's letter

In today's business climate, urgency and execution are crucial, coupled with a clear concentration on core business. Over the past year, ABB has been taking important steps to focus its portfolio and streamline its organization to vigorously deliver value to customers.

The ABB strategy centers on pairing leading-edge technologies with an in-depth understanding of our customers' business environment and success factors. As a supplier to utility and industry customers around the globe, ABB builds on a world-class portfolio of power and automation technologies. All our customers – from producers of consumer goods, manufacturers of paper or steel to operators of electricity grids – need ABB products, systems, solutions and services to make their installations more productive.

The past three years have seen the divestment of the rail transportation business and the sale of the power generation activities. The aim was to concentrate on less capital-intensive activities and to better leverage the technology base in standardized and customized offerings.

During 2001, ABB began a profound transformation, aligning the organization towards customers and their needs, increasing efficiency and growing revenues. Key steps are also being taken to improve profitability and financial solidity. Net debt has been reduced significantly through a successful cash generation program.

Early in the year, the change in organizational structure and the adoption of U.S. Generally Accepted Accounting Principles (U.S. GAAP) made it difficult for the financial market to track the company's performance. The issue was addressed as quickly as possible, underscoring that transparency remains a principal objective.

The Board is grateful for the professionalism and dedication displayed by ABB employees around the world, who maintained a solid operational performance in a demanding year of change and challenges.

In today's difficult and rapidly changing business environment, ABB has taken the clear strategic course of focusing on core competencies and relentlessly delivering the operational and financial performance expected of a world leader. The entire ABB organization is driven by a strong, shared sense of urgency to create value for customers in order to create and sustain value for shareholders, employees and society at large.

Jürgen Dormann

Jürgen Dormann
Chairman

Chief Executive's letter

ABB had a demanding year in 2001. We made deep and necessary changes, including the largest transformation in the company's history, and took key steps towards increased transparency. These measures are already starting to yield results and will pave the way for improved performance.

We kept order intake stable and increased revenues in local currencies while our cash flow from operations more than doubled. Business with our main 200 customers grew at a rate that was over 10 percent higher than the Group average for orders, proving that our customer-centric organization is able to deliver increased customer penetration.

However, the year ended with a net loss, which is a disappointment. In order to put the company on a better footing, we had to take some broad operational measures.

With the transformation effort in 2001, we realigned all business activities around customer groups and simplified our organization in all markets. These were important steps allowing us to leverage our position as a leader in power and automation technologies.

Like any large organization, ABB needs to watch its costs. Simpler, leaner structures are vital – which is why we sharply reduced the number of operating companies.

To further lower our cost base, we began a program to reduce 12,000 jobs, coupled with changes to ensure greater efficiency and productivity. It is essential to continue to watch costs in order to improve performance.

We will manage the asbestos issue in the U.S. with the same professionalism as in the past. The issue stems from the use of asbestos as insulation material inside welded boilers. Combustion Engineering, a U.S. subsidiary, used asbestos until the mid-1970s. At the end of 2001, we took a charge of $ 470 million increasing our provisions to $ 940 million to cover the expected claims against Combustion Engineering.

There were 94,000 claims pending at the end of the year. Combustion Engineering has intensified its efforts to settle valid claims and dispute those that appear invalid.

ABB's steps to increase transparency last year included the adoption of U.S. GAAP (Generally Accepted Accounting Principles). Reporting under the new divisional structure is in place, including a split-out of the Financial Services balance sheet.

Our commitment to Industrial IT, research and development and sustainability are key to our strategy. We have forged ahead with Industrial IT, our common product and system architecture ensuring an efficient integration of all our offerings; more than 3,000 products had been certified as Industrial IT-enabled by the end of January, 2002 – well ahead of target.

We sharpened the focus of corporate research and development in 2001, creating global laboratories which link virtually with each other and external partners, and streamlining our efforts towards emerging technologies.

Sustainability is integral to ABB policy, and our success in this field was again recognized in 2001 when the Dow Jones Sustainability Index ranked us number one in our market sector for the third consecutive year.

Business Environment and Outlook 2002

ABB's business plan for the year 2002 assumes a flat economy. On the positive side, interest rates are low and inventory levels in industry are low. But investment levels remain low and unemployment is high. We also have ongoing consolidation in some key customer sectors, which usually puts an additional brake on investments, and since the events of September 11 last year, there is increased uncertainty in some parts of the world.

In our customer markets, the utility and life science sectors remain positive, but there is little indication of overall economic recovery. Regionally, Asia (particularly China and India) are expected to develop positively, the economic dynamics of Europe and the U.S. remain slow. Conditions in the Middle East, Africa and Latin America are mixed, depending on countries and the sectors within each country.

Above:
Innovative technology
Research and development is key to ABB's strategy and business. Nearly seven percent of revenues in 2001 was spent on technology innovation, helping the Group to build on its leadership position in power and automation products, applications and services.

Below:
Stakeholder dialogues
ABB's social policy was launched in February 2001 as part of our sustainability initiative. Part of the program involves stakeholder dialogues, which were conducted in 40 countries to assess the policy's relevance to communities and find ways of implementing it.

In ABB, we have set several priorities for the year ahead: we will deliver on the promise, made mid-2001 when the 12,000 job reduction program was announced, to reduce our annual cost run rate by $ 500 million, and we will further cut our net debt by $1.5 billion. At the same time, we will increase efforts to ensure more business per customer and forge ahead with certifying Industrial IT products, aiming to certify all relevant products by year-end.

For 2002, revenues are expected to be flat in comparison to 2001. EBIT margin for the full year 2002 is expected to be in the range of 4 to 5 percent. EBIT and net cash from operations are expected to be stronger in the second half of 2002 than in the first half.

The targets for 2005 remain unchanged. We aim to grow revenues on average by 6 percent annually in the period 2001–2005. EBIT margin is expected to reach 9–10 percent by 2005.

The targets for 2002, as well as for 2005, assume no major currency effects and exclude major acquisitions and divestments.

Our path forward lies in strengthening our power and automation technologies portfolio, and in meeting our customers' needs by combining our generic products with industry-specific products, systems, services and solutions.

We will return to a healthy profit in 2002. The company is on the right track and the measures we have taken should strengthen shareholder, market and customer confidence in the year ahead.

We took hard decisions in 2001 for the benefit of the company's future. I am grateful to the employees who did an excellent job during a very difficult year with major programs to re-shape the company.

Keeping the development of order intake in line with or better than our competitors while growing our revenues and doubling our cash flow from operations are true indications of their achievements. Together, we turned the page, and as one team we are focusing on the future.

Jörgen Centerman

Jörgen Centerman
President and Chief Executive Officer

ABB at a glance

ABB Group

ABB is a global leader in power and automation technologies that enable utility and industry customers to improve their performance while lowering environmental impact.

We have four end-user divisions serving utilities, process industries, manufacturing and consumer industries, and the oil, gas and petrochemicals sectors. Two divisions provide power and automation technology products via internal and third-party channel partners, as well as direct sales. The group's Financial Services division serves ABB, its channel partners and customers.

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01	23,726
00	22,967
99	24,356

Revenues ($ in millions)

Utilities

Business areas*
- Modular Substations
- Power Systems
- Utility Automation
- Utility Services

ABB serves electric, gas and water utilities – whether state-owned or private, global or local, operating in liberalized or regulated markets – with a portfolio of products, services and systems. Our principal customers are generators of power, owners and operators of power transmission systems, energy traders and local distribution companies. ABB is a global leader in the utilities market.

* As of February 1, 2002, the Utilities division business areas were realigned. There are now three business areas: Utility Partner, Utility Power Systems and Utility Automation Systems.

01	5,649
00	5,473
99	5,875

Revenues ($ in millions)

Process Industries

Business areas
- Marine and Turbocharging
- Paper, Printing, Metals and Minerals
- Petroleum, Chemical and Life Sciences

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

01	3,377
00	3,339
99	3,485

Revenues ($ in millions)

Manufacturing and Consumer Industries

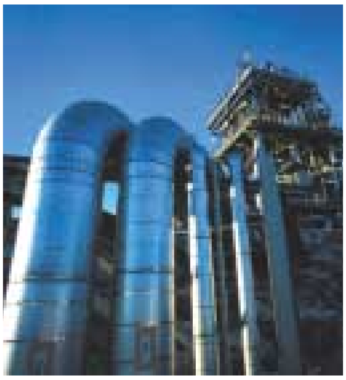
Business areas
- Air Handling*
- Automotive Industries
- Building Systems
- Logistic Systems
- Telecom and Product Manufacturing Industries

ABB sells products, solutions and services that improve customer productivity and competitiveness in areas such as automotive industries, telecommunications, consumer goods, food and beverage, product and electronics manufacturing, airports, parcel and cargo distribution, and public, industrial and commercial buildings. ABB is a global leader in several of these industries.

* In December 2001, ABB announced a strategic divestment of its air handling business.

01	4,780
00	5,225
99	5,697

Revenues ($ in millions)



Oil, Gas and Petrochemicals

Business areas
- Downstream
- Upstream

ABB supplies a comprehensive range of products, systems and services to the global oil, gas and petrochemicals industries, from onshore and offshore exploration technologies to the design and supply of production facilities, refineries and petrochemicals plants. ABB is a leading presence in many of the upstream and downstream markets.

01	3,489
00	2,796
99	3,086

Revenues ($ in millions)

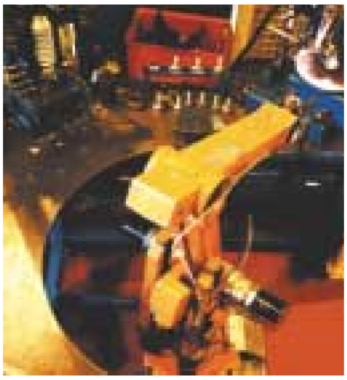
Power Technology Products

Business areas
- Distribution Transformers
- High-Voltage Technology
- Medium-Voltage Technology
- Power Transformers

ABB is the global market leader in power technology products. We cover the entire spectrum of technology for power transmission and power distribution, including transformers, switchgear, breakers, capacitors and cables, as well as other products, platforms and technologies for high- and medium-voltage applications. Our products are used in industrial, commercial and utility applications.

01	4,042
00	3,662
99	3,862

Revenues ($ in millions)



Automation Technology Products

Business areas
- Control and Force Measurement
- Drives and Power Electronics
- Electrical Machines
- Instrumentation and Metering
- Low-Voltage Products
- Robotics

ABB is the global market leader in automation technology. We provide products, software and services for the automation and optimization of discrete, process and batch manufacturing operations. Key technologies include measurement and control, instrumentation, process analysis, drives and motors, power electronics, robots and low-voltage products, all geared toward one common Industrial IT architecture for real-time automation and information solutions throughout a business.

01	5,246
00	5,175
99	5,550

Revenues ($ in millions)

Financial Services

Business areas
- Equity Ventures
- Insurance
- Structured Finance
- Treasury Centers

ABB Financial Services supports the group's businesses and customers with innovative financial solutions in structured finance, leasing, project development and ownership, financial consulting, insurance and treasury activities. With operations in every major market of the world, ABB Financial Services offers its customers the unrivaled combination of deep industry knowledge and financial expertise globally.

01	2,133
00	1,966
99	1,687

Revenues ($ in millions)

Utilities

Business areas*
Modular Substations
Power Systems
Utility Automation
Utility Services

w www.abb.com/ut

“ABB has long held a unique position of market strength and technological leadership in the global power business. It is this leadership position, coupled with simplifying the way we work, that enabled us to capture large power infrastructure orders in 2001.”

Richard Siudek, head of ABB’s Utilities division

01	5,649
00	5,473
99	5,875

Revenues ($ millions)

01	148
00	250
99	182

Earnings before interest and taxes ($ millions)**

01	6,436
00	6,235
99	5,981

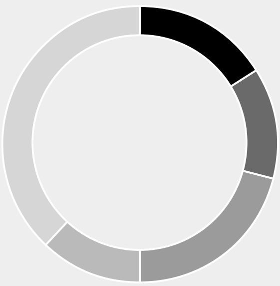
Orders received ($ millions)

01	15,745
00	15,826
99	17,390

Number of employees

** In 2000, EBIT contains $ 54 million of capital gains which, in total, amounts to more than 10% of the divisional EBIT.

Revenues by business area
- Modular Substations 16%
- Power Systems 13%
- Utility Automation 21%
- Utility Services 12%
- Pull-through sales 38%***



*** Pull-through sales are defined as volume passed through end-user divisions acting as channels to market from the channel partner divisions.

ABB serves electric, gas and water utilities – whether state-owned or private, global or local, operating in liberalized or regulated markets – with a portfolio of products, services and systems. Our principal customers are generators of power, owners and operators of power transmission systems, energy traders and local distribution companies. ABB is a global leader in the utilities market.

Performance in 2001

Despite general economic downturns in the United States and Europe, Utilities was able to increase both orders and revenues by three percent in 2001. Project delays and lower prices impacted earnings, particularly in large power systems projects, and earnings before interest and taxes (EBIT) decreased by 41 percent (24 percent without capital gains) to $148 million.

Major orders and contracts

ABB won important orders that confirm its ability to provide customers with the solutions they need to compete in the rapidly changing utilities market. ABB also continued its policy of sharing technology with customers around the world.

The orders range from helping utilities improve their aging infrastructure (examples include Ireland and the U.K.) to preventing outages by supplying reliable power at low cost (Chicago), adding new capacity in several countries (Brazil, China, Indonesia, Laos, Romania, Venezuela), and providing a reliable and cost-effective source of backup power (Alaska).

The value of the orders ranges from $17 million for Laos to $300 million and $360 million for Brazil and China respectively.

Strategic initiatives

ABB is focusing resources on assisting our customers to better manage their assets.

In November, we enhanced our consulting capabilities by forming an alliance with Accenture, the world’s leading provider of management and technology consulting services. The alliance will enable both companies to bring a new generation of enterprise solutions to global utilities. Customers will benefit from the combination of ABB’s Industrial IT business and management solutions and Accenture’s expertise in supply chain management, outsourcing and its global network of alliances.

* As of February 1, 2002, the Utilities division business areas were realigned. There are now three business areas: Utility Partner, Utility Power Systems and Utility Automation Systems.

Customer success story

Helping make connections in China

In October 2001, the State Power Corporation of China awarded ABB a $ 360-million order to build a high-voltage direct current (HVDC) power transmission system linking hydropower plants in central China to Guangdong province. ABB pioneered HVDC transmission technology, which is an efficient and cost-effective way of moving electricity over long distances.

The link will transmit 3,000 megawatts of power over 940 kilometers. The two-stage project will be delivered in 32 months, cutting the normal timetable for a project this size by 30 percent. ABB is already supplying converter stations for an 890-kilometer HVDC power link between the Three Gorges power plant and Shanghai.

With more than 20 joint venture companies and 6,000 employees, ABB's presence in China is strong. This is ABB's second major order in China in two years, further demonstrating our support of China's economic development by offering advanced technological solutions, and by working directly with Chinese partners in the utility and equipment manufacturing industries.

Above:
Reliable power at low cost
ABB has received several contracts from Commonwealth Edison (ComEd) in recent years to help the electric utility upgrade its Chicago grid and ensure a reliable and competitive supply of power. In 2001, ABB won a $ 44-million contract to help ComEd improve capacity to meet the growing demand for power in Chicago's central business district.

Below:
Energy management system selected by Endesa
ABB signed a $ 4.25-million contract with leading Spanish electricity group Endesa to provide a new IT system for management of its power installations and operation centers. Endesa says it expects to increase operating results by more than $ 25 million per year by using the system.

In December, we sold our railway electrification project business to Balfour Beatty Plc for $ 38 million. The divestment is part of ABB's strategy of focusing on core areas of power and automation technology for utilities and industry.

New products and new technologies

Among the new technologies launched in 2001 is the PS-1, a standardized substation with global potential. Rather than customizing substations to individual customer specifications, ABB can now offer customers a choice of nine standard configurations for substations up to 170 kV. This has cut delivery time in half and the cost to the customer by 20 percent. The PS-1 is eBusiness-enabled.

Outlook

Deregulation continues to present utilities the world over with challenges and opportunities. ABB's capabilities in asset management, real-time information management and in upgrading and extending transmission and distribution networks will continue to help utilities improve cost-efficiency and service reliability.

Process Industries

Business areas

Marine and Turbocharging
Paper, Printing, Metals and Minerals
Petroleum, Chemical and Life Sciences

w www.abb.com/pi

"Despite tumultuous markets, the high number of orders we won in all industries and parts of the world in the past year demonstrates our customers' confidence in us, and the many long-term agreements we signed with major customers reflect our deep knowledge of their businesses and the strength of Industrial IT."

Dinesh C. Paliwal, head of ABB's Process Industries division

01	3,377
00	3,339
99	3,485

Revenues ($ millions)

01	116
00	88
99	123

Earnings before interest and taxes ($ millions)

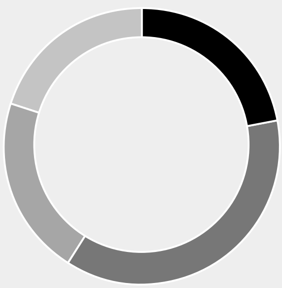
01	3,376
00	3,497
99	3,525

Orders received ($ millions)

01	15,937
00	15,997
99	16,237

Number of employees

Revenues by business area
- Marine and Turbocharging 22%
- Paper, Printing, Metals and Minerals 37%
- Petroleum, Chemical and Life Sciences 21%
- Pull-through sales 20%*



* Pull-through sales are defined as volume passed through end-user divisions acting as channels to market from the channel partner divisions.

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

Performance in 2001

Revenues grew by one percent in 2001, reflecting the negative impact of September 11 on the industries served by the division. The notable exception was in the Marine and Turbocharging business area, which reported an eight percent increase in revenues. Early action on cost-cutting and productivity improvement initiatives, however, helped earnings before interest and taxes (EBIT) to increase by 32 percent to $116 million.

Major orders and contracts

One of the most important contracts of the year for ABB was the ten-year global agreement signed with Dow Chemical in May to provide process and safety control solutions. The contract is based on the strength of ABB's Industrial IT technology, our ability to design systems for specialized chemical applications and our close knowledge of Dow's way of working. The agreement makes ABB the sole supplier of process and safety control systems to Dow Chemical facilities worldwide.

In winning the contract, ABB significantly strengthened its position in the chemicals market. One of the main reasons Dow Chemical selected ABB as its strategic partner is that Industrial IT can integrate process and safety control in a single system, a solution unique to ABB.

We won a $15-million contract from Visy Industries for the largest Industrial IT software delivery in the pulp and paper industry. The software is for product tracking, production planning, and quality and supply chain management to link in real time headquarter offices, local facilities and production lines globally.

Key business also included a $42-million order from GlobalSantaFe Corporation for the complete electrification of two semi-submersible offshore oil drilling rigs.

Customer success story

Helping the biggest remain the best

ABB is supplying the world's largest paper machine with power and automation technology. The giant PM 6 paper machine – to be built by Finland's Metso Paper for Papierfabrik Palm of Germany – will be controlled with ABB's Industrial IT technology. The order is worth $17 million. In addition, the start-up of one of the world's biggest pulp dryers – supplied by ABB – took place in 2001 at the Riau Andalan pulp mill in Indonesia.

As preferred supplier to Holcim, ABB is delivering technical information systems to one of the biggest cement companies in the world. ABB has also won a contract to design, supply and install a complete mine hoist system for the deepest mine in Europe. The mine, owned by Outokumpu, is located in Finland.

Above:
Stainless steel in Shanghai
Production at the new cold-rolling mill of Shanghai Krupp Stainless Co. Ltd. began in November. ABB supplied the power and automation equipment, and helped the customer achieve start-up one year ahead of schedule.

Below:
Industrial IT in Mexico
The biggest installation of ABB's Industrial IT fieldbus architecture is at Pemex in Mexico, the state-owned oil giant and one of the largest petroleum companies in the world.

Strategic initiatives

The acquisition of the international consultancy, Eutech Engineering Solutions of the U.K., greatly increased our domain expertise in life sciences, a market in which we are already the recognized process industries leader. The acquisition increases our ability to serve pharmaceutical, biotechnology and petrochemical customers.

New products and new technologies

In the 1990s, ABB opened up an entirely new market with Azipod® marine propulsion technology, which significantly improves the maneuverability and fuel efficiency of sea-going vessels with diesel electric propulsion. In 2001, ABB launched the Compact Azipod® propulsion system, extending the same concept to offshore supply vessels and ferries. This resulted in orders for 25 units, with several already in operation.

During 2001, Samsung and ABB developed the Contra-Rotating Propeller propulsion system based on Azipod technology for use on sea-going container vessels, improving efficiency and fuel savings.

In the paper industry, we developed a new machine drive system that eliminates gears and makes powering the process even more energy-efficient. M-real, one of Europe's leading providers of paper and paperboard, selected the Drive^{IT} Direct Drive to improve performance, reduce energy consumption and lower the cost of planning, installation and maintenance.

The TPS Turbocharger®, introduced in 2001, further improved ABB's market-leading position in turbocharging diesel and gas engines. eBusiness grew rapidly for our turbocharging business with 50 percent of all transactions conducted via electronic data interchange and the Internet.

Outlook

Industrial IT-enabled solutions and services improve the plant efficiency and competitiveness of our customers. With tight capital spending in most industries, we expect our asset optimization and Industrial IT services to play an important role in productivity enhancement and allow our customers to reduce time-to-market for new products. While the metal, paper and chemical industries continue to consolidate, the pharmaceutical, life sciences, specialty chemical and marine industries will maintain healthy growth during 2002 and provide ample business opportunities.

Manufacturing and Consumer Industries

Business areas

Air Handling*
Automotive Industries
Building Systems
Logistic Systems
Telecom and Product Manufacturing Industries

w www.abb.com/mc

"Against a backdrop of a difficult and volatile market, notably in the automotive industry, ABB won several orders in areas where we were not active in the past, confirming the validity of our customer-centric strategy. This is a clear sign that we will be able to expand the reach of our solutions business in the years to come."

Jan Secher, head of ABB's Manufacturing and Consumer Industries division

01	4,780
00	5,225
99	5,697

Revenues ($ millions)

01	87
00	205
99	147

Earnings before interest and taxes ($ millions)**

01	4,388
00	5,485
99	6,046

Orders received ($ millions)

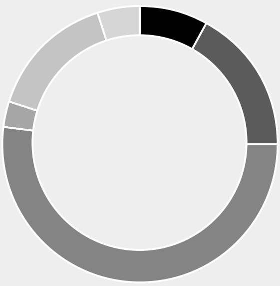
01	29,455
00	33,449
99	34,027

Number of employees

** In 2000, EBIT contains $ 41 million of capital gains which, in total, amounts to more than 10 % of the divisional EBIT.

Revenues by business area

- Air Handling 8%
- Automotive Industries 17%
- Building Systems 52%
- Logistic Systems 3%
- Telecom and Product Manufacturing Industries 15%
- Pull-through sales 5%***



*** Pull-through sales are defined as volume passed through end-user divisions acting as channels to market from the channel partner divisions.

ABB sells products, solutions and services that improve customer productivity and competitiveness in areas such as automotive industries, telecommunications, consumer goods, food and beverage, product and electronics manufacturing, airports, parcel and cargo distribution, and public, industrial and commercial buildings. ABB is a global leader in several of these industries.

Performance in 2001

The markets we serve developed negatively during 2001, particularly after September 11. As a result, order intake was substantially lower compared to 2000 – particularly for large orders. Revenues, however, remained flat apart from Automotive Industries, reflecting both lower sales of standard products as well as value added solutions. Substantial efforts have been made to re-size the division. These costs, coupled with isolated cases of poor performance, led to a 58 percent decrease in earnings before interest and tax (47 percent without capital gains) to $ 87 million in 2001. The restructuring program is running according to plan with phase two being initiated in early 2002.

Major orders and contracts

The division's automotive industries business received several high-profile orders in 2001, mostly from major automotive sub-suppliers. These include a $ 30-million contract from Tower Automotive to design and build a complete body shop in Belgium.

Major orders were also received from Honda for a paint shop automation plant ($ 15 million) in Alabama in the U.S., and from Plastic Omnium for a paint automation line ($ 9 million) in Slovakia. The latter order includes an asset management service and an operating lease arranged by ABB Structured Finance. Another $ 7-million contract was won from Ford in Germany for 20 robotic packages for its Cologne assembly line.

Our telecom and product manufacturing business maintained a strong profile, winning orders from Philips for a further 57 robots and two medium-voltage transformers for two new factories in China.

In building systems, we won two prestigious contracts in Germany for the International Business Center in Frankfurt and the International Trade Center in Berlin. Both buildings require the installation of sophisticated systems and electrical technology, including UPS (uninterrupted power supply) in Frankfurt for Deutsche Bank's exchange trading center.

* In December 2001, ABB announced a strategic divestment of its air handling business.

Customer success story

Awards for excellence from our customers

The Toyota Technology Development Prize is one of the most respected prizes in the automotive industry. It is awarded to suppliers whose technology has made a significant contribution to Toyota's product quality or productivity. This year, ABB was awarded the prize for a cartridge painting system.

The system was praised for achieving a 27 percent reduction in running costs and a two percent reduction in initial costs for Toyota's global production of five million vehicles. It also achieved a 45 percent reduction in volatile organic compound (VOC) emissions during painting, and improved productivity.

ABB received another important award in 2001 from Benteler Automobiltechnik. Benteler is one of the largest independent suppliers in the automotive industry and an important ABB customer with some 2,000 ABB robots installed worldwide. ABB won the Benteler Supplier Award for outstanding performance in the product family "capital goods."

Above:
Frozen food for Hot Pockets
Twelve IRB 340 robots and an S4Cplus controller were ordered by Chef America to pick and place the Hot Pockets range of frozen snacks and lunches. The U.S. market for hand-held frozen meals and snacks is valued at $1.3 billion, of which Chef America has a 38 percent share.

Below:
Designing and building a complete body shop
Tower Automotive, a Tier 1 sub-supplier to the automotive industry, placed a $30-million order with ABB to design and build a complete body shop in Ghent, Belgium. The order includes a large number of ABB solutions, one of them being a modular assembly system called FlexiCell.

Strategic initiatives

In December, the division announced a strategic divestment of its air handling business to Global Air Movement (Luxembourg) SARL for $225 million. The air handling industry is undergoing a period of consolidation and ABB concluded that the new owner is in a better position to grow and sustain these operations.

New products and new technologies

ABB is working to increase its levels of domain expertise. This means better understanding our customers' businesses and aligning our technology and applications according to what we learn.

Industrial IT is the platform used to achieve these goals. For example, Industrial IT for press shops in the automotive industry allows us to manage the entire process for automation stamping lines. Industrial IT for project information management enables us to handle huge volumes of information in a complex environment – like rolling out a 3G third generation mobile communications network while increasing quality and efficiency over its lifetime.

Industrial IT for robot care reduces the impact of service and maintenance by analyzing and predicting real needs and true conditions rather than worst-case factory settings. This solution also allows experts to access equipment remotely.

Outlook

ABB will continue to offer and develop products and solutions that make it easier for customers to develop their businesses and make their business processes more efficient. Our Industrial IT solutions are setting new benchmarks for industry as a whole and are being recognized as such by industry watchdogs. That process will continue.

Oil, Gas and Petrochemicals

Business areas
Downstream
Upstream

w www.abb.com/ogp

ABB supplies a comprehensive range of products, systems and services to the global oil, gas and petrochemicals industries, from onshore and offshore exploration technologies to the design and supply of production facilities, refineries and petrochemicals plants. ABB is a leading company in many of the upstream and downstream markets.

"One of our unique strengths is our ability to draw on research and development, both in-house and with industry partners, to break new ground in deep-sea exploration. Working closely in this way with our customers is the key to success."

Gorm Gundersen, head of ABB's Oil, Gas and Petrochemicals division

01	3,489
00	2,796
99	3,086

Revenues ($ millions)

01	79
00	157
99	165

Earnings before interest and taxes ($ millions)

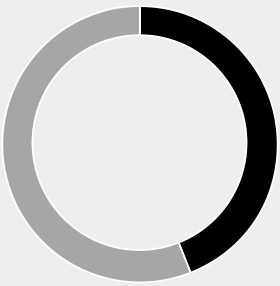
01	3,403
00	3,923
99	3,030

Orders received ($ millions)

01	13,471
00	11,549
99	8,941

Number of employees

Revenues by business area
■ Downstream 44%
■ Upstream 56%



Performance in 2001
Crude oil prices were lower in 2001. Nonetheless, we recorded a strong increase in orders from upstream markets. This was offset by a slowdown in downstream markets, caused by overall weakening of the world economy. Revenues increased by 25 percent, and order backlog remains at the healthy level established at the end of 2000. Earnings before interest and taxes (EBIT) were $ 79 million, 50 percent lower than in 2000, due to provisions for cost overruns and project delays.

Major orders and contracts
Upstream, major oil companies BP, ExxonMobil and Shell awarded ABB contracts for developing offshore fields in West Africa and the Gulf of Mexico.

Major contracts included the $ 180-million Bonga subsea development off the coast of Nigeria and the deepwater floating system at Exxon's Kizomba project off Angola. BP awarded ABB a five-year frame agreement to supply equipment for their deepwater development in the Gulf of Mexico.

In modification and maintenance (M & M), an area in which ABB has established market leadership, Norsk Hydro awarded ABB a two-year, $ 110-million order and extended a five-year frame agreement. M&M contracts were also received in several new markets including Australia, Brazil and Nigeria.

In Russia, ABB won the contract for front-end engineering of the multi-billion-dollar onshore and offshore oil and gas development project on Sakhalin Island.

Our downstream business reported significant achievements in refining and petrochemicals with contracts in China and Brazil for our ethylene technologies, and in Saudi Arabia for our proprietary solutions in propane dehydrogenation and polypropylene. In Algeria, ABB won a $ 93-million contract to build a gas compressor station.

ABB was also awarded the front-end work, including a feasibility study, by BP and Sinopec, for a planned petrochemical complex in Shanghai, China.

Customer success story

Recovering oil from hostile environments

As oil and gas companies explore fields in deeper and deeper waters, the need for technologies and systems that can withstand the enormous pressure of working underwater at depths of up to 2,100 meters and high operating temperatures is growing.

ABB is a leading supplier of deepwater and subsea technology and is focusing on developing cost-effective and reliable solutions that will help companies recover resources efficiently and safely in areas that were once considered uneconomical.

In 2001, we received a number of high-profile orders that confirm our position. One of these, from Shell and valued at $190 million, is for a subsea production system for the Bonga development project located 120 kilometers off the coast of Nigeria.

Above:
Clean fuels for Russia
ABB technology is helping Russian refineries produce cleaner transportation fuels for domestic and European markets. In 2001, we were awarded the engineering contract for the hydrocracking complex at the Kirishi Refinery near St. Petersburg.

Below:
Key orders for offshore projects in West Africa in 2001
The Sendje Ceiba FPSO (Floating Production, Storage and Offloading) has been equipped with ABB oil processing units as well as control and automation systems. It first produced oil off Equatorial Guinea in January 2002.

Strategic initiatives

In May, we formed a joint venture company with Schlumberger, called Syntheseas, to improve the efficiency and profitability of subsea oil and gas development. We also signed an alliance agreement with BP and Chevron to carry out collaborative research in seafloor processing for deepwater oil and gas reserves. Downstream, the Chevron Lummus Global partnership expanded the scope of cooperation to include a wider range of hydroprocessing technologies and catalysts.

New products and new technologies

Another product in Subsea Electrical Power Distribution System (SEPDIS™) was released in April. It is the first full-size frequency converter for the subsea market and joins other ABB innovations such as the subsea transformer and high-voltage connector, which make up the SEPDIS system.

ABB's new Extended Tension Leg Platform, which is between 40 and 50 percent lighter than previous tension leg platforms, was selected by ExxonMobil for a deepwater field off Angola.

In olefins, ABB signed a technology development agreement with Sinopec, the largest petroleum and petrochemicals company in China. The agreement is projected to significantly improve the economics of olefins production, a field in which ABB is the world leader.

Outlook

Our activities in oil, gas and petrochemicals are wide-ranging and enable us to leverage our expertise to sell the products and technologies of the whole ABB Group. That applies particularly to power and automation technologies, which will continue to play a major role in our product development and market offering.

ABB's oil, gas and petrochemicals division is very well placed in both upstream and downstream markets to take advantage of the growth trends and opportunities.

Power Technology Products

Business areas

Distribution Transformers
High-Voltage Technology
Medium-Voltage Technology
Power Transformers

w www.abb.com/ptp

ABB is the global market leader in power technology products. We cover the entire spectrum of technology for power transmission and power distribution, including transformers, switchgear, breakers, capacitors and cables, as well as other products, platforms and technologies for high- and medium-voltage applications. Our products are used in industrial, commercial and utility applications.

"We compete on speed, quality and efficiency. For our customers, this means drastically reducing the time from order to delivery, thanks to our online configuration, Industrial IT and simplified manufacturing processes. I'm proud to say we are ahead of the industry learning curve."

Peter Smits, head of ABB's Power Technology Products division

01	4,042
00	3,662
99	3,862

Revenues ($ millions)

01	234
00	244
99	282

Earnings before interest and taxes ($ millions)*

01	4,221
00	4,071
99	3,841

Orders received ($ millions)

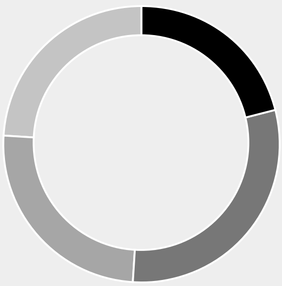
01	27,555
00	27,785
99	27,871

Number of employees

* In 1999, EBIT contains $30 million of capital gains which, in total, amounts to more than 10% of the divisional EBIT.

Revenues by business area

- Distribution Transformers 21%
- High-Voltage Technology 30%
- Medium-Voltage Technology 25%
- Power Transformers 24%



Performance in 2001

Revenues increased by 10 percent, with all businesses reporting high single-digit or low double-digit growth. Demand in the United States, Brazil, China, India and Italy was particularly strong. Earnings before interest and taxes (EBIT) decreased by four percent to $234 million, due to higher restructuring charges.

Major orders and contracts

In cooperation with the other ABB divisions, our high-voltage technology business won a number of orders from utilities in the U.S. for dead-tank circuit breakers and other high-voltage equipment. Many of these orders are contracts for three to five years and are worth between $5–20 million annually.

In power transformers, we sealed our biggest order, working together with the Utilities division. It was part of the $360-million contract that ABB won to build the transmission system between the Three Gorges hydropower plant and Guangdong province in China.

ABB's medium-voltage technology business received an order for 200 switchgear ring main units (RMU) from Northern Electric, U.K. – the first such order from the U.K. for RMU according to the International Engineering Consortium standard.

We achieved significant market expansion in North America, Brazil, China, India, Russia and South Africa.

Strategic initiatives

ABB's Industrial IT platform is enabling customers to streamline their product portfolios, customize their products and increase efficiency in factories. In Poland, we began work on what will become the first ABB factory driven by Industrial IT; and in Sweden, we started work on a new ABB breaker factory that will incorporate Industrial IT solutions to reduce cycle times by 50 percent and the number of parts by 60 percent.

Customer success story

Breaking records in Brazil

ABB has set itself the goal of reducing the cycle times accepted as standard by the power industry. In Brazil, we delivered two extra high-voltage power transformers to the utility, Furnas, in the record time of six months. The industry standard for a delivery of this complexity is more than 12 months.

ABB saved time at all stages of the business process, including planning and design, which ensured smooth collaboration with the customer. Significant cuts were also made in transportation (three days instead of the usual 30) and in installation (13 days instead of 40). A team of 35 engineers and fitters worked around the clock for the entire six months.

The transformers enable an additional 1,500 MW of power to be transmitted, enough to supply 3.2 million people in the São Paulo region.

Above:
Power transformer for China
One of the 28 ABB power transformers destined for China which will be used to create a high-voltage power transmission system linking the Three Gorges hydropower project to Guangdong province.

Below:
Many try to imitate, but none succeed
PASS is a gas-insulated, high-voltage switchgear module that combines breaker, line disconnector, earthing switch and metering in one factory-assembled and factory-tested unit. It is a unique product that many competitors have unsuccessfully tried to imitate.

Two key investments were concluded in China. In Xiamen, we opened a new plant for the production of our ELK-04 gas-insulated switchgear, and acquired a joint venture partner in the medium-voltage business. In Hefei, we opened the most modern facility in China for the production of oil-filled distribution transformers. ABB has more than 20 joint venture companies in China, maintains a sales network in 22 cities and employs 6,000 people. The Hefei factory is the first wholly-owned ABB company in China outside Hong Kong.

In South Africa, we acquired Reyrolle and NEI Power Engineers to strengthen our leading position in switchgear and distribution transformers in sub-Saharan Africa.

New products and new technologies

We launched the Compact Configurator for high-voltage switchgear, which enables us to collaborate with customers online in configuring and optimizing switchgear solutions.

Virtually all of ABB's power transformers are now based on a common design, called TrafoStar, which is used in all our factories worldwide. This means that customers benefit from the same high quality standards, performance and production speed everywhere.

Outlook

ABB will continue to focus on developing technologies that drastically reduce the time it takes to conclude a business transaction, from the first contact between customer and supplier to delivery of the end product. The business process will be cut to a matter of days rather than several weeks or months – one instance of how we are changing the way business is done. Industrial IT, Internet configurators and highly automated manufacturing will help us achieve these goals.

Automation Technology Products

Business areas
Control and Force Measurement
Drives and Power Electronics
Electrical Machines
Instrumentation and Metering
Low-Voltage Products
Robotics

w www.abb.com/atp

"ABB anticipates growing demand among our industry customers for intelligent and easy-to-use products and services. In automation, this means using our unique Industrial IT platform to speed up manufacturing, increase efficiency, cut costs and reduce environmental impact."

Jouko Karvinen, head of ABB's Automation Technology Products division

01	5,246
00	5,175
99	5,550

Revenues ($ millions)

01	380
00	464
99	392

Earnings before interest and taxes ($ millions)

01	5,170
00	5,421
99	5,622

Orders received ($ millions)

01	39,834
00	41,332
99	43,874

Number of employees

Revenues by business area
- Control and Force Measurement 10%
- Drives and Power Electronics 13%
- Electrical Machines 13%
- Instrumentation and Metering 21%
- Low-Voltage Products 36%
- Robotics 7%

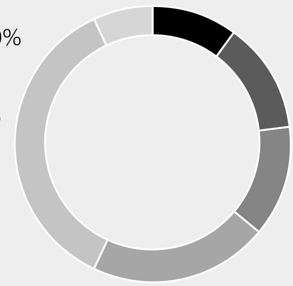


ABB is the global market leader in automation technology. We provide products, software and services for the automation and optimization of discrete, process and batch manufacturing operations. Key technologies include measurement and control, instrumentation, process analysis, drives and motors, power electronics, robots and low-voltage products, all geared toward one common Industrial IT architecture for real-time automation and information solutions throughout a business.

Performance in 2001
Markets in Europe followed the economic downturn in the United States, while Asia remained stable. Drives and Power Electronics, Electrical Machines and Low-Voltage Products grew in revenues – whereas Control and Force Measurement, Instrumentation and Metering and particularly Robotics suffered from difficult market conditions in the automotive and process industries. Earnings before interest and taxes (EBIT) decreased 18 percent to $ 380 million as a result of the sharp downturn in Robotics and a personnel reduction of more than 3,000 employees.

Major orders and contracts
Working with the other ABB divisions, we won several important contracts in 2001, including a comprehensive control and instrumentation system for the Pemex refinery in Veracruz, Mexico – one of the world's largest process automation installations. Pemex will have an integrated automation solution that extends from the refinery units to the business enterprise system, all based on ABB's Industrial IT technology.

We formed customer alliances in 2001 with Grundfos, the Danish pump manufacturer, and Glasstech, a leading manufacturer of glass bending and tempering equipment for the automotive and building industries.

In addition, for Södra Cell, the largest pulp producer in the world, we were able to increase functionality and productivity at its Mörrum mill in Sweden. New Industrial IT operator stations were installed, working in concert with ABB controllers and input-output (I/O) modules installed as far back as 1988.

Strategic initiatives
In June, ABB acquired Entrelec, the France-based supplier of industrial automation and control products, strengthening our position in key growth technologies and markets. ABB acquired 99.1 percent of Entrelec for about $ 360 million, including assumed debt. The company operates in 17 countries and employs about 2,000 people.

Customer success story

Glasstech chooses the Industrial IT umbrella

Glasstech is an original equipment manufacturer (OEM) of machine-to-form glass and safety glass for the automotive industry, with some 400 machines installed at customer sites all over the world. The control equipment for these machines had become obsolete, so Glasstech began searching for a strategic supplier to replace it.

ABB has not traditionally been Glasstech's first choice of supplier, but we offered the company a wide-ranging alliance – both for state-of-the-art control systems to replace their aging equipment and for compatible automation solutions from other ABB businesses.

As a result, Glasstech is now using ABB as a one-stop-shop for low-voltage controls, drives, fans, instruments and control systems, all using Industrial IT technology.

Above:
ThyssenKrupp Stahl selects Industrial IT
ThyssenKrupp Stahl has selected ABB to supply the entire electrification and process control for a new coking plant at Schwelgern in Germany. Its 25,000 I/Os will make it the largest Profibus control system in an industrial plant in the world. The contract is valued at $ 32 million.

Below:
Preserving the customer's freedom of choice
When Companhia Vale do Rio Doce (CVRD) selected ABB to optimize a new iron ore pelletizing plant in Brazil, it did so because the flexibility of the open Industrial IT platform ensured that it would not be tied exclusively to ABB. CVRD retained its freedom to choose between fieldbus communication protocols, suppliers, hardware and software.

ABB New Ventures acquired a minority stake in the Swedish software company Industrial & Financial Systems (IFS). The partnership builds an important link in our long-term Industrial IT strategy to seamlessly integrate plant systems with business applications. It also moves ABB into cross-licensing, whereby key Industrial IT components are made available to selected third-party software applications.

New products and new technologies

In keeping with our Industrial IT commitment, we continued to simplify and streamline our product portfolio by eliminating overlaps from past acquisitions and by making existing products Industrial IT compliant.

Among the new products and software launched in 2001 are the ACS 800 AC Drive, which we expect to extend our dominance in the drives market; and the Fieldbus Plug, which has been judged a major breakthrough in bus communication in the low-voltage environment. A number of enhancements to our Industrial IT control platform were also released, and more than 500 products from various Automation Technology Products' business units were Industrial IT-enabled for easier integration within broader solutions.

Outlook

Automation and the ability to connect all the links in the value chain – from suppliers through production to management and customers – make up the new industrial benchmark. Industrial IT is that benchmark, and ABB will continue to aggressively develop the concept and the technologies that make it possible.

Financial Services

Business areas
Equity Ventures
Insurance
Structured Finance
Treasury Centers

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ABB Financial Services supports the group's businesses and customers with innovative financial solutions in structured finance, leasing, project development and ownership, financial consulting, insurance and treasury activities. With operations in every major market of the world, ABB Financial Services offers its customers the unrivaled combination of deep industry knowledge and financial expertise globally.

"Demand in today's financial services markets is driven as much by the availability of intellectual capital as it is by financial capital, providing an excellent growth opportunity for ABB and our increasing number of partners."

Jan Roxendal, head of ABB's Financial Services division

01	2,133
00	1,966
99	1,687

Revenues ($ millions)

01	(32)
00	349
99	337

Earnings before interest and taxes ($ millions)

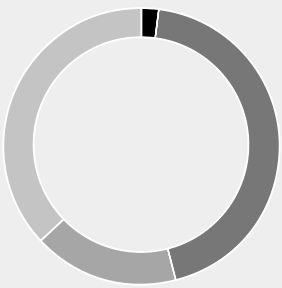
01	2,133
00	1,966
99	1,687

Orders received ($ millions)

01	1,220
00	1,125
99	1,049

Number of employees

Revenues by business area
- Equity Ventures 2%*
- Insurance 44%
- Structured Finance 17%
- Treasury Centers 37%



* The majority of income from Equity Ventures business area does not appear as revenues but is instead recognized in earnings before interest and taxes.

Performance in 2001
Revenues grew eight percent to reach over $ 2.1 billion, mainly due to increased insurance premiums and an expanded Structured Finance business. Earnings before interest and taxes (EBIT) posted a loss of $ 32 million in 2001. The loss came from Insurance as a result of increased provisions against expected claims – including $ 48 million relating to September 11 – and a non-cash charge of $ 295 million following a change in accounting estimate for a portion of our insurance reserves. Structured Finance, Equity Ventures, and Treasury Centers all improved performance compared to 2000.

Major orders and contracts
ABB's Structured Finance and Equity Ventures businesses closed several key contracts on their own, and alongside the other ABB divisions, demonstrating their ability to provide customers with competitive and innovative solutions.

Structured Finance acted as financial advisor to the Saudi Arabian National Petrochemical Industries Company (NPIC) and Basell Holdings Middle East joint venture to secure the commercial debt financing for a $ 500-million polypropylene complex in Saudi Arabia. We signed a deal to finance a $ 40-million contract from Tower Automotive to design and build a complete body shop in Belgium, working with ABB's other business divisions.

ABB Equity Ventures, a co-sponsor with Petrobras and A&A Electricity Investment (Jersey) Limited, led the financing of the Termobahia project which consists of a $ 173-million loan from the Inter-American Development Bank. This is the first of Brazil's 49 thermal emergency generating plants to reach financial closure.

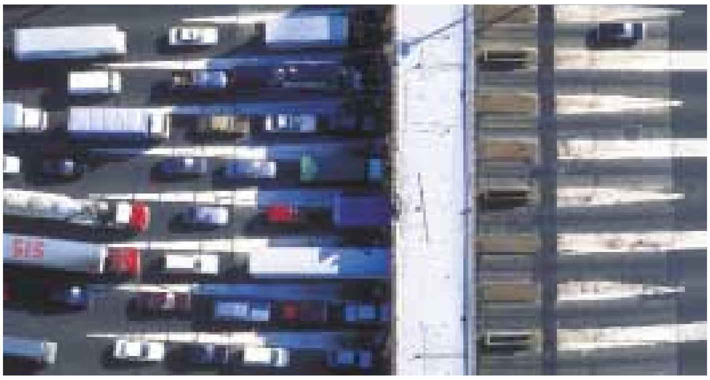
Despite volatile capital market conditions, Treasury Centers were again instrumental in financing ABB at attractive levels.

Customer success story

Financing the world's infrastructure

ABB Financial Services played a key role in financing infrastructure projects in countries all over the world. We have over the years achieved expertise in large-scale projects in power generation, the oil, gas and petrochemicals markets, and power transmission and distribution. In recent years, however, we have broadened our scope to projects in wind power, utilities, telecommunications and airports.

One of many examples in 2001 was the arrangement of loan facilities on behalf of Lietuvos Energija, the state-controlled power generation and transmission utility in Lithuania. The loan facility of $13 million over a period of 12 years is for the reconstruction of switchgear for the national grid.



Above:
Extending our customer base
ABB was a lead arranger on the project finance loan for the Manila North Toll Road in the Philippines. ABB and other top-tier financial institutions provided a bank debt of $260 million to finance the rebuilding of an 84-kilometer stretch of road.

Below:
High growth in small ticket vendor leasing
Over the past two years, ABB has enjoyed 95 percent growth in small ticket vendor leasing thanks to an acquisition and a unique concept for, and skills in, vendor leasing in the Nordic countries.

Strategic initiatives

ABB took over Xerox's leasing operations in the Nordic countries and signed an exclusive agreement with Xerox to provide sales support and equipment financing for about 15,000 customers. The value of the leasing portfolio is $362 million.

Several strategic partnerships were signed, which extend our customer base into new areas. These include an agreement with the London-based ANZ Investment Bank for business development in marine transportation finance; an agreement with Mediocredito Centrale SpA for the joint development of financial solutions for the recently deregulated Italian rail sector; and an agreement with Zürcher Kantonalbank of Switzerland for cooperation in structuring and underwriting services.

New products and new solutions

We offered a groundbreaking financial solution to industrial projects in the Organization for Economic Cooperation and Development (OECD) countries. The solution is structured around the low-cost funding capability of Swedish Export Credit Corporation and the experience of Swedish Export Credits Guarantee Board in assessing commercial risk in export industries.

Internally, our Treasury Centers launched a new global intranet which integrates a vast amount of financial and treasury-related information as well as automated trading, transactions and reporting.

Measurement and management of credit and market risk have been further improved to meet the highest standards of international banks.

Outlook

After years of sustained growth with historically low losses, 2002 will be a year of consolidation for ABB Financial Services. Higher risk premiums reflect uncertainty about the future development of the economy. We will continue to closely monitor the development of our counterparts, assets, and processes to meet our customers' demand for high quality, low risk financial solutions and structures.

A year of change

Renato Fassbind, Chief Financial Officer

Renato Fassbind, Chief Financial Officer for the ABB Group*, answers questions about the challenges faced by the company, and looks at some of the highlights in 2001.

What were the main challenges for you as Chief Financial Officer in 2001?
The main operational challenge was to reduce net debt. In the first quarter, we borrowed to buy treasury shares for resale into the U.S., but the share placement was later cancelled due to poor market conditions. This meant that we had to work hard to generate cash through a number of actions – and by year-end, we were so successful that we reduced our net debt by $2.2 billion in the fourth quarter.

On the reporting side, it was a year of tremendous change. First, we completed the shift to US GAAP (Generally Accepted Accounting Principles) with the 2000 results. We also finalized the preparations for the listing of ABB shares on the New York Stock Exchange (NYSE). In addition, we adapted our reporting to reflect the new customer-centric organization, including a split-out of the Financial Services balance sheet to give greater transparency.

These reporting changes involved a large number of managers and finance experts throughout the Group, and were delivered – with enormous effort – on time and with high quality. Financial markets did not easily understand all the changes, so in the second half of the year we stepped up our efforts to improve communications.

What were the highlights for you in 2001?
Increasing transparency, laying a strong foundation for consistent reporting in the future, and improving ABB's financial position. We now give more financial detail than ever before. Moreover, the new structure allows us to show our performance in a way that mirrors our business model.

The listing itself in April in New York was a great experience. It capped a lot of hard and diligent work. The best moment was when Jörgen Centerman rang the opening bell in the New York Stock Exchange on April 6.

I am particularly proud of how the entire Group rallied to focus on cash generation toward the end of the year. As a result, we significantly reduced our net debt.

From a process-oriented viewpoint, what was most important for you last year?
We continued to drive value-based management deeper into the ABB organization. As a decentralized company, it is especially important for us to have a common view on what creates value and how value drivers can be optimized. This is what will drive the Group's cash flow growth and value creation into the future.

* At the end of March, 2002, Peter Voser (born 1958) will take over the responsibility of Executive Vice President, Chief Financial Officer. Renato Fassbind leaves the Group at that time.

Creating a leaner organization

Eric Drewery, Group Transformation

During 2001, the Group Transformation division led the efforts to make ABB a leaner and more customer-focused organization. Eric Drewery, who headed the division*, reports on progress.

Performance highlights in 2001

- Progress in all markets (more than 60 countries) on or ahead of schedule
- Old country holdings replaced by local divisional structures and management
- New, slimmer group legal structure established on January 1, 2002
- More than 6,000 customers mapped and major accounts identified
- 237 strategic account managers appointed

What are the main aims of the transformation?
To deliver a new, lean organization that is driven by strategic account managers, and to increase volumes and profit per customer. We have four end-user divisions serving utilities, process industries, manufacturing and consumer industries, and the oil, gas and petrochemicals sectors. Two divisions provide power and automation technology products via internal and third-party channel partners, as well as direct sales. The group's Financial Services division serves ABB, its channel partners and customers. Our task is to make all of these parts work together, simply, to the benefit of our employees and customers.

You were given 12 months to accomplish your task. Did you succeed?
Yes, I believe we did. All the main pillars of change are now in place, and ownership has been transferred to the local management teams. Progress is being closely monitored with regular reporting against relevant metrics to ensure we remain on course. The targets are tough, but our employees appreciate the need for change, and are working hard and enthusiastically to implement the program.

Why is ABB reducing staff?
We aim to create more volume and profit per customer, and in part this will require a leaner organization. The restructuring projects are designed to remove, for all time, certain activities and their related costs – this is about sustainable productivity improvement, not capacity cutting.

What remains to be done in 2002?
On January 1, 2002, we introduced a new legal structure that is leading to a very sharp reduction in the number of legal entities within the Group. Before this change we were running with more than 1,000 active companies. Going forward, we will have 400 and this is a major element in the process of streamlining and simplifying ABB. The Group Processes division will now focus on three key areas which will deliver the largest savings in the short term – supply chain management, enterprise resource planning (ERP) and shared services.

* ABB announced at the end of January 2002 that it is combining the activities of two group divisions, Group Transformation and Group Processes, with immediate effect. Group Transformation has been folded into Group Processes, with Eric Drewery taking responsibility for the division.

Customers expect us to work the same way in all markets

Andrew Eriksson, Group Processes

The Group Processes division was formed in January 2001 to drive growth and cut costs by establishing common working processes and a common infrastructure for the entire ABB Group. What did it achieve in its first 12 months? Andrew Eriksson, who headed the division in 2001*, gives his views.

Performance highlights in 2001

- Major progress in streamlining IT and eBusiness infrastructure groupwide
- Launched a pioneering Web-based tool that tracks and analyzes more than $ 4 billion in global purchasing
- Significantly changed ABB's culture towards common ways of working
- Rolled out a common process for handling customer complaints in all divisions worldwide

* ABB announced at the end of January 2002 that it is combining the activities of two group divisions, Group Transformation and Group Processes, with immediate effect. Group Transformation will be folded into Group Processes, with Eric Drewery taking responsibility for the division.

What, in broad terms, did you set out to achieve?
If there is one word which defines the strategy it's simplicity. The way we work should be basically the same everywhere across the company, and it should be simple – from the way we handle orders or document our products to the way we purchase our office supplies. That makes it easier for customers to do business with us, and easier for our people to focus on what their customers need.

You can't tackle every process in the company. Where do you draw the line?
We cancelled more than 350 individual projects and refocused our efforts only on those that best support our customers and employees and provide the biggest, fastest return on investment. We target the way we work with customers, with suppliers, and how we manage projects. We support that with standardized infrastructure in IT, eBusiness and internal reporting, and we provide cost-effective shared services like accounting and payroll to our local companies.

What challenges have you faced?
We're asking our employees to change the way they think and behave. That's not easy in a company with a product and delivery scope and geographic spread as wide as ABB's. Will a way of managing projects for a utility customer also work for an automotive customer? Can the eBusiness purchasing tool developed in one part of the company work just as well elsewhere? These are the questions that people naturally ask and we say the answer is a clear yes. ABB still has a way to go but we came a long way in 2001.

How are ABB's customers benefiting from common processes?
Our customers expect ABB to speak with the same voice and work the same way in all markets and businesses. Common processes provide them with this one voice. In the short term, they make us faster and more responsive to our customers' needs. Longer term, they allow us to line up our processes with both our suppliers and customers much more easily. That is key to building the deep business partnerships which will keep us competitive in future.

Industrial IT

The modern industrial enterprise consists of numerous information systems – control, maintenance, procurement, production, sales and management – all full of vital information but often working in isolation. ABB's Industrial IT* integrates these systems into a seamless and easily navigated framework from which information can be selected, retrieved and acted upon rapidly and in real time. No other competitor brings such a visionary solution to power and automation technologies.

Complexity made easy

Aspect Object™ technology

The strength of Industrial IT lies in its being the only system that successfully addresses the three key factors of system integration – easy navigation, consistency of information, and adaptability to the needs of users. This is made possible by ABB's Aspect Object technology, which was formally launched in August 2001.

Aspects and objects, and the flow of information between them, are the core of Industrial IT. An object is anything from a sensor or valve to a manufacturing order, process recipe or end product. An aspect is one of the pieces of information – a wiring diagram, maintenance record or control parameter – essential to the functioning of that object. A large industrial plant can consist of some 50,000 objects, each object containing up to 100 aspects. Industrial IT brings all that information into a single architecture, based on open industry standards, and makes it easily accessible. The system can be managed from a common PC, whether the user is a shop floor worker or senior manager.

ABB brings more than 100 years of engineering experience and know-how to the Industrial IT concept, including an intimate understanding of the production, operations and management processes of our customers' industries. We believe this expertise is unparalleled in the power and automation industries.

* The “IndustrialIT” wordmark and all other product names in the form “XXXXIT” contained in this Annual Report are registered or pending trademarks of ABB.

Product launches and certification

Hundreds of Industrial IT products were launched during the year, including new components in the Operate IT and Control IT product suites, which include software for information exchange across business enterprises.

More than 1,000 ABB products had been certified as meeting Industrial IT standards at the end of 2001. Each certified product is assigned to a product suite and named according to what it does and how it fits into the Industrial IT system. This is a unique and consistent naming strategy for our industry, underscoring the compatibility of products across ABB's broad portfolio.

Pilot projects

To demonstrate the power of the Industrial IT approach, ABB is running a series of advanced pilot projects with customers to address unique business needs. One such project supports gas turbine power plant operators to weigh the advantages of running a plant at overload in a high-price slot against the risk of greater wear to the plant. At year's end there were more than 50 Industrial IT pilot projects in progress.

Left:
Dow Chemical selects Industrial IT
The ten-year agreement with Dow Chemical is ABB's largest Industrial IT order. Dow Chemical selected Industrial IT because it was the only system to meet the company's strict requirements for safety, simplicity, standardization and operational reliability. Other important Industrial IT orders were won from Visy Industries, ThyssenKrupp Stahl and Pemex.

Above:
Internal deployment of Industrial IT
The ABB transformer factory in Lodz, Poland, is in the process of becoming a fully integrated, multi-enterprise, Industrial IT plant. The same solution will be applied to ABB's 33 other transformer factories.

Sustainability

Sustainability at ABB means enhancing and balancing the company's economic, environmental and social performance. This extends itself to developing, manufacturing and supplying eco-efficient products and services at competitive prices while respecting social needs. It also means sharing technology with emerging and developing markets, contributing to common efforts, implementing ABB's social policy and building dialogues on sustainability issues with a range of stakeholders, from employees to non-governmental organizations.

ABB's 600 sustainability controllers enforce ISO 14001 standards, produce environmental product declarations (EPDs) for our products, and develop social sustainability programs which take account of dialogues with our stakeholders.

Stakeholder dialogues in 40 countries

Following the launch of our social policy in February 2001, stakeholder dialogues were conducted in 40 countries to assess the relevance of the policy to their communities, to find ways of implementing it and to measure our adherence to its principles. The dialogues usually bring together representatives of local governments, non-governmental organizations, academia, media, trade unions and senior ABB personnel. These dialogues allow ABB to learn what issues are important locally and become a better corporate citizen.

Protecting the environment

ABB's achievement in merging industrial automation and information technology in Industrial IT helps customers use their resources more efficiently and lowers the environmental impact of their operations.

ABB is in the midst of an ambitious program to Industrial IT-enable all its products. Life-cycle assessments, which describe the environmental impacts of a product over its complete life cycle, are an important part of the program.

Producing environmental product declarations for all ABB core products continues. To date, 43 declarations have been produced for major product lines, nine of which have been externally certified. Twenty more are in the pipeline.

Having implemented ISO14001 at almost all of our manufacturing facilities and service workshops (some 550 sites), we are now expanding our scope by implementing an adapted environmental management system in ABB's non-manufacturing organizations.

Economic success is the key

Healthy financial results and competitive strength are a precondition for sustainable development. It is only by being successful in helping our customers create more value that we can advance in all aspects of sustainability.

ABB tops sustainability index

ABB was for the third year in a row ranked number one in corporate sustainability in its industry group by the Dow Jones Sustainability Index. ABB was praised for its "integration of information technology – Industrial IT – into products and systems, as well as its efforts in small-scale, decentralized energy and renewables."

Minimizing the environmental risk exposure

An important task for the network of sustainablility controllers is to assess and minimize ABB's exposure to financial risks related to the environmental performance of our operations. This means, among other things, that our controllers are responsible for the continual monitoring of environmental performance in relation to legal requirements and scientific knowledge.

Outlook

In 2002, we intend to integrate sustainability into all levels of the ABB organization – our strategic plans, management systems and operating processes. In the longer term, we want to create a climate in which sustainability becomes an imperative for all ABB businesses. We want to continue to work with our customers, their customers and all our other stakeholders to achieve this.

In pursuit of this aim, we have set four goals for ABB: to improve our economic performance; to extend our environmental management system to all employees and all activities; to begin full-scale worldwide implementation of our social policy; and to align our core competences with common efforts to help reduce poverty throughout the world.

Number of environmental product declarations

Number of ISO certifications

Research and Development

Research and development are integral to our competitiveness. ABB has a long history as a technology leader, and we continue to develop and patent hundreds of new power and automation technology products and services every year.

Last year, ABB invested some seven percent of revenues, or $1.6 billion, in technology innovation. ABB spent $654 million, or 2.8 percent of revenues, on research and development, and $916 million, 3.9 percent of revenues, on order-related development. That represents a strong commitment to maintaining our competitive edge.

We had a portfolio of 18,120 patents in 2001, almost the same number as the previous year. The percentage of software-related first filings to total first filings, a good indicator of our strategic focus, was 28 percent, up five percentage points over 2000.

Intensifying the focus on our core technologies

In November 2001, we sharpened the focus of our corporate research programs considerably, by shifting resources toward new technologies like Industrial IT and wireless applications. We are building up new research and development activities in the U.S. and Asia, while moving away from mature technologies in Europe.

We streamlined our portfolio of projects and created four networked laboratories, linking our local research and development units in the U.S., Europe and Asia. We call them global virtual laboratories. ABB has 6,000 employees working in research and development.

Online all the time

The global laboratories, operating virtually, are strategically focused on four key areas of research: automation, power, engineering and manufacturing, and oil and gas technologies. The four focal points were chosen to better support our core areas of expertise in power and automation technologies. The global laboratories coordinate their research and link our scientists and engineers – in a fully networked, online environment – with one another, and with universities, research institutes and partner organizations.

This simplified way of working – without geographic borders – eases the way for multi-market project teams. For example, a team of scientists from Poland, Finland and India recently worked to develop new software for the maintenance of factory equipment, collaborating across borders and time zones to create a solution that works in almost all countries.

Achievements in 2001

ABB released a number of products in 2001 that quickly made an impact. These include efficient engineering systems for transmission grids; pre-engineered modular substations; the Compact Azipod ship propulsion system; the world's most flexible heavy-duty robots; the installation of full-size frequency converters for subsea use, and the successful operation of subsea oil and gas processing plants.

Some 50 percent of ABB's research and development projects address environmental concerns. Many of the projects are geared to saving energy.

Emerging technologies and university collaboration

ABB collaborates with approximately 70 universities and research institutes all over the world, and works strategically with five renowned universities in the U.S. and the U.K. in emerging areas like nanotechnology, microelectromechanical systems, wireless applications and software technologies.

01	654
00	703
99	865

Group investment in research and development ($ millions)

01	18,120
00	18,595
99	16,316

Total number of patent applications

01	28%
00	23%
99	18%

Percentage of software-related first filings to total first filings

Management

Group Executive Committee 2002

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

* At the end of March, Peter Voser (born 1958) will take over the responsibility of Executive Vice President, Chief Financial Officer. Renato Fassbind leaves the Group at that time.

Management Compensation

For the period from January 1 to December 31, 2001, compensation to the President and Chief Executive Officer consisted of a base salary of CHF 1,500,000 and a bonus amount of CHF 1,500,000.

For the same period, total compensation to the nine other current members of the Executive Committee was in the aggregate amount of CHF 13,000,000. This amount includes unconfirmed bonus amounts relating to 2001 performance.

In addition to receiving annual base and bonus compensation, members of the Executive Committee may participate in the Company's management incentive program.

Executive Committee members also enjoy pension benefits in accordance with Swiss social security legislation and, depending on seniority, under certain supplementary pension benefit programs.

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

Senior Group Officers

Markus Bayegan

Beat Hess

Sune Karlsson

Alfred Storck

Group Functions reporting to CEO

Corporate Communications	Björn Edlund
Corporate Strategy and Ventures	Eric Elzvik
New Ventures Ltd	Teemu Tunkelo
Human Resources	Arne Olsson
Large Projects	Sune Karlsson
Legal Affairs and Compliance	Beat Hess
Research and Development	Markus Bayegan
Sustainability Affairs	Christian Kornevall

Group Functions reporting to CFO

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

Business Area Managers

Utilities	
Utility Partner	Rana Mukerji
Utility Power Systems	Gian Maria Ferrero
Utility Automation Systems:	Michael Hirth
Process Industries	
Marine and Turbocharging	Martinus Brandal
Paper, Printing, Metals and Minerals	Pekka Ilvonen
Petroleum, Chemical and Life Sciences	Frank Duggan
Manufacturing and Consumer Industries	
Air Handling	Hannu Paitula
Automotive Industries	Bo Elisson
Building Systems	Jukka Rinnevaara
Logistic Systems	Stephan Mey
Telecom and Product Manufacturing Industries	Bruce Loxton
Oil, Gas and Petrochemicals	
Downstream	Stephen M. Solomon
Upstream	Erik Fougner
Automation Technology Products	
Control and Force Measurement	Lars Krantz
Drives and Power Electronics Systems	Bernhard Jucker
Electrical Machines	Anders Jonsson
Instrumentation and Metering	Jouko Karvinen
Low-Voltage Products	Tom Sjökvist
Robotics	Lars-Gunnar Berggren
Power Technology Products	
Distribution Transformers	Brice Koch
High-Voltage Technology	Josef Dürr
Medium-Voltage Technology	Guido Traversa
Power Transformers	Joakim Olsson
Financial Services	
Equity Ventures	Chris Antonopoulos
Insurance	Göran Thorstensson
Structured Finance	Lennart Blecher
Treasury Centers	Thomas Meyer
Group Processes	
Group Competitiveness	Øivind Lund
Group Internal Audit	Markus Kistler
Shared Services and Local Support	Lars-Göran Lemelius

Group Representatives

Europe

Austria	Rudolf Petsche
Benelux Countries	Jacques de Raad
Czech Republic	Olle Jarleborg
Denmark	Claus Madsen
Estonia	Bo Henriksson
Finland	Mikko Niinivaara
France	Max Abitbol*
Germany	Bengt Pihl
Greece	Costas Cosmadakis
Hungary	Peter Hegedüs
Ireland	Diarmuid O'Sullivan
Italy	Gian Francesco Imperiali
Latvia	Bo Henriksson
Lithuania	Vytautas Niedvaras
Norway	Peer-Hakon Jensen
Poland	Miroslaw Gryszka
Portugal	Carlos Dias
Romania	Peter Simon
Russia	Michel Tchesnakoff
Slovak Republic	Andrej Toth
Spain	Fernando Conte
Sweden	Sten Jakobsson
Switzerland	Rolf Schaumann
Turkey	Alf-Åke Jansson
United Kingdom	Trevor J. Gregory

Middle East and Africa

Dubai/UAE	Faraj Al Jarba
Egypt	Bassim Youssef
Israel	Jacob Shani
Morocco/North and Francophone Africa	Jean-Claude Lanzi
Nigeria/West Africa	Wolfgang Pfeiffer
Saudi Arabia	Mahmoud Shaban
South Africa	Carlos Poñe
Kenya/East Africa	Rainer Benz
Zimbabwe	Vittorio Semilia

Americas

Argentina	Ulises de la Orden
Bolivia	Gery Cerruto
Brazil	Benny Olsson*
Canada	Paul Kefalas
Central America and Caribbean	Alvardo Malveira
Chile	Victor Ballivian
Colombia	Ramón Monrás
Ecuador	Carlos Guerra
Mexico	Fredrik Wikstrom
Peru	Eduardo Soldano
USA	Donald P. Aiken
Venezuela	Armando Basave

Asia

Australia	John Gaskell
China/Hong Kong SAR	Peter Leupp
India	Ravi Uppal
Japan	Lave Lindberg
Korea	Robert Suter
Malaysia	Bengt Andersson
New Zealand	John Gaskell
Philippines	Thomas Ng
Singapore	Boonkiat Sim
Taiwan	Göran Sundin
Thailand	Jonny Axelsson
Vietnam	Per Brekke

* Region Managers

Region Managers

Latin America	Benny Olsson
Middle East and Africa	Max Abitbol
Balkans and Central Asia	Bruno Berggren
North and South East Asia	Horst Dietz

ABB Board of Directors

Jürgen Dormann (born 1940) Chairman

Chairman of the Management Board: Aventis (France)

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

Robert A. Jeker (born 1935) Vice-Chairman

Chairman: Batigroup Holding Ltd., Georg Fischer Ltd., MCH Swiss Exhibition Ltd., Swiss Steel Ltd. (all Switzerland)

Vice Chairman: Neue Zürcher Zeitung (Switzerland)

Board member: Synthes Stratec Inc. (USA)

Former President: Credit Suisse (Switzerland)

Jörgen Centerman (born 1951)

Vice Chairman: b-business partners (Netherlands)

Gerhard Cromme (born 1943)

Chairman of the Supervisory Board: ThyssenKrupp (Germany)

Board Member: Allianz, Deutsche Lufthansa (since January 1, 2002), E.ON, Ruhrgas, Volkswagen (all Germany), Suez, Thales (both France)

Martin Ebner (born 1945)

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

Board Member: Alcan (Canada)

Edwin Somm (born 1933)

Chairman: SIG (Switzerland)

Board Member: Georg Fischer (Switzerland)

Jacob Wallenberg (born 1956)

Chairman: SEB – Skandinaviska Enskilda Banken (Sweden)

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

Board Member: WM-data, Nobel Foundation, Confederation of Swedish Enterprise (all Sweden), EQT (Netherlands)

Proposed Changes in the ABB Board of Directors

The term of office for all members of the Board of Directors expires at the General Meeting on March 12, 2002.

On November 21, 2001 Mr. Percy Barnevik retired from his Board membership and resigned as Chairman of the Board. Messrs. Gerhard Cromme, Robert Jeker, and Edwin Somm have decided not to stand for re-election.

The remaining members stand for re-election. Accordingly the Board proposes the re-election of Messrs.
Jörgen Centerman, Swedish
Jürgen Dormann, German
Martin Ebner, Swiss
Jacob Wallenberg, Swedish
to the Board for a further period of one year, i.e. until the General Meeting 2003.

Also, the Board proposes the election of the following new members to the Board for a period of one year:
Roger Agnelli, President and CEO of Companhia Vale do Rio Doce
Hans Ulrich Maerki, Chairman IBM Europe/Middle East/Africa
Michel de Rosen, President and CEO of ViroPharma, Inc.
Bernd W. Voss, former member of the Management Board of Dresdner Bank AG.

After the General Meeting the Board intends to re-elect Mr. Jürgen Dormann as its Chairman.

Committees reporting to the ABB Board of Directors

Finance and Audit Committee

R. Jeker

G. Cromme

E. Somm

J. Wallenberg

Nomination and Compensation Committee

J. Dormann Chairman

M. Ebner

R. Jeker

Scheduled board meetings take place five times per year. Extraordinary meetings are held depending upon the needs in each year. During 2001, six board meetings were held. Written documentation covering the various items of the agenda for each board meeting is sent out in advance to each board member in order to allow the member time to study the respective matters prior to the meetings. Decisions made at the board meetings are recorded in written minutes of the meetings.

Board Compensation

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

Chairman 1,500,000*

Vice-Chairman 400,000

Members 250,000

Committee Membership 50,000

* In November 2001, the Chairman's fee was reduced to CHF 1,000,000.

96.5% of all board fees were paid in the form of Company shares. Board members do not receive pension benefits and are not eligible to participate in the Company's management incentive program.

Beat Hess, Secretary to the Board

Auditor

Ernst & Young AG
Zurich

Financial review

Operating and financial review and prospects

Overview

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

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

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

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

The ABB Manufacturing and Consumer Industries division sells products, systems and services that improve customer productivity and competitiveness in areas such as automotive industries, telecommunications, consumer goods, food and beverage, product and electronics manufacturing, airports, parcel and cargo distribution, and public, industrial and commercial buildings. The division has approximately 29,000 employees.

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

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

The ABB Automation Technology Products division provides products, systems, software and services for the automation and optimization of industrial and commercial processes. Key technologies include measurement and control, instrumentation, process analysis, drives and motors, power electronics, robots, and low-voltage products. These technologies are sold to customers through the end-user divisions as well as through external channel partners such as wholesalers, distributors, original equipment manufacturers and system integrators. The division has approximately 40,000 employees.

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

Restructuring

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

Restructuring charges of $195 million were included in other income (expense), net, during 2000, of which approximately $90 million related to the continued integration of Elsag Bailey. The Elsag Bailey restructuring was substantially complete at the end of 2000. The remainder related primarily to the consolidation of manufacturing operations in our former Power Transmission segment and other actions to improve efficiency throughout the ABB Group.

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

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

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

Acquisitions, investments and divestitures

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

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

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

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

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

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

Selected financial data

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

	Revenues			Percentage of revenues		
	Year ended December 31,			Year ended December 31,		
	2001	2000	1999	2001	2000	1999
	($ in millions)			(in %)		
Utilities	5,649	5,473	5,875	19.7	19.8	20.1
Process Industries	3,377	3,339	3,485	11.8	12.1	11.9
Manufacturing and Consumer Industries	4,780	5,225	5,697	16.6	18.9	19.5
Oil, Gas and Petrochemicals	3,489	2,796	3,086	12.1	10.1	10.5
Power Technology Products	4,042	3,662	3,862	14.1	13.3	13.2
Automation Technology Products	5,246	5,175	5,550	18.3	18.7	19.0
Financial Services	2,133	1,966	1,687	7.4	7.1	5.8
Subtotal	**28,716**	**27,636**	**29,242**	**100.0**	**100.0**	**100.0**
Corporate and eliminations	(4,990)	(4,669)	(4,886)			
Consolidated revenues	**23,726**	**22,967**	**24,356**			

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

	Revenues			Percentage of revenues		
	Year ended December 31,			Year ended December 31,		
	2001	2000	1999	2001	2000	1999
	($ in millions)			(in %)		
Europe	12,780	12,570	13,893	53.9	54.7	57.0
The Americas	5,944	5,702	5,675	25.0	24.8	23.3
Asia	2,686	2,770	2,763	11.3	12.1	11.4
Middle East and Africa	2,316	1,925	2,025	9.8	8.4	8.3
Total	**23,726**	**22,967**	**24,356**	**100.0**	**100.0**	**100.0**

Orders and percentage of completion accounting

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

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

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

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

Analysis of result of operations

Consolidated

Year ended December 31, 2001 compared with year ended December 31, 2000

Revenues

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

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

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

Cost of sales

Cost of sales for the ABB Group increased by $1,486 million, or 9%, to $18,708 million in 2001 from $17,222 million in 2000. As a percentage of revenues, cost of sales increased from 75.0% in 2000 to 78.9% in 2001. The increase in actual cost of sales was primarily attributable to the increase in revenues from the divisions, in particular the Utilities and the Oil, Gas and Petrochemicals divisions. Cost of sales increased in the Financial Services division mainly reflecting a $ 295 million non-cash charge from a change in accounting estimate for reinsurance reserves. Prior to 2001, we presented a portion of our insurance reserves on a discounted basis, which estimated the present value of funds required to pay losses at future dates. During 2001, the timing and amount of claims payments being ceded to us in respect of prior years' finite risk reinsurance contracts has changed and cannot be reliably determined at December 31, 2001. Therefore, we have not discounted our loss reserves, resulting in a charge to losses and loss adjustment expenses in 2001 of $ 295 million. In addition, our Insurance business area booked provisions for $138 million in underwriting losses, including $ 48 million in provisions for expected claims arising from the events of September 11, 2001. Additionally, costs and provisions for alternative energy projects of $ 55 million in New Ventures business area and project cost overruns in Oil, Gas and Petrochemicals division of $140 million also contributed to the higher cost of sales during 2001. Our cost of sales consists primarily of labor, raw materials and related components. Cost of sales also includes provisions for warranty claims, contract losses and project penalties, as well as order-related development expenses related to projects for which we have recognized corresponding revenues. Order-related development expenditures amounted to $ 916 million and $ 985 million, in 2001 and 2000, respectively. In these periods, $ 499 million and $ 423 million, respectively, of order-related development expenditures were related to the Oil, Gas and Petrochemicals division. Order-related development amounts are initially recorded in inventories as part of the work in progress of a contract, and then reflected in cost of sales at the time revenue is recognized.

Selling, general and administrative expenses

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

Amortization expense

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

Other income (expense), net

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

Earnings before interest and taxes

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

Net interest and other finance expense

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

Provision for taxes

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

Income (loss) from continuing operations

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

Income (loss) from discontinued operations, net of tax

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

Net income (loss)

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

Earnings (loss) per share

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

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

Revenues

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

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

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

Cost of sales

Cost of sales for the ABB Group decreased $ 1,235 million, or 7%, to $17,222 million in 2000 from $18,457 million in 1999. As a percentage of revenues, cost of sales was 75.0% in 2000 compared to 75.8% in 1999. The reduction in actual cost of sales was primarily attributable to the reduced level of revenues and the improvement in the gross margin was mainly a result of cost reduction efforts. Order-related development expenses amounted to $ 985 million and $ 1,212 million in 2000 and 1999 respectively. The reduction in these costs was mainly a result of the streamlining of research and development activities. This streamlining reflects the significant progress that we made towards common ABB platforms and products. Order-related development amounts are initially recorded in inventories as part of the work in progress of a contract, and then reflected in cost of sales at the time revenue is recognized, in accordance with our accounting policies.

Selling, general and administrative expenses

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

Amortization expense

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

Other income (expense), net

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

Earnings before interest and taxes

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

Net interest and other finance expense

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

Provision for taxes

Provision for taxes increased by $ 34 million, or 10%, to $ 377 million in 2000 from $ 343 million in 1999, primarily reflecting taxes on an increased level of income from continuing operations. As a percentage of income from continuing operations before taxes and minority interest, however, we incurred a lower effective tax rate of 28.9% in 2000 compared to 33.6% in 1999. The lower effective tax rate can be attributed to a change in the financing of our operations in a number of countries throughout 2000, including financing related to the Elsag Bailey operations, as well as earnings in countries with tax rates lower than the weighted average rate.

Income from continuing operations

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

Income (loss) from discontinued operations, net of tax

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

Net income

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

Earnings per share

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

Overview

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

	Revenues			Net operating assets		
	Year ended December 31,			December 31,		
	2001	2000	1999	2001	2000	1999
	($ in millions)			($ in millions)		
Utilities	5,649	5,473	5,875	795	1,018	912
Process Industries	3,377	3,339	3,485	738	839	795
Manufacturing and Consumer Industries	4,780	5,225	5,697	249	411	634
Oil, Gas and Petrochemicals	3,489	2,796	3,086	315	893	554
Power Technology Products	4,042	3,662	3,862	1,311	1,328	1,483
Automation Technology Products	5,246	5,175	5,550	2,558	3,215	3,388
Financial Services	2,133	1,966	1,687	10,926	9,098	7,750
Corporate and eliminations	(4,990)	(4,669)	(4,886)	(3,114)	(2,170)	(2,372)
Consolidated figures	**23,726**	**22,967**	**24,356**	**13,778**	**14,632**	**13,144**

	Earnings before interest and taxes			Operating margins		
	Year ended December 31,			Year ended December 31,		
	2001	2000	1999	2001	2000	1999
	($ in millions)			(in %)		
Utilities	148	250	182	2.6	4.6	3.1
Process Industries	116	88	123	3.4	2.6	3.5
Manufacturing and Consumer Industries	87	205	147	1.8	3.9	2.6
Oil, Gas and Petrochemicals	79	157	165	2.3	5.6	5.3
Power Technology Products	234	244	282	5.8	6.7	7.3
Automation Technology Products	380	464	392	7.2	9.0	7.1
Financial Services	(32)	349	337	n/a	n/a	n/a
Corporate and eliminations	(733)	(372)	(506)	n/a	n/a	n/a
Consolidated operating income/margins	**279**	**1,385**	**1,122**	**1.2**	**6.0**	**4.6**

Division costs

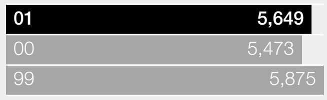
Cost of sales and selling, general and administrative expenses comprise the most significant part of operating expenses for all divisions. Cost of sales includes costs related to the sale of products and services, which comprise, among other things, the cost of raw materials, components, order-related research and development and procurement costs. Cost of sales for the Financial Services division includes insurance claims, acquisition costs and direct costs incurred to obtain revenues and income from third parties and related parties. Selling, general and administrative expenses include the overhead related to the sales force and all costs related to general management, human resources, financial control, corporate finance and non order-related research and development.

As a percentage of revenues, cost of sales is approximately equal for all industrial divisions, except that it is slightly lower for the Automation Technology Products division as a result of the higher gross margins typical in the automation industry. Selling, general and administrative expenses as a percentage of revenues are typically higher in the Automation Technology Products division compared to our other industrial divisions, due to relatively higher volumes attributable to smaller units of sales.
The Oil, Gas and Petrochemicals division, in contrast, has a higher level of cost of sales (a lower gross margin) than the other industrial divisions but significantly lower selling, general and administrative expenses as a percentage of revenues, due to relatively higher volumes attributable to large projects.

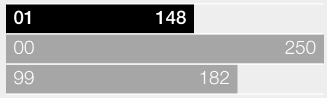
Utilities

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

Utilities
Selected key figures



Revenues ($ millions)



Earnings before interest and taxes ($ millions)*

* In 2000, EBIT contains $ 54 million of capital gains which, in total, amounts to more than 10% of the divisional EBIT.

Year ended December 31, 2001 compared with year ended December 31, 2000

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

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

Earnings before interest and taxes, or operating income, decreased by $102 million, or 41%, to $148 million in 2001 from $ 250 million in 2000. There was no significant effect from translating local currency earnings into U.S. dollars.

Operating income included capital gains of $ 54 million in 2000. When adjusted for capital gains, earnings before interest and taxes decreased by 24%. The reduction primarily related to the Power Systems business area, where competition-driven price deterioration reduced margins, and fixed costs related to projects that were deferred negatively impacted profitability.

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

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

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

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

Process Industries

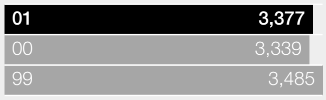
Throughout 2001, many industries served by the Process Industries division consolidated, in particular the paper, aluminum and steel industries. Consolidation has diverted attention toward integration and has led to reduced capital spending by customers in those industries. The overall economic slowdown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

Year ended December 31, 2001 compared with year ended December 31, 2000

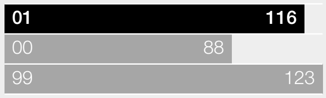
Orders decreased by $ 121 million, or 3%, to $ 3,376 million in 2001 from $ 3,497 million in 2000. As reported in local currencies, orders remained flat. Orders increased significantly in the Petroleum, Chemical and Life Sciences business area offsetting decreases in our Paper, Printing, Metals and Minerals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

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

Process Industries
Selected key figures



Revenues ($ millions)



Earnings before interest and taxes ($ millions)

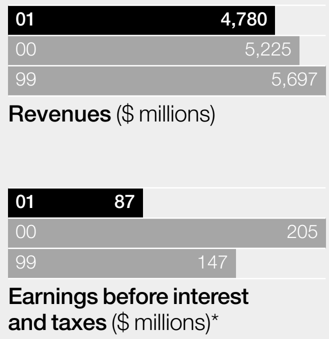
Earnings before interest and taxes, or operating income, increased by $ 28 million, or 32%, to $ 116 million in 2001 from $ 88 million in 2000. As reported in local currencies, earnings before interest and taxes rose 35% in 2001 compared to 2000. This increase primarily resulted from improvements in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

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

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

Revenues decreased by $ 146 million, or 4%, to $ 3,339 million in 2000 from $ 3,485 million in 1999. As reported in local currencies, however, revenues increased by 2% in 2000 compared to 1999. The reported decrease reflects the significant effect of translating revenues generated in local currencies into U.S. dollars for reporting purposes.

Manufacturing and Consumer Industries Selected key figures



* In 2000, EBIT contains $41 million of capital gains which, in total, amounts to more than 10% of the divisional EBIT.

Revenues in our Paper, Printing, Metals and Minerals and our Marine and Turbocharging business areas declined due to adverse market conditions. Revenues from our Petroleum, Chemical and Life Sciences business area decreased significantly due primarily to the low order backlog from the end of 1999 in the oil and gas industry.

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

Manufacturing and Consumer Industries

Most of our markets – automotive, telecom, air handling and building construction – were negatively influenced by general economic uncertainty in 2001. In the second half of 2000, automotive industry customers reduced spending and postponed investments. As this continued in 2001, large order intake decreased and toward the middle of 2001, base orders also slowed significantly. In the telecom industry, the repositioning of the major operators and the uncertainty about new UMTS mobile communication network technology postponed rollout projects, while investments in traditional GSM communication networks have been at a minimum. After the events of September 11, a number of airport expansion projects have been delayed and scaled back. The European construction market for buildings weakened in 2001 with a marked drop in applications for building permits, whereas the retrofit and building service market is expected to improve. These industries will present challenging markets in 2002, although we expect some improvement toward the end of the year.

Year ended December 31, 2001 compared with year ended December 31, 2000

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

Revenues decreased by $ 445 million, or 9%, to $ 4,780 million in 2001 from $ 5,225 million in 2000. As reported in local currencies, revenues declined 4% in 2001 compared to 2000. The decrease in revenues mainly arose from the impact of the global economic slowdown in our Automotive Industries business area. This was partly offset by moderate revenue increases in our Building Systems business area, due to good order backlog carried over from 2000.

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

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

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

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

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

Oil, Gas and Petrochemicals

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

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

Year ended December 31, 2001 compared with year ended December 31, 2000

Orders decreased by $ 520 million, or 13%, to $ 3,403 million in 2001 from $ 3,923 million in 2000. As reported in local currencies, orders decreased 12% in 2001 compared to 2000. In 2001, approximately half of the total order volume in the Oil, Gas and Petrochemicals division was composed of large orders. From the particu-

Oil, Gas and Petrochemicals
Selected key figures

larly high level of large orders in 2000, the upstream business continued to grow, but was offset by reductions in the downstream business. We experienced high tendering activity in the Oil, Gas and Petrochemicals division in 2001. This is expected to affect orders positively going into 2002.

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

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

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

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

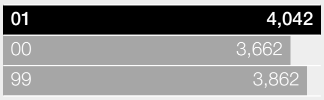
Revenues decreased by $ 290 million, or 9%, to $ 2,796 million in 2000 from $ 3,086 million in 1999. As reported in local currencies, revenues decreased 3% in 2000 compared to 1999. The decrease resulted from the low level of orders in 1999 reflecting the drop in overall market volume, both upstream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

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

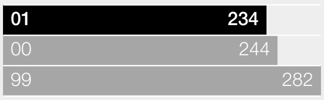
Power Technology Products

Demand in the Americas remained high during 2001, in particular for power transmission products. The U.S. market in particular showed good demand and a higher level of investments in our High-Voltage Technology business area, which primarily serves the utilities market. The market in China continued to grow with a strong fourth quarter of 2001, while the majority of the Southeast Asian market remained stable with respect to infrastructure and industrial investments. Markets in Europe were mixed, with moderate growth in the German, Italian and Swedish markets, offset by flat or declining investments in other European countries. Demand in Middle Eastern and African markets, in particular Saudi Arabia and the United Arab Emirates, showed improved momentum during the second half of 2001. Generally, we expect the positive developments to continue and weaker markets to recover during 2002.

Power Technology Products
Selected key figures



Revenues ($ millions)



Earnings before interest and taxes ($ millions)*

* In 1999, EBIT contains $30 million of capital gains which, in total, amounts to more than 10% of divisional EBIT.

Year ended December 31, 2001 compared with year ended December 31, 2000

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

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

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

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

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

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

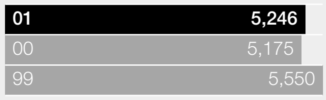
Earnings before interest and taxes, or operating income, decreased by $38 million, or 13%, to $244 million in 2000 from $282 million in 1999. As reported in local currencies, however, operating income decreased by 9% in 2000 compared to 1999. Excluding capital gains of $30 million in 1999, operating income decreased 3% in 2000.
The decrease in operating income was mainly the result of weak revenues and higher costs associated with restructuring charges in our Power Transformers and High-Voltage Technology business areas. Efforts to increase production efficiency include reducing product overlaps and increasing the standardization of products where appropriate. Particularly in our Medium-Voltage Technology business area these efforts have lowered our cost base and improved the level of operating income

already in 2000. These positive developments were offset by added development costs for the new technology within the area of distributed generation.

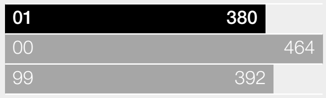
Automation Technology Products

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

Automation Technology Products
Selected key figures



Revenues ($ millions)



Earnings before interest and taxes ($ millions)

Year ended December 31, 2001 compared with year ended December 31, 2000

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

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

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

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

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

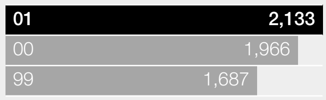
Revenues decreased by $ 375 million, or 7%, to $ 5,175 million in 2000 from revenues of $ 5,550 million in 1999. As reported in local currencies, however, revenues increased by 2% in 2000 compared to 1999. The revenue level reflected the weakness in sales of larger automation systems sold through the Manufacturing and Consumer Industries division. Increased sales volumes, particularly in Europe, Asia and Latin America, partially offset pricing pressure on our automation products. Our Robotics business area significantly increased revenues, largely as a result of higher volumes from large automotive orders.

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

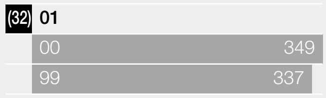
Financial Services

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

Financial Services
Selected key figures



Revenues ($ millions)



Earnings before interest and taxes ($ millions)

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

Year ended December 31, 2001 compared with year ended December 31, 2000

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

Earnings before interest and taxes, or operating income, decreased by $ 381 million, to a loss of $ 32 million in 2001 from $ 349 million in 2000. The reduction in operating income is principally the result of a $ 295 million non-cash charge in 2001 relating to our reinsurance business. Prior to 2001, we presented a portion of our insurance reserves on a discounted basis, which estimated the present value of funds required to pay losses at future dates. During 2001, the timing and amount of claims payments being ceded to us in respect of prior years' finite risk reinsurance contracts has changed and cannot be reliably determined at December 31, 2001. Therefore, we have not discounted our loss reserves resulting in a charge to losses and loss adjustment expenses in 2001 of $ 295 million. For further information, see Note 14 of the Notes to Consolidated Financial Statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

Corporate

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

Liquidity and capital resources

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

We believe that our ability to generate cash flow through our operating activities, our access to both domestic and international capital markets, as well as our credit lines with banks, will continue to provide the cash flows necessary to satisfy our working capital requirements as well as meet our financial commitments for at least the next 12 months.

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

Program description	Program size (in local currency millions)	Program size ($ in millions)[1]
Nordic & Baltic commercial paper program	SEK 6,000	568
European commercial paper program	USD 3,000	3,000
German commercial paper program	EUR 1,000	880
U.S. commercial paper program	USD 2,000	2,000
Australian commercial paper program	AUD 250	127

[1] Translated using year-end exchange rates.

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

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

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

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

In mid-December 2001, as support for our commercial paper issuance, as well as for general corporate purposes, we entered into a syndicated $ 3,000 million, 364-day unsecured revolving credit facility, with the option to convert up to $ 1,000 million of any outstanding amounts at the end of the period into a one-year term facility. At December 31, 2001, no amounts were outstanding under this facility. In the event that the long-term debt rating for ABB Ltd falls below either A3 or A- from Moody's Investors Service or Standard & Poor's Ratings Services, respectively, the terms of the facility will be renegotiated. If after such negotiations with the banks we are unable to reach agreement on revised terms, the facility will be terminated.

On December 19, 2001, Moody's Investors Service confirmed our short-term debt rating at Prime-1 and lowered our long-term debt rating from Aa3 to A2, with a negative outlook. On February 7, 2002, Standard & Poor's Ratings Services lowered both our short-term debt rating from A-1+ to A-1 and our long-term debt rating from AA- to A+, also with a negative outlook. A further ratings change may affect our funding cost.

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

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

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

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

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

Obligations	Payments due by period				
	($ in millions)				
	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Long-term debt	5,510	467	2,679	1,815	549
Commercial paper	3,297	3,297	–	–	–
Short-term loans and repurchase agreements	983	983	–	–	–
Operating leases	1,340	269	414	293	364

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

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

Financial position

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

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

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

Property, plant and equipment decreased to $3,003 million at December 31, 2001, from $3,243 million at December 31, 2000, primarily reflecting the effect of translating balance sheet amounts into U.S. dollars and normal levels of depreciation and disposition of non-core property, plant and equipment. Intangible assets increased to $3,299 million at December 31, 2001, from $3,155 million at December 31, 2000 reflecting an increase in software capitalization and goodwill from acquisitions, which was only partially offset by the amortization expense.

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

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

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

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

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

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

Cash flow from operating activities

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

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

Cash flow from investing activities

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

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

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

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

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

Cash flow from financing activities

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

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

During 2000, our net sales of treasury shares and put options provided net cash of $ 244 million. We hold some of our shares in treasury to provide shares for delivery upon exercise of warrants in future years under our management incentive program. We used $165 million in cash in 1999 to purchase our shares for this purpose. We paid dividends of $ 531 million and $ 503 million in 2000 and 1999, respectively.

Related and certain other parties

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

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

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

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

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

Exchange

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

We have commercial activities denominated in all major currencies, in particular U.S. dollars, Swiss francs, Euro, Scandinavian currencies, and Japanese yen. In 2001 the euro continued to weaken against the U.S. dollar, reaching an exchange rate of 0.88 at the end of 2001, with the deterioration in the first half recovering in part in the second half of 2001. The average exchange rate for the year was 0.89. The Swiss franc also declined versus the U.S. dollar in the first half of the year, reaching a low of 0.55 in May and June 2001, with a recovery in the fourth quarter of 2001 reaching an exchange rate of 0.62. However, the Swiss franc declined slightly closing the year at 0.59. The average Swiss franc exchange rate for 2001 was 0.59. In 2000, the Euro weakened against the U.S. dollar from its opening level of 1.001 to a closing exchange rate of 0.93. The average exchange rate for 2000 was also 0.93. The Swiss franc also declined versus the U.S. dollar in 2000, from an opening level of 0.63 to a year-end closing exchange rate of 0.61.

Exchange gains (losses), net, amounted to losses of $5 million, $ 3 million and $ 28 million in 2001, 2000 and 1999, respectively, and were recorded in interest expense. Exchange gains (losses), net, includes the re-measurement of certain currencies into functional currencies and the costs of hedging certain balance sheet exposures.

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

Impact of inflation and changing prices

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

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

New accounting standards

On January 1, 2001, we adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended by the Statement of Financial Accounting Standards No. 137, *Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133* and the Statement of Financial Accounting Standards No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities,* collectively referred to as SFAS 133. These Statements require the recognition of all derivatives, other than certain derivatives indexed to our own stock, on the balance sheet at fair value. Derivatives that are not designated as hedges must be adjusted to fair value through income. If the derivative is designated as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in accumulated other comprehensive loss until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. Based on our outstanding derivatives on January 1, 2001, we recognized a loss in the consolidated income statement of approximately $ 63 million, net of tax, and a reduction to equity of $ 41 million, net of tax, in accumulated other comprehensive loss.

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141, *Business Combinations,* and Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets,* which modify the accounting for business combinations, goodwill and identifiable intangible assets. All business combinations initiated after June 30, 2001 must be accounted for by the purchase method. Goodwill from acquisitions completed after that date will not be amortized, but will be charged to operations when specified tests indicate that the goodwill is impaired, that is, when the goodwill's fair value is lower than its carrying value. Certain intangible assets will be recognized separately from goodwill, and will be amortized over their useful lives. As of January 1, 2002, all goodwill must be tested for impairment and a transition adjustment recognized at that time. All goodwill amortization will also cease at that date. We recognized goodwill amortization expense of $191 million, $174 million and $155 million in 2001, 2000 and 1999, respectively. We do not expect to record a material transition adjustment in connection with such impairment testing in 2002.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 (SFAS 144), *Accounting for the Impairment or Disposal of Long-Lived Assets.* This Statement modifies the discontinued operations guidance of Accounting Principles Board Opinion 30, *Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,* and supersedes Statement of Financial Accounting Standards No. 121 (SFAS 121), *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of ,* while retaining certain requirements of SFAS 121 regarding impairment loss recognition and measurement. In addition, SFAS 144 provides additional accounting and reporting guidance for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions. We will adopt this statement on January 1, 2002. We have not yet determined the impact, if any, that this statement will have on our financial position or results of operations, although we expect to present more disposals as discontinued operations subsequent to adoption of SFAS 144.

Environmental contingencies and retained liabilities

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

In a number of jurisdictions, including the United States, we may be liable for environmental contamination at our present or former facilities, or at sites at which hazardous substances generated by our operations were disposed of. In the U.S., the Environmental Protection Agency and various state agencies are responsible for regulating environmental matters. These agencies have identified companies in the ABB Group as potentially responsible parties for the costs of cleaning up hazardous substances at a number of sites pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act, the Resource Conservation and Recovery Act and other federal and state environmental laws. As of December 31, 2001, companies within the ABB Group had been named as potentially responsible parties with respect to seven locations, primarily involving soil and groundwater contamination. We do not believe that our aggregate liability in connection with these sites will be material.

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

In addition, we have retained liability for certain specific environmental remediation costs at two sites in the U.S. that were operated by our nuclear business, which has been sold to British Nuclear Fuels. Pursuant to the purchase agreement with British Nuclear Fuels, we have retained all of the environmental liabilities associated with our Combustion Engineering subsidiary's Windsor, Connecticut, facility and a portion of the environmental liabilities associated with our ABB CE Nuclear subsidiary's Hematite, Missouri facility. The primary environmental liabilities associated with these sites relate to the costs of remediating radiological contamination upon decommissioning the facilities. Such costs are not payable until a facility is taken out of use and generally are incurred over a number of years. Although it is difficult to predict with accuracy the amount of time it may take to remediate radiological contamination upon decommissioning, based on information that British Nuclear Fuels has made publicly available, we believe that it may take approximately six years for this remediation at the Hematite site, from the time of decommissioning. With regard to the Windsor site, we believe the remediation may take until 2008. British Nuclear Fuels has notified the Nuclear Regulatory Commission of its intention to decommission the Hematite facility in 2003. British Nuclear Fuels decommissioned the Windsor facility in 2001 and the process of remediation has begun. At the Windsor site, we believe that a significant portion of such remediation costs will be the responsibility of the U.S. government pursuant to the Atomic Energy Act and the Formerly Used Site Environmental Remediation Action Program because such costs relate to materials used by Combustion Engineering in its research and development work on, and fabrication of, nuclear fuel for the United States Navy. As a result of the sale of the nuclear business, in April 2000 we established a reserve of $ 300 million in connection with estimated remediation costs related to these facilities. During 2001 approximately $ 6 million was expended on remediation of the Windsor site.

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

We retain ownership of Combustion Engineering, Inc., a subsidiary that formerly conducted part of our divested power generation business and which now owns commercial real estate which it leases to third parties. Combustion Engineering is a co-defendant, together with third parties, in numerous lawsuits pending in the United States in which the plaintiffs claim damages for personal injury arising from exposure to or use of equipment which contained asbestos that Combustion Engineering supplied, primarily during the 1970s and before. Other ABB Group entities are sometimes named as defendants in asbestos claims. These claims, however, are insignificant compared to the Combustion Engineering claims and have not had, and are not expected to have, a material impact on our consolidated financial position or consolidated results of operations. As of December 31, 2001 and 2000, reserves of $ 940 million and $ 590 million, respectively, were recorded in respect of asbestos claims and related defense costs. These reserves do not reflect probable insurance recoveries on those claims. We also recorded assets of approximately $150 million and $160 million at December 31, 2001 and 2000, respectively, for probable insurance recoveries, which were established with respect to the claims reserved against. During 2001, Combustion Engineering experienced a significant increase in the level of new claims and higher total and per-claim settlement costs as compared to recent years. This resulted in an increase in the reserves for potential asbestos liabilities by $470 million. Cash payments to resolve Combustion Engineering's asbestos claims were $136 million, $125 million and $67 million in 2001, 2000 and 1999, respectively.

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

Consolidated Financial Statements

Consolidated Income Statements

Year ended December 31 (in millions, except per share data)	2001	2000	1999
Revenues	**$23,726**	**$22,967**	**$24,356**
Cost of sales	(18,708)	(17,222)	(18,457)
Gross profit	**5,018**	**5,745**	**5,899**
Selling, general and administrative expenses	(4,397)	(4,417)	(4,682)
Amortization expense	(236)	(219)	(189)
Other income (expense), net	(106)	276	94
Earnings before interest and taxes	**279**	**1,385**	**1,122**
Interest and dividend income	568	565	608
Interest and other finance expense	(802)	(644)	(708)
Income from continuing operations before taxes and minority interest	**45**	**1,306**	**1,022**
Provision for taxes	(105)	(377)	(343)
Minority interest	(70)	(48)	(36)
Income (loss) from continuing operations	**(130)**	**881**	**643**
Income (loss) from discontinued operations, net of tax	(510)	562	717
Extraordinary gain on debt extinguishment, net of tax	12	–	–
Cumulative effect of change in accounting principles (SFAS 133), net of tax	(63)	–	–
Net income (loss)	**$(691)**	**$1,443**	**$1,360**
Weighted average shares outstanding	1,132	1,180	1,184
Dilutive potential shares	3	5	3
Diluted weighted average shares outstanding	**1,135**	**1,185**	**1,187**
Basic earnings (loss) per share:			
Income (loss) from continuing operations	$(0.11)	$0.74	$0.54
Net income (loss)	$(0.61)	$1.22	$1.15
Diluted earnings (loss) per share:			
Income (loss) from continuing operations	$(0.11)	$0.74	$0.54
Net income (loss)	$(0.61)	$1.22	$1.15

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

December 31 (in millions, except share data)	2001	2000
Cash and equivalents	$2,767	$1,397
Marketable securities	2,946	4,209
Receivables, net	8,368	8,328
Inventories, net	3,075	3,192
Prepaid expenses and other	2,358	1,585
Total current assets	**19,514**	**18,711**
Financing receivables, non-current	4,263	3,875
Property, plant and equipment, net	3,003	3,243
Goodwill and other intangible assets, net	3,299	3,155
Investments and other	2,265	1,978
Total assets	**$32,344**	**$30,962**
Accounts payable, trade	$3,991	$3,375
Accounts payable, other	2,710	2,363
Short-term borrowings and current maturities of long-term borrowings	4,747	3,587
Accrued liabilities and other	7,587	6,127
Total current liabilities	**19,035**	**15,452**
Long-term borrowings	5,043	3,776
Pension and other related benefits	1,688	1,790
Deferred taxes	1,360	1,528
Other liabilities	2,989	2,924
Total liabilities	**30,115**	**25,470**
Minority interest	215	321
Stockholders' equity:		
Capital stock and additional paid-in capital, par value CHF 2.50, 1,280,009,432 shares authorized, 1,200,009,432 shares issued	2,028	2,082
Retained earnings	3,435	4,628
Accumulated other comprehensive loss	(1,699)	(1,122)
Less: Treasury stock, at cost (86,875,616 and 16,532,932 shares at December 31, 2001 and 2000, respectively)	(1,750)	(417)
Total stockholders' equity	**2,014**	**5,171**
Total liabilities and stockholders' equity	**$32,344**	**$30,962**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Year ended December 31 (in millions)	2001	2000	1999
Operating activities			
Income (loss) from continuing operations	$(130)	$881	$643
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	787	836	795
Restructuring provisions	45	(73)	(52)
Pension and post-retirement benefits	1	(57)	(38)
Deferred taxes	(89)	102	10
Net gain from sale of property, plant and equipment	(23)	(247)	(47)
Other	109	(119)	(147)
Changes in operating assets and liabilities:			
Marketable securities (trading)	72	10	151
Trade receivables	65	77	(328)
Inventories	(106)	(136)	(7)
Trade payables	736	266	433
Other assets and liabilities, net	726	(518)	162
Net cash provided by operating activities	**2,193**	**1,022**	**1,575**
Investing activities			
Changes in financing receivables	(907)	(833)	(655)
Purchases of marketable securities (other than trading)	(3,280)	(2,239)	(973)
Purchases of property, plant and equipment	(761)	(553)	(839)
Acquisitions of businesses (net of cash acquired)	(578)	(893)	(1,720)
Proceeds from sales of marketable securities (other than trading)	3,873	2,292	1,307
Proceeds from sales of property, plant and equipment	152	238	488
Proceeds from sales of businesses (net of cash disposed)	283	275	356
Net cash used in investing activities	**(1,218)**	**(1,713)**	**(2,036)**
Financing activities			
Changes in borrowings with maturities of 90 days or less	(69)	609	383
Increases in other borrowings	9,357	3,626	3,570
Repayment of other borrowings	(6,649)	(4,279)	(4,478)
Treasury and capital stock transactions	(1,393)	244	(165)
Dividends paid	(502)	(531)	(503)
Other	(67)	(61)	6
Net cash provided by (used in) financing activities	**677**	**(392)**	**(1,187)**
Net cash provided by (used in) discontinued operations	(210)	949	723
Effects of exchange rate changes on cash and equivalents	(72)	(84)	(100)
Net change in cash and equivalents	**1,370**	**(218)**	**(1,025)**
Cash and equivalents – beginning of year	1,397	1,615	2,640
Cash and equivalents – end of year	**$2,767**	**$1,397**	**$1,615**
Interest paid	$702	$647	$793
Taxes paid	273	273	251

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity[1]

For the years ended December 31, 2001, 2000 and 1999

(in millions)	Capital stock and additional paid-in capital	Retained earnings	Accumulated other comprehensive loss: Foreign currency translation adjustment	Unrealized gain (loss) on available-for-sale securities	Minimum pension liability adjustment	Unrealized gain (loss) of cash-flow hedge derivatives	Total accumulated other comprehensive loss	Treasury stock	Total stockholders' equity
Balance at January 1, 1999	**$ 2,037**	**$ 2,859**	**$ (779)**	**$ 157**	**$ (283)**	**$ –**	**$ (905)**	**$ (286)**	**$ 3,705**
Comprehensive income:									
Net income		1,360							**1,360**
Foreign currency translation adjustments			(226)				(226)		**(226)**
Effect of change in fair value of available-for-sale securities, net of tax of $ 39				(90)			(90)		**(90)**
Minimum pension liability adjustments, net of tax of $ 7					190		190		**190**
Total comprehensive income									**1,234**
Dividends paid		(503)							**(503)**
Purchase of treasury stock								(199)	**(199)**
Purchase of non-tendered ABB AB stock[2]								(438)	**(438)**
Issuance of ABB Ltd. stock[3]	34							438	**472**
Balance at December 31, 1999	**2,071**	**3,716**	**(1,005)**	**67**	**(93)**	**–**	**(1,031)**	**(485)**	**4,271**
Comprehensive income:									
Net income		1,443							**1,443**
Foreign currency translation adjustments			(152)				(152)		**(152)**
Effect of change in fair value of available-for-sale securities, net of tax of $ 7				20			20		**20**
Minimum pension liability adjustments, net of tax of $ 21					41		41		**41**
Total comprehensive income									**1,352**
Dividends paid		(531)							**(531)**
Purchase of treasury stock								(400)	**(400)**
Sale of treasury stock and put options	11							468	**479**
Balance at December 31, 2000	**2,082**	**4,628**	**(1,157)**	**87**	**(52)**	**–**	**(1,122)**	**(417)**	**5,171**
Comprehensive loss:									
Net loss		**(691)**							**(691)**
Foreign currency translation adjustments			**(365)**				**(365)**		**(365)**
Effect of change in fair value of available-for-sale securities, net of tax of $ 16				**(128)**			**(128)**		**(128)**
Minimum pension liability adjustments, net of tax of $ 1					**3**		**3**		**3**
Cumulative effect of change in accounting principles, net of tax of $ 17						**(41)**	**(41)**		**(41)**
Change in derivatives qualifying as cash flow hedges, net of tax of $ 18						**(46)**	**(46)**		**(46)**
Total comprehensive loss									**(1,268)**
Dividends paid		**(502)**							**(502)**
Purchase of treasury stock								**(1,615)**	**(1,615)**
Sale of treasury stock	**(101)**							**282**	**181**
Call options	**47**								**47**
Balance at December 31, 2001	**$ 2,028**	**$ 3,435**	**$ (1,522)**	**$ (41)**	**$ (49)**	**$ (87)**	**$ (1,699)**	**$ (1,750)**	**$ 2,014**

[1] Retroactively restated to reflect the issuance of ABB Ltd shares in exchange for all issued shares of ABB AB and ABB AG in June 1999.
[2] Purchase of 3% of issued stock of ABB AB (see Note 1).
[3] Issuance of approximately 20 million shares of ABB Ltd, representing the equivalent number of shares purchased in [2] above (see Note 1).
See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

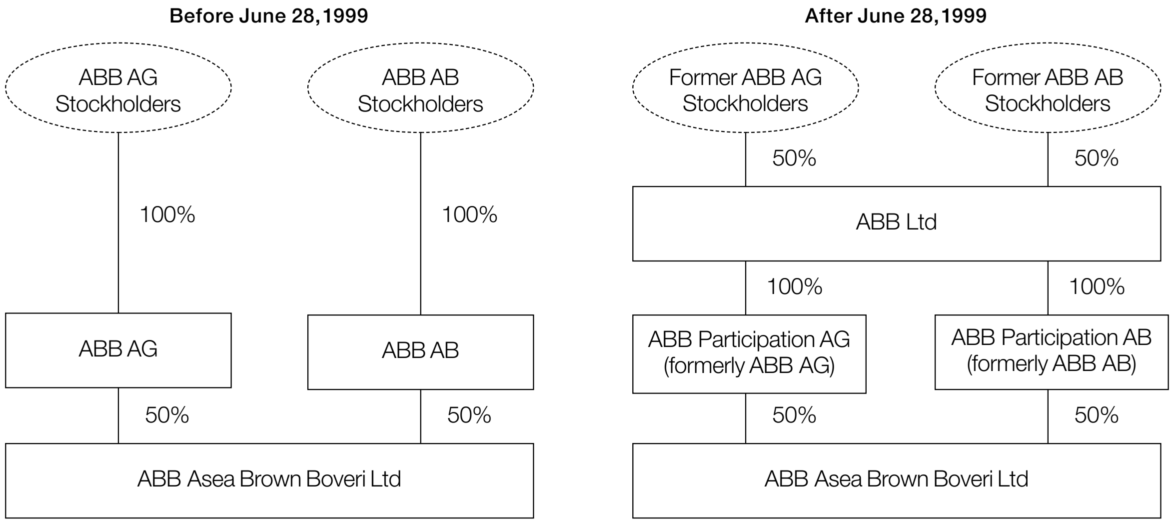
(U.S. dollar amounts in millions, except per share amounts)

Note 1 The Company

ABB Ltd is a leading global company in power and automation technologies organized in seven business divisions structured along customer groups, with each division having global responsibility for its business strategies and its manufacturing and product development activities, as applicable. Four end-user divisions serve end-user customers with systems, products and services. Two channel partner divisions serve external channel partners such as wholesalers, distributors, original equipment manufacturers and system integrators directly and the end-user customers indirectly through the end-user customer divisions. They are also responsible for all generic products in ABB. A financial services division provides services and project support for the other divisions as well as for external customers.

In June 1999, ABB Ltd, a newly incorporated Swiss company, issued approximately 1,180 million registered shares to the stockholders of ABB AB, a Swedish publicly listed company, and ABB AG, a Swiss publicly listed company. As of that date, neither ABB AB nor ABB AG had operations or assets other than their respective 50% ownership interests in ABB Asea Brown Boveri Ltd. In exchange, the stockholders of ABB AB and ABB AG tendered all issued shares of the two companies except for 3% of total issued ABB AB stock. The stockholders of ABB AB who did not tender their shares for ABB Ltd shares received cash of $438 million in return for their shares of ABB AB and the equivalent number of registered shares of ABB Ltd (approximately 20 million) were sold to third parties, resulting in a total of 1,200 million issued shares of ABB Ltd as of June 28, 1999.

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



As of and for the six months ended June 28, 1999, the combined selected financial information of ABB AG and ABB AB included cash and marketable securities of $28 million, total liabilities of $1 million, interest and other income, net, of $9 million, and a special dividend by ABB AG of $179 million, excluding each company's respective ownership interest and equity in earnings of ABB Asea Brown Boveri Ltd. The combined assets and liabilities exclude $62 million related to the special dividend which was not yet able to be distributed to ABB AG stockholders.

Note 2 Significant accounting policies

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

Basis of presentation

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

The number of shares and earnings per share data in the consolidated financial statements have been presented as if ABB Ltd shares had been issued for all periods presented and as if the four-for-one split of ABB Ltd shares in May 2001 had occurred as of the earliest period presented.

Principles of consolidation

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

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

Use of estimates

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

Reclassifications

Certain amounts reported for prior years in the notes to the consolidated financial statements have been reclassified to conform to the current year presentation.

Note 2 Significant accounting policies, continued

Concentrations of credit risk

The Company sells a broad range of products, systems and services to a wide range of industrial and commercial customers throughout the world. Concentrations of credit risk with respect to trade receivables are limited due to a large number of customers comprising the Company's customer base. Ongoing credit evaluations of customers' financial position are performed and, generally, no collateral is required.

The Company, as part of its financial services activities, offers a broad range of financial products. To monitor credit risk, such activities are regulated by specific policies and procedures including those for the identification, evaluation and mitigation of credit risks. Such policies and procedures also include measurements to develop and ensure the maintenance of a diversified portfolio through the active monitoring of counterparty, country and industry exposure. The concentration of credit risk is limited due to the large number of customers comprising the Company's portfolio. In general, for leasing and lending activities collateral is required. The nature of such collateral depends on the type of financial product that is offered but includes, for example, retention of title or mortgage on the equipment financed, or the assignment of rights under contracts. In the case of leasing, ownership of the equipment normally constitutes the main collateral.

The Company maintains reserves for potential credit losses and such losses, in the aggregate, have not exceeded management's expectations.

The Company invests excess cash in deposits with banks throughout the world and in other high quality, liquid marketable securities (such as commercial paper, government agency notes and asset-backed securities). The Company actively monitors its credit risk by routinely reviewing the credit worthiness of the investments held and by maintaining such investments in deposits or liquid securities. The Company has not incurred any credit losses related to such investments.

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

Cash and equivalents

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

Marketable securities

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

Revenue recognition

The Company has recognized revenues in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin No. 101 (SAB 101), *Revenue Recognition in Financial Statements,* since adoption on October 1, 2000. SAB 101 provides additional guidance on the application of previously existing U.S. generally accepted accounting principles to revenue recognition in financial statements.

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

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

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

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

Receivables

The Company accounts for the securitization of trade receivables in accordance with Statement of Financial Accounting Standards No. 140 (SFAS 140), *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* which was issued in September 2000 and replaced, in its entirety, Statement of Financial Accounting Standards No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.* SFAS 140 requires an entity to recognize the financial and servicing assets it controls and the liabilities it has incurred and to derecognize financial assets when control has been surrendered in accordance with the criteria provided in SFAS 140. The Company adopted the disclosure requirements of SFAS 140 effective December 2000, and has applied the new accounting rules to transactions beginning in the second quarter of 2001, with no significant impact to the Company's financial position or results of operations.

The Company accounts for the transfer of its receivables to Qualifying Special Purpose Entities (QSPEs) as a sale of those receivables to the extent that consideration other than beneficial interests in the transferred accounts receivable is received. The Company does not recognize the transfer as a sale unless the receivables have been put presumptively beyond the reach of the Company and its creditors, even in bankruptcy or other receivership. In addition, the QSPEs must obtain the right to pledge or exchange the transferred receivables, and the Company cannot retain the ability or obligation to repurchase or redeem the transferred receivables.

Note 2 Significant accounting policies, continued

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

From time to time, the Company may, in its normal course of business, sell receivables outside the securitization programs with or without recourse. Sales and transfers that do not meet the requirements of SFAS 140 are accounted for as secured borrowings.

Inventories

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

Impairment of long-lived assets

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

Goodwill and other intangible assets

The excess of cost over the fair value of net assets of acquired businesses is recorded as goodwill and has been amortized on a straight-line basis over periods ranging from 3 to 20 years. The cost of other acquired intangibles is amortized on a straight-line basis over their estimated useful lives, typically ranging from 3 to 10 years. In accordance with Statement of Financial Accounting Standards No. 142 (SFAS 142), *Goodwill and Other Intangible Assets,* issued in June 2001, goodwill from acquisitions completed after June 30, 2001, is not amortized (see Note 2 – New accounting standards). The total amount of goodwill recognized on acquisitions completed after June 30, 2001, was not significant.

Capitalized software costs

The Company expenses costs incurred in the preliminary project stage, and thereafter capitalizes costs incurred in developing or obtaining software. Capitalized costs of software for internal use are accounted for in accordance with Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use,* 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,* and are carried at the lower of unamortized cost or net realizable value until the product is released to customers, at which time capitalization ceases and costs are amortized on a straight-line basis over the estimated life of the product.

Property, plant and equipment

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

Derivative financial instruments

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

Change in accounting principles

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended by Statement of Financial Accounting Standards No. 137, *Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133* and the Statement of Financial Accounting Standards No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities,* collectively referred to as SFAS 133. These Statements require the Company to recognize all derivatives, other than certain derivatives indexed to the Company's own stock, on the balance sheet at fair value. Derivatives that are not designated as hedges must be adjusted to fair value through income. If the derivative is designated as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in accumulated other comprehensive loss until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

The Company accounted for the adoption of SFAS 133 as a change in accounting principle. Based on the Company's outstanding derivatives at January 1, 2001, the Company recognized the cumulative effect of the accounting change as a loss in the consolidated income statement of approximately $63 million, net of tax (basic and diluted per share loss of $0.06), and a reduction to equity of $41 million, net of tax, in accumulated other comprehensive loss.

Forward foreign exchange contracts are the primary instrument used to manage foreign exchange risk. Where forward foreign exchange contracts are designated as cash flow hedges under SFAS 133, changes in their fair value are recorded in the accumulated other comprehensive loss component of stockholders' equity, net of tax, 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. These are not designated as accounting hedges under SFAS 133 and, consequently, changes in their fair value are reported in earnings where they offset the gain or loss on the foreign currency denominated asset or liability.

Note 2 Significant accounting policies, continued

To reduce its interest rate and currency exposure arising from its funding activities and to hedge specific assets, the Company uses interest rate and currency swaps. Where interest rate swaps are designated as fair value hedges, the changes in value of the swaps are recognized in earnings, as are the changes in the value of the underlying assets or liabilities. Where such interest rate swaps do not qualify for the short cut method as defined under SFAS 133, any ineffectiveness is therefore included in earnings. Where interest rate swaps are designated as cash flow hedges, their change in value is recognized in the accumulated other comprehensive loss component of stockholders' equity, net of tax, until the hedged item is recognized in earnings.

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

If the underlying hedged transaction is terminated early, the hedging derivative financial instrument is terminated simultaneously, with any gains or losses recognized immediately. Where derivative financial instruments have been designated as hedges of forecasted transactions, and such forecasted transactions become no longer probable of occurring, hedge accounting ceases and any derivative gain or loss previously included in the accumulated other comprehensive loss component of stockholders' equity is reclassified into earnings.

Prior to implementation of SFAS 133 – years 2000 and 1999

Prior to January 1, 2001, instruments which were used as hedges had to be effective at reducing the risk associated with the exposure being hedged and had to be designated as a hedge at the inception of the contract. Accordingly, changes in market values of hedge instruments had to be highly correlated with changes in the market values of the underlying hedged items, both at inception of the hedge and over the life of the hedge contract. Any derivative that was not designated as a hedge, or was so designated but was ineffective, or was in connection with anticipated transactions, was marked to market and recognized in earnings.

Gains and losses on foreign currency hedges of existing assets or liabilities were recognized in income consistent with the hedged item. Gains and losses on foreign currency hedges of firm commitments were deferred and recognized in income as part of the hedged transaction. Other foreign exchange contracts were marked to market and recognized in earnings.

Interest rate and currency swaps that were designated as hedges of borrowings or specific assets were accounted for on an accrual basis and were recorded as an adjustment to the interest income or expense of the underlying asset or liability over its life.

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

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

Derivative financial instruments used in the Company's trading activities were marked to market and recognized in earnings.

Borrowings

From time to time, the Company may, in the normal course of business, buy back portions of its debt securities. Such repurchases are accounted for as debt extinguishments in accordance with Statement of Financial Accounting Standards No. 4, *Reporting Gains and Losses from Extinguishment of Debt – an amendment of APB Opinion No. 30,* irrespective of whether the securities are canceled or held as treasury securities. Gains or losses on extinguishment of debt which are material to the earnings of the Company are disclosed as extraordinary items, net of tax. If subsequently reissued, the reissue price becomes the new cost basis of the securities.

Insurance

The following accounting policies apply specifically to the Insurance business area.

Premiums and acquisition costs

Premiums are generally earned pro rata over the period coverage is provided and are reflected in revenues in the Consolidated Income Statement. Premiums earned include estimates of certain premiums due, including adjustments on retrospectively rated contracts. Premium receivables include premiums relating to retrospectively rated contracts that represent the estimate of the difference between provisional premiums received and the ultimate premiums due. Unearned premiums represent the portion of premiums written that is applicable to the unexpired terms of reinsurance contracts or certificates in force. These unearned premiums are calculated by the monthly pro rata method or are based on reports from ceding companies. Acquisition costs are costs related to the acquisition of new business and renewals. These costs are deferred and charged against earnings ratably over the terms of the related policy.

Profit commission

Certain contracts carry terms and conditions that result in the payment of profit commissions. Estimates of profit commissions are reviewed based on underwriting experience to date and, as adjustments become necessary, such adjustments are reflected in current operations.

Loss and loss adjustment expenses

Loss and loss adjustment expenses are charged to operations as incurred and are reflected in cost of sales in the Consolidated Income Statement. The liabilities for unpaid loss and loss adjustment expenses, reflected in accrued liabilities, other, are determined on the basis of reports from ceding companies and underwriting associations, as well as on management's, including in-house actuaries', estimates including those for incurred but not reported losses, salvage and subrogation recoveries. Inherent in the estimates of losses are expected trends of frequency, severity and other factors that could vary significantly as claims are settled. Accordingly, ultimate losses could vary from the amounts provided for in these consolidated financial statements.

Fees

Contracts that neither result in the transfer of insurance risk nor the reasonable possibility of significant loss to the reinsurer are accounted for as financing arrangements rather than reinsurance. Consideration received for such contracts is reflected as accounts payable, other, and are amortized on a pro rata basis over the life of the contract.

Funds Withheld

Under the terms of certain reinsurance agreements, the ceding reinsurer retains a portion of the premium to provide security for expected loss payments. The funds withheld are generally invested by the ceding reinsurer and earn an investment return that becomes additional funds withheld.

Note 2 Significant accounting policies, continued

Reinsurance
The Company seeks to reduce the loss that may arise from catastrophes and other events that may cause unfavorable underwriting results by reinsuring certain levels of risks with other insurance enterprises or reinsurers. Reinsurance contracts are accounted for by reducing premiums earned by amounts paid to the reinsurers. Recoverable amounts are established for paid and unpaid losses and loss adjustment expense ceded to the reinsurer. Amounts recoverable from the reinsurer are estimated in a manner consistent with the claim liability associated with the reinsurance policy. Contracts where it is not reasonably possible that the reinsurer may realize a significant loss from the insurance risk generally do not meet the conditions for reinsurance accounting and are recorded as deposits.

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

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

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

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

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

Research and development
Research and development costs were $654 million, $703 million and $865 million in 2001, 2000 and 1999, respectively. These costs are included in selling, general and administrative expenses as incurred.

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

New accounting standards
In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141, *Business Combinations,* which, together with SFAS 142 modify the accounting for business combinations, goodwill and identifiable intangible assets. SFAS 141 requires the Company to account for all business combinations initiated after June 30, 2001, under the purchase method. Under SFAS 142, certain intangible assets will be recognized separately from goodwill, and will be amortized over their useful lives. The Company is required to test all goodwill for impairment as of January 1, 2002, and record a transition adjustment if impairment exists. The Company does not expect to record a material transition adjustment in connection with such impairment testing in 2002. After January 1, 2002, goodwill will no longer be amortized but will be charged to operations when specified tests indicate that the goodwill is impaired. The Company recognized goodwill amortization expense of $191 million, $174 million and $155 million in 2001, 2000 and 1999, respectively.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations,* which modifies the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. The Company will adopt this Statement effective January 1, 2002. The Company has not yet determined the impact, if any, that this Statement will have on its financial position or results of operations.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 (SFAS 144), *Accounting for the Impairment or Disposal of Long-Lived Assets.* This Statement modifies the discontinued operations guidance of Accounting Principles Board Opinion 30, *Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,* and supersedes SFAS No. 121, while retaining certain requirements of SFAS No. 121 regarding impairment loss recognition and measurement. In addition, SFAS 144 provides additional accounting and reporting guidance for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions. The Company will adopt this Statement on January 1, 2002. The Company has not yet determined the impact, if any, this Statement will have on its financial position or results of operations, although the Company expects to present more disposals as discontinued operations subsequent to adoption of SFAS 144.

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

Note 3 Business combinations

Elsag Bailey

In October 1998, the Company entered into an agreement to acquire all of the outstanding shares of Elsag Bailey Process Automation N.V. ("Elsag Bailey"). The transaction has been accounted for as a purchase. The Company's consolidated financial statements include Elsag Bailey's results of operations since January 14, 1999, the transaction closing date. The cash purchase price of $1,562 million was allocated to the identified assets acquired and liabilities assumed based upon their estimated fair values as follows.

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

The Company recorded a $141 million liability in its purchase price allocation for restructuring costs, comprised of involuntary employee terminations and severance. The Elsag Bailey integration restructuring was substantially complete at the end of 2000.

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

b-business partners B.V.

In June 2000, the Company entered into a share subscription agreement to acquire 42% interest in b-business partners B.V. Pursuant to the terms of the agreement, the Company committed to invest a total of $ 278 million, of which $69 million was paid in 2000 and $134 million was paid during the first half of 2001. In December 2001, Investor AB acquired 90 percent of the Company's investment in b-business partners B.V. for approximately book value, or $166 million in cash. Immediately after this transaction, b-business partners B.V. repurchased 50% of its outstanding shares from all investors, which resulted in a return of capital to the Company of $10 million. As of December 31, 2001, the Company retains a 4% investment in b-business partners B.V. and is committed to provide additional capital to b-business partners B.V. of $3 million. Further, b-business partners B.V. retains a put right to compel the Company to repurchase 150,000 shares of b-business partners B.V. at a cost of approximately $13 million.

Entrelec Group

In June 2001, the Company completed the acquisition, through an open-market tender, of Entrelec Group, a France-based supplier of industrial automation and control products operating in 17 countries. The cash purchase price of the acquisition was approximately $284 million. The excess of the purchase price over the fair value of the assets acquired totaled to $294 million and has been recorded as goodwill. The transaction has been accounted for as a purchase. Included in the purchase price allocation was an amount of $21 million for a restructuring of the business. The Company's consolidated financial statements include Entrelec's result of operations since June 20, 2001, the transaction closing date.

Other acquisitions and investments

During 2001, 2000 and 1999, the Company invested $179 million, $896 million and $218 million, respectively, in 60, 61 and 74 new businesses, joint ventures and affiliated companies. Of these transactions, 10, 24 and 24, respectively, represented acquisitions accounted for as purchases and accordingly, the results of operations of the acquired businesses have been included in the Company's consolidated financial statements from the respective acquisition dates. The aggregate purchase price of these acquisitions during 2001, 2000 and 1999 was $45 million, $416 million and $190 million, respectively. The aggregate excess of the purchase price over the fair value of the net assets acquired totaled $29 million, $447 million and $137 million, respectively, and has been recorded as goodwill. Assuming these acquisitions had occurred on the first day of the year prior to their purchase, the pro forma consolidated results of operations for those years would not have materially differed from reported amounts either on an individual or an aggregate basis.

Other divestitures

In the ordinary course of business, the Company periodically divests businesses and investments not considered by management to be aligned with its focus on activities with high growth potential. The results of operations of the divested businesses are included in the Company's consolidated results of operations through the date of disposition. During 2001, 2000 and 1999, the Company sold several operating units and investments for total proceeds of $117 million, $281 million and $311 million, respectively, and recognized a net gain of $34 million, $201 million and $132 million, respectively. Such amounts are included in other income (expense), net. Income from continuing operations before taxes and minority interest from these operations was not material in 2001, 2000 and 1999.

Note 4 Discontinued operations

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

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

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

Note 4 Discontinued operations, continued

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

In the first quarter of 1999, the Company sold its 50% interest in ABB Daimler-Benz Transportation GmbH (ADtranz), a rail transportation joint venture, to DaimlerChrysler for cash consideration of $472 million. Upon disposal of its investment, the Company realized a net gain of $464 million.

Operating results of the discontinued businesses are summarized as follows:

Year ended December 31,	2001	2000	1999
Revenues	$–	$120	$3,813
Costs and expenses	(496)	(258)	(4,889)
Loss before taxes	**(496)**	**(138)**	**(1,076)**
Tax benefit (expense)	(14)	(7)	157
Net loss from discontinued operations	**(510)**	**(145)**	**(919)**
Net loss from equity accounted investments, net of tax benefit of $15 million and tax expense of $51 million in 2000 and 1999, respectively	–	(23)	(168)
Gain from dispositions of discontinued operations, net of tax expense of $59 million and $161 million in 2000 and 1999, respectively	–	730	1,804
Income (loss) from discontinued operations, net of tax	**$(510)**	**$562**	**$717**

The loss before taxes in 2001 includes a charge of $470 million related to the increase in management's estimate of future asbestos-related claims (see Note 16).

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

Basic and diluted per share loss from discontinued operations were both $0.45 in 2001, compared to basic and diluted per share income from discontinued operations of $0.48 and $0.61 in 2000 and 1999, respectively.

Note 5 Marketable securities

Marketable securities consist of the following:

December 31,	2001	2000
Trading	$545	$676
Available-for-sale	2,401	3,533
Total	**$2,946**	**$4,209**

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

	Cost	Unrealized gains	Unrealized losses	Fair value
At December 31, 2001:				
Equity securities	**$681**	**$22**	**$(276)**	**$427**
Debt securities:				
U.S. government obligations	655	12	(12)	655
European government obligations	437	1	(2)	436
Corporate	388	4	(2)	390
Asset-backed	3	–	(–)	3
Other	450	41	(1)	490
Total debt securities	**1,933**	**58**	**(17)**	**1,974**
	$2,614	**$80**	**$(293)**	**$2,401**

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

Note 5 Marketable securities continued

At December 31, 2000:

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

At December 31, 2001, contractual maturities of the above available-for-sale debt securities consist of the following:

	Cost	Fair value
Less than one year	$454	$459
One to five years	1,032	1,044
Six to ten years	299	313
Due after ten years	148	158
Total	**$1,933**	**$1,974**

Gross realized gains on available-for-sale securities were $78 million, $39 million and $87 million in 2001, 2000 and 1999, respectively. Gross realized losses on available-for-sale securities were $39 million, $27 million and $32 million in 2001, 2000 and 1999, respectively.

The net change in unrealized gains and losses in fair values of trading securities was not significant in 2001 or 2000.

At December 31, 2001 and 2000, the Company pledged $848 million and $1,099 million, respectively, of marketable securities as collateral for certain bank borrowings, issued letters of credit, insurance contracts or other security arrangements.

At December 31, 2001 and 2000, investments and other in the consolidated balance sheet includes $236 million and $263 million, respectively, of available-for-sale securities that are pledged in connection with the Company's pension plan in Sweden. These securities are comprised of European government and other debt securities recorded at their fair value of $161 million and $192 million, respectively (including $3 million and $5 million, respectively, of unrealized gains) and equity securities recorded at their fair value of $75 million and $71 million, respectively (net of unrealized losses of $13 million and $9 million, respectively).

Note 6 Financial instruments

Cash flow hedges

The Company enters into forward foreign exchange contracts to manage the foreign exchange risk of its operations. To a lesser extent the Company also uses commodity contracts to manage its commodity risks. Where such instruments are designated and qualify as cash flow hedges, the changes in their fair value are recorded in the accumulated other comprehensive loss component of stockholders' equity, 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. Any hedge ineffectiveness is therefore included in revenues and cost of sales but is not material for 2001.

During 2001, the amount reclassified from accumulated other comprehensive loss to earnings, which represented derivative financial instrument losses, amounted to $130 million, net of taxes, of which $31 million, net of taxes, was associated with the transition adjustment at January 1, 2001. It is anticipated that during 2002, $67 million, net of taxes, of the amount included in accumulated other comprehensive loss at December 31, 2001, which represents derivative financial instrument losses, will be reclassified to earnings. Derivative financial instrument losses reclassified to earnings offset the gains on the items being hedged.

While the Company's cash flow hedges are primarily hedges of exposures over the next eighteen months, the amount included in accumulated other comprehensive loss at December 31, 2001 includes hedges of certain exposures maturing up to 2007.

Fair value hedges

To reduce its interest rate and currency exposure arising from its funding activities and to hedge specific assets, the Company uses interest rate and 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 underlying liabilities or assets, are recorded as offsetting gains and losses in the determination of earnings. The amount of hedge ineffectiveness for 2001 is not material.

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

Note 6 Financial instruments, continued

Disclosure about fair values of financial instruments
The Company uses the following methods and assumptions in estimating fair values for financial instruments:

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

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

Financing receivables and loans: Fair values are determined using discounted cash flow methodology based upon loan rates of similar instruments. The carrying values and estimated fair values of long-term loans granted at December 31, 2001 were $1,724 million and $1,745 million, respectively, and at December 31, 2000 were $1,469 million and $1,456 million, respectively.

Long-term borrowings: Fair values are based on the present value of future cash flows discounted at estimated borrowing rates for similar debt instruments. The carrying values and estimated fair values of long-term borrowings at December 31, 2001 were $5,043 million and $5,056 million, respectively, and at December 31, 2000 were $3,776 million and $3,861 million, respectively.

Derivative financial instruments: Fair values are the amounts by which the contracts could be settled. These fair values are estimated by using discounted cash flow methodology based on available market data, option pricing models or by obtaining quotes from brokers. At December 31, 2001, the carrying values equal fair values. The fair values are disclosed in Note 9 and Note 14. At December 31, 2000, the total carrying value of derivatives used for both risk management and trading purposes amounted to a net liability of $72 million compared to a fair value of $165 million unrealized loss.

Notional amounts as of December 31, 2000
The notional values of outstanding derivative financial instruments as of December 31, 2000 for interest rate and currency swaps, and other fixed income contracts was $48,261 million, and for foreign exchange forward contracts and options was $38,129 million.

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

Note 7 Receivables

Receivables consist of the following:

December 31,	2001	2000
Trade receivables	$4,120	$4,289
Other receivables	3,435	3,168
Allowance	(258)	(234)
	7,297	**7,223**
Unbilled receivables, net:		
Costs and estimated profits in excess of billings	2,082	1,769
Advance payments received	(1,011)	(664)
	1,071	**1,105**
	$8,368	**$8,328**

Trade receivables include contractual retention amounts billed to customers of $135 million and $140 million at December 31, 2001 and 2000, respectively. Management expects the majority of related contracts will be completed and substantially all of the billed amounts retained by the customer will be collected within one year of the respective balance sheet date. Other receivables consist of V.A.T., claims, employee and customer-related advances, the current portion of direct finance and sales-type leases and other non-trade receivables.

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

During 2001 and 2000, the Company sold trade receivables, to QSPEs unrelated to the Company, in revolving-period securitizations. The Company retains servicing responsibility relating to the sold receivables. Solely for the purpose of credit enhancement from the perspective of the QSPEs, the Company retains an interest in the sold receivables (retained interest). These retained interests are initially measured at estimated fair values, which the Company believes approximate historical carrying values, and are subsequently measured based on a periodic evaluation of collections and delinquencies.

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

The Company routinely evaluates its portfolio of trade receivables for risk of non-collection and records an allowance for doubtful debts to reflect the carrying value of its trade receivables at estimated net realizable value. Pursuant to the requirements of the revolving-period securitizations through which the Company securitizes certain of its trade receivables, the Company effectively bears the risk of potential delinquency or default associated with trade receivables sold or interests retained. Accordingly, in the normal course of servicing the assets sold, the Company evaluates potential collection losses and delinquencies and updates the estimated fair value of the Company's retained interests. The fair value of the retained interests at December 31, 2001, and December 31, 2000, was approximately $264 million and $214 million, respectively.

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

Note 7 Receivables, continued

In accordance with SFAS 140, ABB has not recorded a servicing asset as the Company believes it is not practicable to estimate this value given that verifiable data as to the fair value of the compensation and or cost related to servicing the types of the assets sold is not readily obtainable nor reliably estimable for the multiple geographic markets in which the entities selling receivables operate.

During 2001 and 2000, the following cash flows were received from and paid to QSPEs:

December 31,	2001	2000
Gross trade receivables sold to QSPEs	$5,515	$3,708
Collections made on behalf of and paid to QSPEs	(5,343)	(3,324)
Loss on sale, liquidity and program fees	(33)	(26)
Increase in retained interests	(53)	(150)
Net cash received from QSPEs during the year	**$86**	**$208**

Cash settlement with the QSPEs takes place monthly on a net basis. Gross trade receivables sold represent the face value of all invoices sold during the year to the QSPEs. As the Company services the receivables, collection of the receivables previously sold is made on behalf of the QSPEs. The Company records a loss on sale, liquidity and program fees at the point of sale to the QSPEs. The total cost of $33 million and $26 million in 2001 and 2000, respectively, related to the securitization of trade receivables is included in the determination of current earnings. Changes in retained interests of $53 million and $150 million in 2001 and 2000, respectively, primarily result from increases in the volume of receivables sold during the year and changes in default and delinquency rates, offset by collections of the underlying receivables.

The following table presents amounts associated with assets securitized at December 31, 2001 and 2000:

December 31,	2001	2000
Total trade receivables	$5,178	$5,207
Portion derecognized	(789)	(702)
Gross retained interests, included in other receivables	(269)	(216)
Trade receivables	**$4,120**	**$4,289**

At December 31, 2001 and 2000, of the gross trade receivables sold, the total outstanding trade receivables amounted to $1,058 million and $918 million, respectively. At December 31, 2001 and 2000 an amount of $65 million and $49 million, respectively, was more than 90 days past due which, according to the terms of the programs, is deemed to be delinquent.

In addition, during 2001, the Company sold or transferred to banks trade receivables outside of the above described securitization programs. Total receivables sold or transferred and derecognized from the balance sheet in accordance with SFAS 140 included in these transactions totaled approximately $71 million. The related costs, including the associated gains and losses, were not significant.

Note 8 Inventories

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

December 31,	2001	2000
Commercial inventories, net:		
Raw materials	$1,063	$1,074
Work in process	1,483	1,471
Finished goods	386	373
	2,932	**2,918**
Contract inventories, net:		
Inventoried costs	380	387
Contract costs subject to future negotiation	16	53
Advance payments received related to contracts	(253)	(166)
	143	**274**
	$3,075	**$3,192**

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

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

Note 9 Prepaid expenses and other

Prepaid expenses and other current assets consist of the following:

December 31,	2001	2000
Prepaid expenses	$520	$496
Deferred taxes	517	530
Advances to suppliers and contractors	242	221
Derivatives	865	225
Other	214	113
	$2,358	**$1,585**

Note 10 Financing receivables

Financing receivables consist of the following:

December 31,	2001	2000
Third-party loans receivable	$1,489	$1,230
Finance leases (see Note 15)	2,072	1,895
Other	702	750
	$4,263	**$3,875**

Third-party loans receivable primarily represent financing arrangements provided to customers under long-term construction contracts as well as export financing and other activities. Not included in this balance at December 31, 2001 and 2000 are $113 million and $173 million, respectively, of assets pledged as security for financing arrangements.

Included in finance leases at December 31, 2001 and 2000 are $445 million and $495 million, respectively, of assets pledged as security for other liabilities. Additionally, $114 million of assets were pledged as security for long-term borrowings at December 31, 2001.

Other financing receivables at December 31, 2001 and 2000 include $355 million and $357 million, respectively, of assets pledged as security for other liabilities. Of these amounts, $53 million in each year are marketable securities. In addition, other financing receivables include notes receivable from affiliates of $234 million and $239 million at December 31, 2001 and 2000, respectively.

During 2001, the Company sold or transferred to financial institutions financing receivables. These transfers included sales of finance lease receivables and sales of loan receivables. Total financing receivables sold or transferred and derecognized from the balance sheet in accordance with SFAS 140 included in these transactions totaled approximately $329 million, of which $70 million were sold to an affiliated company. The related costs of these transactions, including the associated gains and losses, were not significant.

The Company, in the normal course of its commercial lending business, has outstanding credit commitments which have not yet been drawn down by customers. The unused amount as of December 31, 2001, is approximately $208 million.

Note 11 Property, plant and equipment

Property, plant and equipment consist of the following:

December 31,	2001	2000
Land and buildings	$2,303	$2,513
Machinery and equipment	4,534	4,683
Construction in progress	188	130
	7,025	**7,326**
Accumulated depreciation	(4,022)	(4,083)
	$3,003	**$3,243**

Note 12 Goodwill and other intangible assets

Goodwill and other intangible assets consist of the following:

December 31,	2001	2000
Goodwill	$3,588	$3,222
Other intangible assets	1,065	974
	4,653	**4,196**
Accumulated amortization	(1,354)	(1,041)
	$3,299	**$3,155**

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

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

Note 12 Goodwill and other intangible assets, continued

Consistent with the Company's policy of reassessing the carrying value of acquired intangible assets, a write-down of $40 million was recorded during 2001 in relation to goodwill of one of the Company's investments. The Company also recorded a write-down of $26 million related to software developed for internal use in 2001.

Note 13 Borrowings

The Company actively uses the capital markets to meet liquidity needs. Furthermore, the Company maintains credit lines with various banks worldwide for borrowing funds on a short or long-term basis.

Short-term borrowings

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

December 31,	2001	2000
Commercial paper (weighted average interest rate of 2.7% and 5.9%)	$3,297	$1,923
Other short-term debt (weighted average interest rate of 4.6% and 6.0%)	983	1,163
Current portion of long-term borrowings (weighted average interest rate of 4.6% and 5.0%)	467	501
	$4,747	**$3,587**

Other short-term debt primarily represents short-term loans from various banks and repurchase agreements. Of the commercial paper outstanding at December 31, 2001, $2,050 million had maturities of less than 3 months, $913 million had maturities of 3 to 6 months and $334 million had maturities over 6 months. Commercial paper outstanding at December 31, 2000 had maturities of mainly less than 3 months.

In mid December 2001, the Company entered into a syndicated $3 billion 364-day revolving credit facility, with the option to convert up to $1 billion of any outstanding amounts at the end of the period into one year term borrowings. The facility is for general corporate purposes including support for the Company's commercial paper issuance. In the event that the Company's long-term debt rating falls below either A3 or A- from Moody's and Standard & Poor's, respectively, the terms of the facility are required to be renegotiated. If, after such negotiations, the banks and the Company are unable to reach agreement on revised terms, the facility will be terminated. Commitment fees are paid on the unutilized portion of the facility and their level is dependent on the credit rating of the Company's long-term debt. At December 31, 2001, no amounts were outstanding under this facility.

Long-term borrowings

The Company utilizes a variety of derivative products to modify the characteristics of its long-term borrowings. The Company uses interest rate swaps to effectively convert certain fixed-rate long-term borrowings into floating rate obligations. For certain non-U.S. dollar denominated borrowings, the Company utilizes cross-currency swaps to effectively convert the borrowings into U.S. dollar obligations. As of January 1, 2001, upon the introduction of SFAS 133, the derivative instruments (primarily interest rate and cross-currency swaps), designated and qualifying as fair value hedges of the Company's borrowings have been recorded at their fair values under other assets and other liabilities together with other outstanding derivatives. At December 31, 2000, cross-currency swaps hedging borrowings were shown as part of the underlying transaction being hedged. As required by SFAS 133, borrowings which have been designated as being hedged by fair value hedges are stated at their respective fair values at December 31, 2001.

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

December 31,	2001			2000		
	balance	Nominal rate	Effective rate	balance	Nominal rate	Effective rate
Floating rate	$4,422	4.0%	2.7%	$3,444	5.3%	5.4%
Fixed rate	1,017	5.3%	5.3%	611	4.6%	4.6%
Putable bonds	–	–	–	139	6.5%	6.5%
Other	71	1.5%	2.3%	83	6.7%	7.1%
	$5,510			**$4,277**		
Current portion of long-term borrowings	(467)	4.6%	2.9%	(501)	5.0%	6.5%
	$5,043			**$3,776**		

At December 31, 2001, maturities of long-term borrowings were as follows:

Due in 2002	$467
Due in 2003	1,492
Due in 2004	1,187
Due in 2005	1,299
Due in 2006	516
Thereafter	549
	$5,510

At December 31, 2001, approximately $1,800 million of the Company's long-term borrowings were denominated in U.S. dollars.

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

Note 13 Borrowings, continued

During 2001, the Company repurchased, but did not cancel, outstanding bonds with a face value of $322 million. In connection with these repurchases, the Company recorded an extraordinary gain on extinguishment of debt of $12 million, which was not subject to tax effect, representing basic and diluted earnings per share of $0.01. In the period up to December 31, 2001, the Company subsequently reissued a portion of the repurchased bonds with a face value of $248 million. The reissue price has become the new cost basis of the bonds.

Note 14 Accrued liabilities and other

Accrued liabilities and other consists of the following:

December 31,	2001	2000
Insurance reserves	$2,175	$1,399
Contract-related reserves	566	538
Accrued personnel costs	736	791
Taxes payable	506	471
Provisions for warranties	409	413
Deferred taxes	198	235
Interest	380	445
Provisions for restructuring	170	102
Derivatives	803	297
Other	1,644	1,436
	$7,587	**$6,127**

The Company's insurance reserves for unpaid claims and claim adjustment expenses are determined on the basis of reports from ceding companies, underwriting associations and management estimates. The Company continually reviews reserves for claims and claim adjustment expenses during the year and changes in estimates are reflected in net income. In addition, reserves are routinely reviewed by independent actuarial consultants. Prior to 2001, the Company presented a portion of its insurance reserves on a discounted basis, which estimated the present value of funds required to pay losses at future dates. The effect of the discounting was to decrease outstanding losses and loss adjustment expenses by $223 million at December 31, 2000. The reserves were discounted where anticipated future investment income was an integral part of the premium pricing for a particular product. During 2001, the timing and amount of premiums and claims payments being ceded to the Company in respect of prior years finite risk reinsurance contracts has changed. As the amount and timing of ceded claims payments cannot be reliably determined at December 31, 2001, the Company has not discounted its loss reserves. The Company believes that this variability in ceded loss payments will preclude the Company from discounting its loss reserves in the future until reliably determinable amounts and timing of these payments can be reestablished. Accordingly, at December 31, 2001 the insurance reserves have not been presented on a discounted basis, resulting in a charge to losses and loss adjustment expenses in the fourth quarter of 2001 of $295 million for the elimination of the effect of discounting.

Note 15 Leases

Lease obligations

The Company's lease obligations primarily relate to real estate and office equipment. In the normal course of business, management expects most leases to be renewed or replaced by other leases. Minimum rent expense under operating leases was $242 million, $252 million and $275 million in 2001, 2000 and 1999, respectively.

At December 31, 2001, future net minimum lease payments for operating leases having initial or remaining non-cancelable lease terms in excess of one year consist of the following:

2002	$269
2003	225
2004	189
2005	152
2006	141
Thereafter	364
	$1,340
Sublease income	(58)
	$1,282

Investments in leases

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

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

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

Note 15 Leases, continued

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

December 31,	2001	2000
Minimum lease payments receivable	$3,400	$2,972
Residual values	72	186
Unearned income	(1,105)	(1,050)
	2,367	**2,108**
Leveraged leases	49	28
Allowance for losses	(5)	(6)
	2,411	**2,130**
Current portion	(339)	(235)
	$2,072	**$1,895**

At December 31, 2001, minimum lease payments under direct financing and sales-type lease payments are scheduled to be received as follows:

2002	$594
2003	537
2004	394
2005	408
2006	219
Thereafter	1,248
	$3,400

Note 16 Commitments and contingencies

General

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

Environmental

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

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

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

Performance guarantees

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

The Company retained obligations for guarantees of the type described above related to the power generation businesses contributed to the Joint Venture with ALSTOM. In addition, in connection with a power plant construction project in a business sold to ALSTOM POWER N.V. ("ALSTOM Power"), one of the Company's subsidiaries has issued an advance payment guarantee towards a bank holding funds which are to be drawn down by a consortium led by a subsidiary of ALSTOM Power. The guarantee is approximately $370 million at December 31, 2001. ALSTOM and its subsidiaries have primary responsibility for performing the obligations that are the subject of the guarantees. In connection with the sale to ALSTOM of the Company's interest in the Joint Venture in May 2000, ALSTOM and ALSTOM Power have undertaken to fully indemnify the Company against any claims arising under such guarantees. As of December 31, 2001, there have been no material claims made under these guarantees.

Note 16 Commitments and contingencies, continued

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

Financial guarantees

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

Contingencies related to former power generation businesses

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

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

Other ABB Group entities are sometimes named as defendants in asbestos claims. These claims are insignificant compared to the Combustion Engineering claims and have not had, and are not expected to have, a material impact on the Company's financial position or results of operations.

A reserve is maintained to cover estimated costs for the asbestos claims and an asset is recorded representing estimated insurance reimbursement. The reserve represents management's estimate of the costs associated with asbestos claims, including defense costs, based upon historical claims trends, available industry information and incidence rates of new claims. As a result of changes in management's expectations regarding the foreseeable future over which claims would continue to be incurred, the estimates were modified in 1999 to extend the period over which current and future claims were expected to be settled from 7 to 11 years. This revision better reflected anticipated claim settlement costs in light of the number and type of claims being filed at that time and the allocation of such claims to all available insurance policies. As a result of the revision, an additional accrual of approximately $300 million was recorded in 1999 which is included in the results of discontinued operations. During 2000, the level of new claims and settlement costs increased as compared to previous levels. Consequently, a charge of approximately $70 million was recorded in 2000, which is included in the results of discontinued operations, related to higher costs than were expected during the period. Based on the significant increase in new claims and settlement costs experienced in 2001 described above, an additional charge of $ 470 million was recorded in 2001, which is included in the results of discontinued operations. Because of the uncertainty as to the causes of the increase in claims filed against Combustion Engineering in recent periods, the estimation of future claims to be resolved is subject to substantially greater uncertainty.

At December 31, 2001 and 2000, reserves of approximately $940 million and $590 million, respectively, were recorded for all asbestos-related claims. Receivables of $150 million and $160 million were recorded at December 31, 2001 and 2000, respectively, for probable insurance recoveries with respect to such claims. Allowances against the insurance receivables are established at such time as it becomes likely that insurance recoveries are not probable. Cash payments to resolve Combustion Engineering's asbestos claims were $136 million, $125 million and $67 million in 2001, 2000 and 1999, respectively.

Future operating results will continue to reflect the effect of changes in estimated claims costs resulting from actual claim activity as well as changes in available insurance coverage. It is reasonably possible that expenditures could be made, in excess of established reserves, in a range of amounts that cannot reasonably be estimated. Although the final resolution of any such matters could have a material impact on the Company's reported results for a particular reporting period, management believes the litigation should not have a material adverse effect on the Company's consolidated financial condition or liquidity.

Contingencies related to former nuclear power business

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

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

Note 16 Commitments and contingencies, continued

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

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

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

Note 17 Taxes

Provision for taxes consists of the following:

Year ended December 31,	2001	2000	1999
Current taxes on income	$171	$263	$333
Deferred taxes	(66)	114	10
Tax expense from continuing operations	**105**	**377**	**343**
Tax (benefit) expense from discontinued operations	14	51	(47)
	$119	**$428**	**$296**

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

Year ended December 31,	2001	2000	1999
Reconciliation of taxes:			
Income from continuing operations before taxes and minority interest	$45	$1,306	$1,022
Weighted-average tax rate	38.2%	37.2%	39.1%
Taxes at weighted-average tax rate	**17**	**486**	**400**
Items taxed at rates other than the weighted-average tax rate	104	(67)	1
Non-deductible goodwill amortization	59	55	58
Changes in valuation allowance	(30)	(67)	(144)
Changes in enacted tax rates	4	(42)	18
Other, net	(49)	12	10
Tax expense of continuing operations	**$105**	**$377**	**$343**
Effective tax rate for the year (see comment below)	**233.6%**	**28.9%**	**33.6%**

In 2001, the reconciling item "Other, net" of $49 million includes an amount of $50 million relating to adjustments with respect to the resolution of certain prior year tax matters.

In 2001, the income from continuing operations before taxes and minority interest of $45 million includes an additional provision for insurance liabilities in an insurance subsidiary, located in a low tax jurisdiction (see Note 14). The above item "Items taxed at rates other than the weighted average tax rate" includes the tax effect of this provision when comparing the weighted average tax rate to the effective tax rate for the year.

The effective tax rate applicable to income from continuing operations excluding the tax effect of this provision would be 30.9%.

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

Note 17 Taxes, continued

Deferred income tax assets and liabilities consist of the following:

Year ended December 31,	2001	2000
Deferred tax liabilities:		
Financing receivables	$ (480)	$ (512)
Property, plant and equipment	(476)	(282)
Pension and other accrued liabilities	(264)	(438)
Insurance reserves	(190)	(233)
Other	(148)	(298)
Total deferred tax liability	**(1,558)**	**(1,763)**
Deferred tax assets:		
Investments and other	14	19
Property, plant and equipment	207	79
Pension and other accrued liabilities	1,013	1,059
Unused tax losses and credits	753	453
Other	248	162
Total deferred tax asset	**2,235**	**1,772**
Valuation allowance	(1,176)	(777)
Deferred tax asset, net of valuation allowance	**1,059**	**995**
Net deferred tax liability	**$ (499)**	**$ (768)**

Deferred tax assets and deferred tax liabilities can be allocated between current and non-current as follows:

Year ended December 31,	2001		2000	
	Current	Non-current	Current	Non-current
Deferred tax liability	$ (198)	$ (1,360)	$ (235)	$ (1,528)
Deferred tax asset, net	517	542	530	465
Net deferred tax asset (liability)	**$ 319**	**$ (818)**	**$ 295**	**$ (1,063)**

The non-current deferred tax asset, net, is recorded in the balance sheet position “Investments and other”.

Certain entities of the group have deferred tax assets related to net operating loss carry-forwards and other items. Because recognition of these assets is uncertain, the group has established valuation allowances of $ 1,176 and $ 777 million as at December 31, 2001 and 2000, respectively.

At December 31, 2001, net operating loss carryforwards of $ 1,790 million and tax credits of $ 127 million are available to reduce future taxable income of certain subsidiaries, of which $ 1,216 million loss carry-forwards and $ 98 million tax credits expire in varying amounts through 2021 and the remainder do not expire. These carry-forwards are predominately related to the Company’s U.S. and German operations.

Note 18 Other liabilities

Other liabilities include advances from customers relating to long-term construction contracts of $ 789 million and $ 862 million at December 31, 2001 and 2000, respectively.

The Company entered into tax advantaged leasing transactions with U.S. investors prior to 1999. Prepaid rents that have been received on these transactions are $ 355 million and $ 357 million at December 31, 2001 and 2000, respectively, and have been recorded as deposit liabilities. Net gains on these transactions are being recognized over the lease terms.

In prior years the Company entered into certain lease transactions which resulted in the recognition of a long-term liability of $ 445 million and $ 495 million at December 31, 2001 and 2000, respectively, and a corresponding receivable reflected in finance receivables for similar amounts. Under these lease structures, certain lessee payments have been assigned to banks which have financed these lease transactions.

Note 19 Employee benefits

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

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

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

Note 19 Employee benefits, continued

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

For the years ended December 31, 2001, 2000 and 1999, net periodic pension cost consists of the following:

	Pension benefits			Other benefits		
	2001	2000	1999	2001	2000	1999
Service cost	$186	$212	$254	$5	$5	$6
Interest cost	329	328	348	29	26	27
Expected return on plan assets	(308)	(320)	(319)	–	–	–
Amortization of transition liability	9	11	16	8	8	11
Amortization of prior service cost	14	38	7	–	–	–
Recognized net actuarial (gain) loss	4	(1)	18	3	1	1
Other	(18)	10	11	–	–	7
	$216	**$278**	**$335**	**$45**	**$40**	**$52**

The following tables set forth the change in benefit obligations, the change in plan assets and the funded status recognized in the consolidated financial statements at December 31, 2001 and 2000, for the Company's principal benefit plans:

	Pension benefits		Other benefits	
	2001	2000	2001	2000
Benefit obligation at the beginning of year	$6,312	$6,328	$390	$328
Service cost	186	212	5	5
Interest cost	329	328	29	26
Contributions from plan participants	39	38	2	1
Benefit payments	(394)	(426)	(36)	(42)
Benefit obligations of businesses acquired	9	58	–	–
Benefit obligations of businesses disposed	(5)	(81)	–	(12)
Actuarial (gain) loss	45	123	51	78
Plan amendments and other	(3)	27	1	6
Exchange rate differences	(221)	(295)	(1)	–
Benefit obligation at the end of year	**6,297**	**6,312**	**441**	**390**
Fair value of plan assets at the beginning of year	4,843	4,788	–	–
Actual return on plan assets	(312)	276	–	–
Contributions from employer	409	391	34	41
Contributions from plan participants	39	38	2	1
Benefit payments	(394)	(426)	(36)	(42)
Plan assets of businesses acquired	6	48	–	–
Plan assets of businesses disposed	(1)	(17)	–	–
Other	15	(78)	–	–
Exchange rate differences	(133)	(177)	–	–
Fair value of plan assets at the end of year	**4,472**	**4,843**	**–**	**–**
Unfunded amount	**1,825**	**1,469**	**441**	**390**
Unrecognized transition liability	(10)	(24)	(86)	(95)
Unrecognized actuarial loss	(835)	(199)	(140)	(91)
Unrecognized prior service cost	(72)	(87)	(3)	(3)
Net amount recognized	**$908**	**$1,159**	**$212**	**$201**

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

Note 19 Employee benefits, continued

The following amounts have been recognized in the Company's consolidated balance sheets at December 31, 2001 and 2000:

	Pension benefits		Other benefits	
	2001	**2000**	**2001**	**2000**
Prepaid pension cost	$(415)	$(242)	$–	$–
Accrued pension cost	1,410	1,505	212	201
Intangible assets	(14)	(13)	–	–
Accumulated other comprehensive loss	(73)	(91)	–	–
Net amount recognized	**$908**	**$1,159**	**$212**	**$201**

The pension and other related benefits liability reported in the consolidated balance sheet contains an accrual of $66 million and $84 million at December 31, 2001 and 2000, respectively, for employee benefits that do not meet the criteria of Statement of Financial Accounting Standards No. 87, *Employers' Accounting for Pensions* or Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions.*

There were no significant changes in the minimum pension liability in 2001. The changes in the minimum pension liability in 2000 and 1999 were primarily attributable to changes in the discount rate and the fair value of plan assets in the German and U.S. pension plans.

During 2001, the Company contributed $162 million of available-for-sale debt securities to certain of the Company's pension plans in the United States.

The projected benefit obligation and fair value of plan assets for pension plans with benefit obligations in excess of plan assets were $6,201 million and $4,367 million, respectively, at December 31, 2001 and $5,806 million and $4,267 million, respectively, at December 31, 2000. The accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were $2,428 million and $1,200 million, respectively, at December 31, 2001 and $1,739 million and $533 million, respectively, at December 31, 2000.

At December 31, 2001 and 2000, the assets of the plans were comprised of:

	Pension benefits	
	2001	**2000**
Equity securities	35%	43%
Debt securities	48%	40%
Other	17%	17%

At December 31, 2001 and 2000, plan assets included $6 million and $16 million, respectively, of the Company's capital stock.

The following weighted-average assumptions were used in accounting for defined benefit pension plans, for the years ended December 31, 2001 and 2000:

	Pension benefits		Other benefits	
	2001	**2000**	**2001**	**2000**
Discount rate	5.38%	5.45%	7.24%	7.72%
Expected return on plan assets	6.81%	6.81%	–	–
Rate of compensation increase	3.09%	3.16%	–	–

The Company has multiple non-pension post-retirement benefit plans. The Company's health care plans are generally contributory with participants' contributions adjusted annually. The health care trend rate was assumed to be 9.65% for 2001, then gradually declining to 5.78% in 2007, and to remain at that level thereafter.

Assumed health care cost trends have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects at December 31, 2001:

	One-percentage-point increase	One-percentage-point decrease
Effect on total of service and interest cost components	$3	$(3)
Effect on accumulated post-retirement benefit obligation	31	(26)

The Company also maintains several defined contribution plans. The expense for these plans was $27 million, $29 million and $32 million in 2001, 2000 and 1999, respectively. The Company also contributed $135 million, $108 million and $118 million to multi-employer plans in 2001, 2000 and 1999, respectively.

Note 20 Management incentive plan

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

Warrants granted under this plan allow participants to purchase shares of the Company at predetermined prices. Participants may sell the warrants rather than exercise the right to purchase shares. Equivalent warrants are listed on the SWX Swiss Exchange (virt-x), which facilitates valuation and transferability of warrants granted under this plan.

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

Note 20 Management incentive plan, continued

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

Participants may exercise or sell warrants and exercise WARs after the vesting period, which is three years from the date of grant. Vesting restrictions can be waived in the event of death, disability or divorce. All warrants and WARs expire six years from the date of grant. The terms and conditions of the plan allow the employees of subsidiaries that have been divested to retain their warrants and WARs. As the primary trading market for shares of ABB Ltd is the SWX Swiss Exchange (virt-x), the exercise prices of warrants and the trading prices of equivalent warrants listed on the SWX Swiss Exchange (virt-x) are denominated in Swiss Francs (CHF). Accordingly, exercise prices are presented below in CHF. Fair values have been presented in U.S. dollars based upon exchange rates in effect as of the applicable period.

Warrants

The Company accounts for the warrants using the intrinsic value method of APB Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees,* as permitted by Statement of Financial Accounting Standards No. 123 (SFAS 123), *Accounting for Stock Based Compensation.* All warrants were issued with exercise prices greater than the market prices of the stock on the dates of grant. Accordingly, the Company has recorded no compensation expense related to the warrants, except in circumstances when a participant ceased to be employed by a consolidated subsidiary, such as after a divestment by the Company. In accordance with FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation,* the Company recorded compensation expense based on the fair value of warrants retained by participants on the date their employment ceased, with an offset to additional paid in capital. The impact of such expense is not material.

Had the Company accounted for all the warrants under the fair value method of SFAS 123, the effect would have been to reduce net income by $11 million ($0.01 per share), $19 million ($0.02 per share) and $8 million ($0.01 per share) in 2001, 2000 and 1999, respectively. Fair value of the warrants was determined on the date of grant by using the Binomial option model and thereafter by the trading price of equivalent warrants listed on the Swiss Stock Exchange.

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

	Number of warrants	Number of shares[1][3]	Weighted-average exercise price (presented in CHF)[4]
Outstanding at January 1, 1999	**10,926,935**	**7,658,576**	**27.09**
Granted [5]	17,156,040	3,431,208	41.10
Exercised	(8,935)	(579,344)	16.19
Forfeited	(375,000)	(243,152)	28.75
Outstanding at December 31, 1999	**27,699,040**	**10,267,288**	**32.34**
Granted [2][6]	28,128,360	5,625,672	53.00
Forfeited	(385,000)	(65,789)	38.42
Outstanding at December 31, 2000	**55,442,400**	**15,827,171**	**38.75**
Granted [2][7]	23,293,750	4,658,750	17.00
Forfeited	(2,240,000)	(461,452)	48.53
Outstanding at December 31, 2001	**76,496,150**	**20,024,469**	**33.46**
Exercisable at December 31, 1999	60,000	38,904	28.22
Exercisable at December 31, 2000	60,000	38,904	28.22
Exercisable at December 31, 2001	**10,538,000**	**6,832,839**	**27.95**

(1) All warrants granted prior to 1999, and still outstanding at June 28, 1999, required the exercise of 100 warrants to one bearer share of ABB AG at a weighted average exercise price of CHF 1,859.26 per bearer share of ABB AG. The warrants were subsequently modified to keep the warrant holders in the same economic position after the payment of a special dividend by ABB AG and the issuance of ABB Ltd shares for all issued shares of ABB AG in June 1999 (see Note 1). As a result, these warrants now require the exercise of 100 warrants for 64.84 registered shares of ABB Ltd at a weighted average exercise price of CHF 27.98. In accordance with EITF 90-9, *Changes to Fixed Employee Stock Option Plans as a Result of Equity Restructuring,* the modifications to outstanding warrants did not result in a new measurement date for the determination of compensation expense under APB 25. Amounts in the table have been restated to show the effects of these modifications to the warrants, as well as the four-for-one share split in May, 2001.

(2) All warrants granted in 1999, 2000 and 2001 require the exercise of five warrants for one registered share of ABB Ltd.

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

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

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

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

(7) The aggregate fair value at date of grant of warrants issued in 2001 was $16 million, assuming a dividend yield of 1.25%, expected volatility of 47%, risk-free interest rate of 3.5%, and an expected life of six years.

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

Note 20 Management incentive plan, continued

Presented below is a summary of warrants outstanding at December 31, 2001:

Exercise price (presented in CHF)[2]	Number of warrants	Number of shares[1]	Weighted-average remaining life
17.00	23,293,750	4,658,750	5.9 years
25.54	5,795,000	3,757,478	2.9 years
30.89	4,743,000	3,075,361	2.0 years
37.50	5,059,400	1,011,880	3.4 years
41.25	15,615,000	3,123,000	3.9 years
53.00	21,990,000	4,398,000	4.5 years

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

WARs

As each WAR gives the holder the right to receive cash equal to the market price of a warrant on date of exercise, the Company is required by APB 25 to record a liability based upon the fair value of outstanding WARs at each period end, amortized on a straight-line basis over the three-year vesting period. In selling, general and administrative expenses, the Company recorded income of $59 million for 2001, and expense of $31 million and $42 million in 2000 and 1999, respectively, excluding amounts charged to discontinued operations, as a result of changes in the fair value of the outstanding WARs and the vested portion. In June 2000, to hedge its exposure to fluctuations in fair value of outstanding WARs, the Company purchased cash-settled call options from a bank, which entitle the Company to receive amounts equivalent to its obligations under the outstanding WARs. In accordance with EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock,* the cash-settled call options have been recorded as assets measured at fair value, with subsequent changes in fair value recorded through earnings as an offset to the compensation expense recorded in connection with the WARs. During 2001 and 2000, the Company recognized expense of $55 million and $4 million, respectively, in interest and other finance expense, related to the cash-settled call options.

The aggregate fair value of outstanding WARs was $53 million and $148 million at December 31, 2001 and 2000, respectively. Fair value of WARs was determined based upon the trading price of equivalent warrants listed on the SWX Swiss Exchange (virt-x).

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

	Number of WARs outstanding
Outstanding at January 1, 1999	**10,585,000**
Granted	25,269,400
Forfeited	(605,000)
Outstanding at December 31, 1999	**35,249,400**
Granted	30,846,640
Exercised	(25,000)
Forfeited	(710,000)
Outstanding at December 31, 2000	**65,361,040**
Granted	39,978,750
Exercised	(548,000)
Forfeited	(1,238,720)
Outstanding at December 31, 2001	**103,553,070**

At December 31, 2001, 9,087,000 of the WARs were exercisable and at December 31, 2000, none of the WARs was exercisable. The aggregate fair value at date of grant of WARs issued in 2001, 2000 and 1999 was $28 million, $80 million and $36 million, respectively.

Note 21 Stockholders' equity

At December 31, 2001, including the warrants issued under the management incentive plan and call options sold to a bank at fair value during 2001, the Company has outstanding obligations to deliver 43 million shares at exercise prices ranging from CHF 17.00 to CHF 53.00. Of this amount, warrants and options to purchase 35 million shares were not included in the computation of diluted earnings per share for 2001 because the exercise prices were greater than the average market price of the Company's shares during the period the instruments were outstanding. The call options expire in periods ranging from 2004 to 2007 and were recorded as equity instruments in accordance with EITF 00-19.

During 2000, the Company sold 18 million shares of its treasury stock to a bank at fair market value and sold put options which enabled the bank to sell up to 18 million shares to the Company at exercise prices ranging from CHF 25.54 to CHF 53.00 per share. The put options were recorded as equity instruments in accordance with EITF 00-19, as the terms of the put options allowed the Company to choose a net share settlement. In 2001, the Company settled the outstanding written put options by purchasing the 18 million shares at a weighted average exercise price of CHF 40.93 per share.

At December 31, 2001, retained earnings of $357 million were restricted under Swiss law and not available for distribution as dividends to the Company's stockholders.

Note 22 Restructuring charges

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

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

In July 2001, the Company announced a restructuring program anticipated to extend over 18 months. This restructuring program was initiated in an effort to simplify product lines, reduce multiple location activities and perform other downsizing in response to consolidation of major customers in certain industries.

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

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

Note 23 Segment and geographic data

During 2001, the Company realigned its worldwide enterprise around customer groups, replacing its former business segments with four end-user divisions, two channel partner divisions, and a financial services division. The four end-user divisions – Utilities, Process Industries, Manufacturing and Consumer Industries, and Oil, Gas and Petrochemicals – serve end-user customers with products, systems and services. The two channel partner divisions – Power Technology Products and Automation Technology Products – serve external channel partners such as wholesalers, distributors, original equipment manufacturers and system integrators directly and end-user customers indirectly through the end-user divisions. The Financial Services division provides services and project support for the Company as well as for external customers.

- The Utilities division serves electric, gas and water utilities – whether state-owned or private, global or local, operating in liberalized or regulated markets – with a portfolio of products, services and systems. Our principal customers are generators of power, owners and operators of power transmission systems, energy traders and local distribution companies.
- The Process Industries division serves the chemical, gas, life sciences, marine, metals, minerals, mining, cement, paper, petroleum, printing and turbocharging industries with process-specific products and services combined with the Company's power and automation technologies.
- The Manufacturing and Consumer Industries division sells products, solutions and services that improve customer productivity and competitiveness in areas such as automotive industries, telecommunications, consumer goods, food and beverage, product and electronics manufacturing, airports, parcel and cargo distribution, and public, industrial and commercial buildings.
- The Oil, Gas and Petrochemicals division supplies a comprehensive range of products, systems and services to the global oil, gas and petrochemicals industries, from the development of onshore and offshore exploration technologies to the design and supply of production facilities, refineries and petrochemicals plants.
- The Power Technology Products division covers the entire spectrum of technology for power transmission and power distribution, including transformers, switchgear, breakers, capacitors and cables, as well as other products, platforms and technologies for high and medium-voltage applications. Power technology products are used in industrial, commercial and utility applications. They are sold through the Company's end-user divisions as well as through external channel partners, such as distributors, contractors and original equipment manufacturers and system integrators.
- The Automation Technology Products division provides products, software and services for the automation and optimization of industrial and commercial processes. Key technologies include measurement and control, instrumentation, process analysis, drives and motors, power electronics, robots, and low-voltage products, all geared toward one common industrial IT architecture for real-time automation and information solutions throughout a business. These technologies are sold to customers through the end-user divisions as well as through external channel partners such as wholesalers, distributors, original equipment manufacturers and system integrators.
- The Financial Services division supports the Company's businesses and customers with financial solutions in structured finance, leasing, project development and ownership, financial consulting, insurance and treasury activities.

The Company evaluates performance of its divisions based on earnings before interest and taxes (EBIT), which excludes interest and dividend income, interest expense, provision for taxes, minority interest, and income from discontinued operations, net of tax. In accordance with Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information,* the Company presents division revenues, depreciation and amortization, restructuring charges and related asset write-downs, EBIT, net operating assets and capital expenditures, all of which have been restated to reflect the changes to the Company's internal structure, including the effect of increased inter-division transactions. Accordingly, division revenues and EBIT are presented as if certain historical third-party sales by subsidiaries in the product divisions had been routed through other divisions as they would have been under the new customer-centric structure. Management has restated historical division financial information in this way to allow analysis of trends in division revenues and margins on a basis consistent with the Company's new internal structure and transaction flow.

The Company also presents additional balance sheet information specific to its Financial Services division to allow a better understanding of the Company's industrial and financial activities.

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

Note 23 Segment and geographic data, continued

The following tables summarize information for each reportable division:

	Utilities	Process Industries	Manufacturing and Consumer Industries	Oil, Gas and Petro-chemicals	Power Technology Products	Automation Technology Products	Financial Services	Corporate/ Other	Consolidated
2001									
Revenues (1)(3)	$5,649	$3,377	$4,780	$3,489	$4,042	$5,246	$2,133	$(4,990)	$23,726
Depreciation and amortization	73	72	49	77	119	224	23	150	787
Restructuring charge and related asset write-downs (7)	24	29	15	8	52	46	–	57	231
EBIT (2)(4)(6)	148	116	87	79	234	380	(32)	(733)	279
Net operating assets (5)	795	738	249	315	1,311	2,558	10,926	(3,114)	13,778
Capital expenditure	27	24	27	38	105	126	42	256	645
2000									
Revenues (1)(3)	$5,473	$3,339	$5,225	$2,796	$3,662	$5,175	$1,966	$(4,669)	$22,967
Depreciation and amortization	75	73	59	69	123	264	23	150	836
Restructuring charge and related asset write-downs (7)	39	25	17	3	38	45	1	27	195
EBIT (2)(4)	250	88	205	157	244	464	349	(372)	1,385
Net operating assets (5)	1,018	839	411	893	1,328	3,215	9,098	(2,170)	14,632
Capital expenditure	26	27	33	30	105	139	25	100	485
1999									
Revenues (1)(3)	$5,875	$3,485	$5,697	$3,086	$3,862	$5,550	$1,687	$(4,886)	$24,356
Depreciation and amortization	68	59	66	55	121	279	17	130	795
EBIT (2)(4)	182	123	147	165	282	392	337	(506)	1,122
Net operating assets (5)	912	795	634	554	1,483	3,388	7,750	(2,372)	13,144
Capital expenditure	42	40	43	48	162	190	47	94	666

(1) Revenues have been restated for the four end-user divisions, Utilities, Process Industries, Manufacturing and Consumer Industries, and Oil, Gas and Petrochemicals, to retroactively reflect the increase in inter-division sales that would have occurred if the Company's new internal structure and transaction flow had been in place for all periods presented. The effect of assuming that certain historical sales by the product divisions would have been routed through an end-user division before final sale to an external customer, as they would have been if the new customer-centric structure had been in place, was to increase division revenues for 2001, 2000 and 1999, respectively, by $2,119 million, $2,139 million and $2,161 million for the Utilities division; by $674 million, $745 million and $729 million for the Process Industries division; and by $253 million, $356 million and $404 million for the Manufacturing and Consumer Industries division. The Company assumed that new internal transfer pricing structures for these inter-division sales were also in place for all periods presented, resulting in a reduction to division revenues for 2001, 2000 and 1999, respectively, of $99 million, $211 million, and $212 million for the Power Technology Products division; and of $153 million, $200 million and $221 million for the Automation Technology Products division. The elimination of the effects of these assumed inter-division transactions is included in the Corporate/Other column.

(2) Consistent with the assumptions described in (1) above, division EBIT reflects the retroactive transfer of profits of $41 million, $46 million, and $49 million in 2001, 2000 and 1999, respectively, from the channel partner divisions, Power Technology Products and Automation Technology Products, to three customer divisions, Utilities, Process Industries and Manufacturing and Consumer Industries, in order to reflect the impact that these inter-division sales would have had on historical results.

(3) Amounts included in the Corporate/Other column primarily represent adjustments to eliminate inter-division transactions.

(4) Amounts included in the Corporate/Other column primarily represent local businesses in several countries, internal services such as information management, consulting, corporate research, shared services, corporate management as well as development and management of the Company's real estate. Amounts also include the elimination of inter-division net interest income of Financial Services.

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

(6) The write-downs of goodwill and other intangibles of approximately $66 million disclosed in Note 12 are recorded in the Corporate/Other column.

(7) Includes certain specifically related asset write-downs, consistent with the basis on which the Company evaluates restructuring charges for internal management purposes. See Note 22.

Geographic information

	Revenues Year ended December 31,			Long-lived assets Year ended December 31,	
	2001	**2000**	**1999**	**2001**	**2000**
Europe	$12,780	$12,570	$13,893	$2,196	$2,403
The Americas	5,944	5,702	5,675	467	485
Asia	2,686	2,770	2,763	271	281
Middle East and Africa	2,316	1,925	2,025	69	74
	$23,726	**$22,967**	**$24,356**	**$3,003**	**$3,243**

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

Note 23 Segment and geographic data, continued

Revenues have been reflected in the regions based on the location of the customer. Long-lived assets primarily represent property, plant and equipment, net, and are shown by the location of the assets.

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.

Additional information

The balance sheet data appearing under the heading "ABB Ltd Consolidated" is derived from the ABB Ltd consolidated balance sheets for December 31, 2001 and 2000. The balance sheet data for "Financial Services" and "ABB Group" is reported on the same basis as management uses to evaluate division performance, which includes the following adjustments:

- "Financial Services" represents the accounts of all subsidiaries in the Company's Financial Services division, with net intercompany balances and certain capital contributions received from other subsidiaries of the Company presented on a one-line basis.
- "ABB Group" represents the accounts of ABB Ltd and all its subsidiaries other than those in the Company's Financial Services division, with net intercompany balances and the Company's investment in its Financial Services division presented on a one-line basis. For the purposes of this presentation, the Company's investment in its Financial Services division is accounted for under the equity method of accounting.

	ABB Ltd Consolidated		ABB Group		ABB Financial Services	
	December 31		December 31		December 31	
	2001	2000	2001	2000	2001	2000
Cash, cash equivalents and marketable securities	$5,713	$5,606	$1,667	$1,285	$4,046	$4,321
Receivables, net	8,368	8,328	5,810	6,652	2,558	1,676
Inventories, net	3,075	3,192	3,074	3,192	1	–
Prepaid expenses and other	2,358	1,585	1,169	1,067	1,189	518
Total current assets	**19,514**	**18,711**	**11,720**	**12,196**	**7,794**	**6,515**
Financing receivables, non-current	4,263	3,875	452	541	3,811	3,334
Property, plant and equipment, net	3,003	3,243	2,938	3,177	65	66
Goodwill and other intangible assets, net	3,299	3,155	3,217	3,067	82	88
Investments and other	2,265	1,978	1,601	1,350	664	628
Net intercompany balances	–	–	–	–	2,106	1,778
Total assets	**$32,344**	**$30,962**	**$19,928**	**$20,331**	**$14,522**	**$12,409**
Accounts payable, trade	$3,991	$3,375	$3,956	$3,347	$35	$28
Accounts payable, other	2,710	2,363	1,641	1,512	1,069	851
Short-term borrowings and current maturities of long-term borrowings	4,747	3,587	240	397	4,507	3,190
Accrued liabilities and other	7,587	6,127	4,285	4,303	3,302	1,824
Total current liabilities	**19,035**	**15,452**	**10,122**	**9,559**	**8,913**	**5,893**
Long-term borrowings	5,043	3,776	2,020	509	3,023	3,267
Pensions and other related benefits	1,688	1,790	1,681	1,783	7	7
Deferred taxes	1,360	1,528	575	694	785	834
Other liabilities	2,989	2,924	2,529	2,350	460	574
Net intercompany balances	–	–	773	44	–	–
Total liabilities	**30,115**	**25,470**	**17,700**	**14,939**	**13,188**	**10,575**
Minority interest	215	321	214	221	1	100
Total stockholders' equity	2,014	5,171	2,014	5,171	1,333	1,734
Total liabilities and stockholders' equity	**$32,344**	**$30,962**	**$19,928**	**$20,331**	**$14,522**	**$12,409**

ABB Ltd Group Auditors' Report

As auditors of the group, we have audited the accompanying consolidated balance sheet of ABB Ltd as of December 31, 2001, and the related consolidated income statement, statement of cash flows, statement of changes in stockholders' equity and notes, for the year then ended.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

We did not audit the financial statements of certain of the Company's wholly-owned subsidiaries located in the United States and Bermuda, which statements reflect total assets constituting 23% and total revenues constituting 20% of the related consolidated totals as of and for the year ended December 31, 2001. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for these subsidiaries, is based solely on the reports of the other auditors.

Our audit was conducted in accordance with auditing standards generally accepted in the United States and auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ABB Ltd at December 31, 2001, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States and Swiss law.

As discussed in Note 2 to the consolidated financial statements, in 2001 the Company changed its method of accounting for derivative financial instruments.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young AG

J. Birgerson **C. Schibler**

Auditors in charge

Zurich, February 11, 2002

ABB Ltd Group Auditors' Report

As auditors of the group, we have audited the accompanying consolidated balance sheet of ABB Ltd as of December 31, 2000, and the related consolidated income statements, statements of cash flows, statements of changes in stockholders' equity and notes, for each of the two years in the period ended December 31, 2000.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audits were conducted in accordance with auditing standards generally accepted in the United States and auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ABB Ltd at December 31, 2000, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States and Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG Klynveld Peat Marwick Goerdeler SA

B. A. Mathers
B. J. DeBlanc

Ernst & Young AG

J. Birgerson
C. Schibler

Auditors in charge

Zurich, February 11, 2001

ABB Ltd, Zurich

Income Statements

Period ended December 31 (CHF in thousands)	2001	2000
Revenues	721	1,684
Personnel expenses	(19,980)	(81,315)
Other expenses	(44,316)	(41,575)
Dividend income	4,490,148	1,319,719
Interest income	44,639	30,894
Interest expenses	(37,636)	(16,407)
Loss sale own shares	(37,208)	–
Write-down own shares	(323,077)	–
Income before taxes	**4,073,291**	**1,213,000**
Income taxes	(60)	(60)
Net income	**4,073,231**	**1,212,940**

Balance Sheet

December 31 (CHF in thousands)	2001	2000
Current assets		
Cash and equivalents	4,300,907	394,099
Receivables	38,423	733,646
Total current assets	**4,339,330**	**1,127,745**
Fixed assets		
Loans to subsidiary	1,070,000	1,070,000
Participations	6,847,918	6,847,918
Own shares	384,000	–
Total fixed assets	**8,301,918**	**7,917,918**
Total assets	**12,641,248**	**9,045,663**
Liabilities		
Current liabilities	140,689	51,723
Bonds	700,000	500,000
Total liabilities	**840,689**	**551,723**
Stockholders' equity		
Share capital	3,000,023	3,000,023
Legal reserve	600,005	600,005
Reserve for treasury shares	2,944,904	638,031
Other reserves	302,968	2,609,841
Retained earnings	879,428	433,100
Net income	4,073,231	1,212,940
Total stockholders' equity	**11,800,559**	**8,493,940**
Total liabilities and stockholders' equity	**12,641,248**	**9,045,663**

Notes to Financial Statements

Note 1 Cash and equivalents

(CHF in thousands)	2001	2000
Cash and bank	907	869
Cash with subsidiary	4,300,000	393,230
Total	**4,300,907**	**394,099**

Note 2 Receivables

(CHF in thousands)	2001	2000
Non-trade receivables (1)	17,632	262,639
Non-trade receivables from subsidiaries	18	451,050
Prepaid expenses/accrued income	59	49
Prepaid expenses/accrued income from subsidiaries	20,714	19,908
Total	**38,423**	**733,646**

(1) Includes a receivable from an employee pension plan amounting to CHF 14,968 thousand (a liability of CHF 21,281 thousand in 2000).

Note 3 Participations

(CHF in thousands)				Share capital	2001	2000
ABB Participation AG	100%	CH-Baden	Holding	CHF 462,681,000	3,423,950	3,423,950
ABB Participation AB	100%	SE-Västerås	Holding	SEK 4,689,565,100	3,423,950	3,423,950
Others					18	18
Total					**6,847,918**	**6,847,918**

Note 4 Current liabilities

(CHF in thousands)	2001	2000
Non-trade payables	1,903	1,678
Non-trade payables to subsidiaries	2,932	1,069
Accrued expenses/deferred income	29,112	33,135
Accrued expenses/deferred income to subsidiaries	93	17
Short-term loan from subsidiary	106,649	15,824
Total	**140,689**	**51,723**

Note 5 Bonds

(CHF in thousands)	2001	2000
Bond 1999–2009 3.75%	500,000	500,000
Note 2001–2008 3.75%	100,000	–
Note 2001–2003 3.25%	100,000	–
Total	**700,000**	**500,000**

Note 6 Stockholders' equity

(CHF in thousands)	Share capital	Restricted reserves	Other reserves	Retained earnings	Net income	Total
Opening balance sheet	3,000,023	1,238,036	2,609,841	433,100	1,212,940	8,493,940
Allocation to retained earnings				1,212,940	(1,212,940)	–
Dividends paid				(766,612)		(766,612)
Change in treasury shares		2,306,873	(2,306,873)			–
Net income for the year					4,073,231	4,073,231
Closing balance sheet	**3,000,023**	**3,544,909**	**302,968**	**879,428**	**4,073,231**	**11,800,559**

Share capital divided in:

(CHF in thousands)	Number of registered shares	Par value	Total
Issued shares	1,200,009,432	CHF 2.50	3,000,023
Contingent shares	80,000,000	CHF 2.50	200,000

ABB Ltd and its subsidiaries, ABB Equity Limited and ABB Transinvest Limited, have acquired the following ABB Ltd shares to cover the obligations of a management incentive plan (refer also to note 20 of the consolidated financial statements) and various corporate purposes:

Treasury shares	**2001**		**2000**	
	Number of shares	Price per share/CHF	Number of shares	Price per share/CHF
Opening balance	16,484,208	38.71	20,610,200	32.71
Purchases	82,946,104	31.74	13,144,112	50.96
Sales	(12,600,000)	25.84	(18,470,104)	40.34
Closing balance	**86,830,312**	**33.92**	**16,484,208**	**38.71**

Information regarding important shareholders (Art. 663 c of the Swiss Code of Obligations) is listed on page 102.

There are no further items which require disclosure in accordance with Art. 663 b of the Swiss Code of Obligations.

Proposed appropriation of available earnings

(CHF in thousands)	**2001**	**2000**
Net income for the year	4,073,231	1,212,940
Carried forward from previous year	879,428	433,100
Profit available to the Annual General Meeting	**4,952,659**	**1,646,040**
Dividend	–	(766,612)
Balance to be carried forward	**4,952,659**	**879,428**

The Board of Directors proposes that the profit available to the Annual General Meeting in the amount of CHF 4,952,659,820 is to be carried forward to the new account.

Report of the Statutory Auditors

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes; page 98 to 100) of ABB Ltd, Zurich for the year ended December 31, 2001. The prior year's corresponding figures were audited jointly with KPMG Klynveld Peat Marwick Goerdeler SA.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records, financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

Ernst & Young AG
J. Birgerson C. Schibler
Auditors in charge

Zurich, February 11, 2002

Investor information

Trend of ABB Ltd share prices during 2001

During 2001, the price of the ABB Ltd shares traded on the SWX Swiss Exchange (virt-x) decreased 63 percent, while the Swiss Performance Index decreased 23 percent. The price of the ABB Ltd share on Stockholmsbörsen decreased 58 percent, underperforming the Affärsvärldens General Index, which decreased by 18 percent. Source: Bloombergs, SWX Swiss Exchange (virt-x) and Stockholmsbörsen

Share price (data based on closing prices)

	SWX Swiss Exchange (virt-x/CHF)	Stockholmsbörsen (SEK)
High	44.30	259.00
Low	10.00	67.50
Year-end	16.00	101.00
Average daily traded number of shares	4,529,000	1,647,000

Source: SWX Swiss Exchange (virt-x), Stockholmsbörsen

Market capitalization

On December 31, 2001, ABB Ltd's market capitalization based on outstanding shares (total amount of outstanding shares is 1,113,133,816) was approximately $10.6 billion (CHF 17.8 billion, SEK 111.8 billion, EUR 12.0 billion).

Introduction on the New York Stock Exchange

On April 6, 2001, ABB Ltd listed its shares on the New York Stock Exchange (NYSE) under the symbol `ABB´. The shares are traded as American Depositary Shares (ADSs) and one ADS represents one registered share. The listing supports both ABB's growth strategy and ambition to broaden its shareholder base in the United States.

Share buy-back and share-split

In late March 2001, ABB launched a program to buy back two percent of ABB's shares for subsequent cancellation. At the last Annual General Meeting of ABB Ltd, shareholders endorsed the buy-back and approved a 4 for 1 share split. During the program, and after taking into consideration the ABB 4 for 1 share split that took place on May 7, 2001, ABB repurchased 24 million ABB Ltd shares. The share buyback was completed in the second quarter of 2001. In the meantime, market conditions have changed, and the Board of Directors has decided not to effect a capital reduction. ABB has been advised that shareholders who sold their shares in connection with the share buyback will not have any adverse tax consequences.

The Board of Directors will propose that the shareholders take affirmative note of its decision not to effect the capital reduction at the Annual General Meeting on March 12, 2002.

Shareholder structure

As of December 31, 2001, the total number of shareholders directly registered with ABB Ltd was around 148,000. In addition, another 98,000 shareholders hold shares indirectly through nominees. In total, ABB has approximately 246,000 shareholders.

Major shareholders

As of December 31, 2001, BZ Group Holding Limited, Switzerland, directly and indirectly owned 133,777,434 shares of ABB Ltd, corresponding to 11.1% of the total capital and votes.

As of December 31, 2001, ABB owned as treasury shares 86,875,616 shares of ABB Ltd, corresponding to 7.2% of the total capital and votes.

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

Dividend recommendation

In order to strengthen the balance sheet, the Board of Directors proposes that no dividend be paid for 2001.

Per-share data[1]

	2001	2000	1999
Dividend (CHF)	n.a.[2]	0.75	0.75
Par value (CHF)	2.50	2.50	2.50
Vote per share	1	1	1
Weighted average shares outstanding (in millions)	1,132	1,180	1,184
Dilutive effect of management incentive plan (in millions)	3	5	3
Diluted weighted average shares outstanding (in millions)	1,135	1,185	1,187

(1) 2001, 2000 and 1999 figures restated for the 4 for 1 share-split on May 7, 2001.
(2) In order to strengthen the balance sheet, the Board of Directors proposes that no dividend be paid for 2001.

Key ratios[1]

(US$)	2001	2000	1999
EBITDA per share*	0.94	1.87	1.61
Basic earnings (loss) per share	(0.61)	1.22	1.15
Diluted earnings (loss) per share*	(0.61)	1.22	1.15
Stockholders' equity per share*	3.17	3.98	3.36
Cash flow per share*	1.87	0.86	1.33
Dividend pay-out-ratio (%)	n.a.	37	40
Direct yield (%)	n.a.	1.7	1.5
Market-to-book (%)	525.6	611.1	854.3
Basic P / E ratio	n.a.	21.6	26.5
Diluted P / E ratio	n.a.	21.6	26.5

* Calculation based on diluted weighted average shares outstanding
(1) 2001 and 2000 figures restated for the 4 for 1 share-split on May 7, 2001.

ABB Ltd Annual General Meeting

The 2002 Annual General Meeting of ABB Ltd will be held at 2:00 p.m. on Tuesday, March 12, 2002 at the Messe Zurich hall in Zurich-Oerlikon, Switzerland. The General Meeting will be held principally in German and will be simultaneously translated into Swedish and English. Shareholders entered in the share register, with the right to vote, by March 1, 2002, are entitled to participate in the General Meeting.

Admission cards

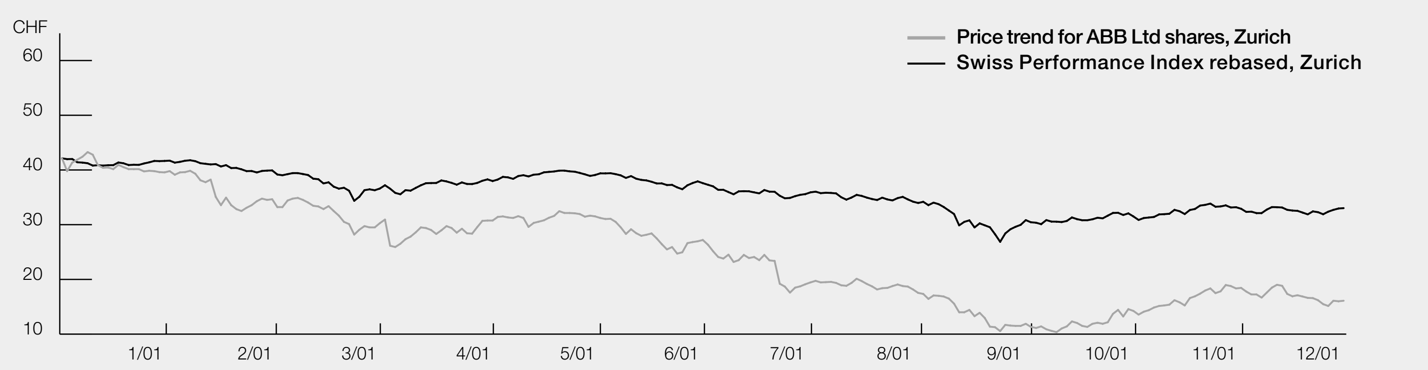
Holders of registered shares of ABB Ltd will receive their admission cards on request using the reply form enclosed with the invitation. The reply form or a corresponding notification must reach the company no later than March 4, 2002. For technical reasons, notifications arriving after that date will not be taken into consideration.

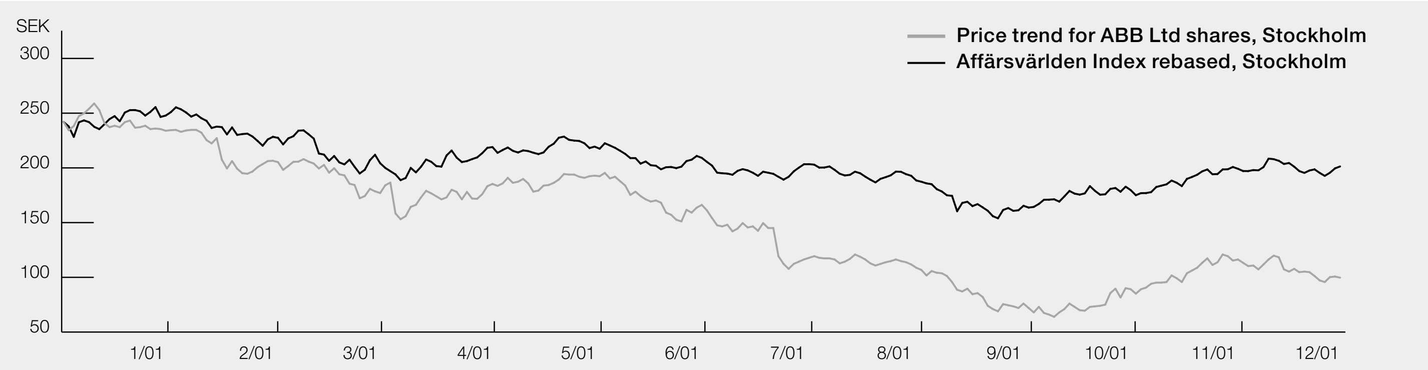
The full text of the invitation in accordance with Article 700 of the Swiss Code of Obligations was published in Schweizerisches Handelsamtblatt on February 15, 2002.

ABB shareholders' calendar 2002

ABB Ltd Annual General Meeting	March 12
Three months results 2002	April 24
Six months results 2002	July 24
Nine months results 2002	October 24

Price trend for ABB Ltd shares





Source: Bloomberg and Äffärsvärlden

Stock exchange listings

ABB is listed on the SWX Swiss Exchange (virt-x), Stockholmsbörsen, Frankfurt Stock Exchange, London Stock Exchange and New York Stock Exchange.

Ticker symbol for ABB Ltd	
SWX Swiss Exchange (virt-x)	ABBN
Stockholmsbörsen	ABB
Frankfurt Stock Exchange	ABA
London Stock Exchange	ABBN
New York Stock Exchange	ABB

Ticker symbol for ABB Ltd at Bloomberg	
SWX Swiss Exchange (virt-x)	ABBN VX
Stockholmsbörsen	ABB SS
Frankfurt Stock Exchange	ABJ GR
London Stock Exchange	ABBN SW
New York Stock Exchange	ABB US

Ticker symbol for ABB Ltd at Reuters	
SWX Swiss Exchange (virt-x)	ABBZn.VX
Stockholmsbörsen	ABB.ST
Frankfurt Stock Exchange	ABBn.F
London Stock Exchange	ABBZn.VX
New York Stock Exchange	ABB.N

ABB Group statistical data

($ in millions, unless otherwise stated)	2001	2000	1999
Consolidated income statements			
Revenues	23,726	22,967	24,356
Earnings before interest and taxes (EBIT)	279	1,385	1,122
Income from continuing operations before taxes and minority interest	45	1,306	1,022
Income (loss) from continuing operations	(130)	881	643
Net income (loss)	(691)	1,443	1,360
Consolidated balance sheets			
Cash and equivalents	2,767	1,397	1,615
Marketable securities	2,946	4,209	4,771
Other current assets	13,801	13,105	12,671
Non-current assets	12,830	12,251	11,521
Total assets	32,344	30,962	30,578
Short-term borrowings	4,747	3,587	3,367
Other current liabilities	14,288	11,865	12,515
Long-term borrowings	5,043	3,776	3,586
Other long-term liabilities	6,037	6,242	6,522
Stockholders' equity including minority interest	2,229	5,492	4,588
Total liabilities and stockholders' equity	32,344	30,962	30,578
Consolidated statements of cash flows			
Net cash provided by operating activities	2,193	1,022	1,575
Net cash used in investing activities	(1,218)	(1,713)	(2,036)
Net cash provided by (used in) financing activities	677	(392)	(1,187)
Net cash provided by (used in) discontinued operations	(210)	949	723
Effects of exchange rate changes on cash and equivalents	(72)	(84)	(100)
Net change in cash and equivalents	1,370	(218)	(1,025)
Other data			
Orders received	23,779	25,440	24,633
EBITDA (1)	1,066	2,221	1,917
Capital expenditures, excluding purchased intangible assets	645	485	666
Capital expenditures for acquisitions	597	896	1,780
Research and development expense	654	703	865
Order-related development expenditures	916	985	1,212
Dividends declared pertaining to fiscal year (Swiss francs in millions)	–	900	900
Net operating assets	13,778	14,632	13,144
Number of employees	156,865	160,818	161,430
Ratios			
Earnings before interest and taxes/Revenues	1.2%	6.0%	4.6%
Return on equity	(19.2%)	30.6%	34.1%
Liquidity ratio	1.03	1.21	1.20
Net operating assets/Revenues	58.1%	63.7%	54.0%
Net working capital/Revenues	10.0%	15.4%	10.8%

(1) Earnings before interest, taxes, depreciation and amortization

Exchange rates

Main exchange rates used in the translation of the Financial Statements

Currency	ISO Codes	Average 2001/US$	Year-end 2001/US$	Average 2000/US$	Year-end 2000/US$
Australian dollar	AUD	1,94	1,96	1,72	1,80
Brazilian real	BRL	2,32	2,32	1,83	1,95
Canadian dollar	CAD	1,55	1,60	1,48	1,49
Chinese yuan renminbi	CNY	8,27	8,28	8,28	8,28
Danish krone	DKK	8,34	8,45	8,07	8,02
EURO	EUR	1,12	1,14	1,08	1,08
Indian Rupee	INR	47,18	48,24	44,95	46,67
Japanese yen	JPY	121,55	131,27	107,78	114,94
Norwegian krone	NOK	9,02	9,05	8,78	8,89
Polish zloty	PLN	4,09	3,98	4,33	4,14
Pound sterling	GBP	0,69	0,69	0,66	0,67
Swedish krona	SEK	10,36	10,56	9,18	9,51
Swiss franc	CHF	1,69	1,68	1,69	1,64

Other available publications from ABB

Sustainability Report
The report will be published in June 2002. If you would like a copy, please contact ABB Corporate Communications at the address printed on the back of this publication, or download the report from our Web site (www.abb.com).

Technology Report
The report will be published in November 2002. If you would like a copy, please contact ABB Corporate Communications at the address printed on the back of this publication, or download the report from our Web site (www.abb.com).

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